



12117CH01

## Accounting for Not-for-Profit Organisation

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### LEARNING OBJECTIVES

*After studying this chapter, you will be able to;*

- *Identify the need for, and nature of accounting records relating to not-for-profit organisations;*
- *List the principal financial statements prepared by not-for-profit organisations;*
- *Prepare the Receipt, and Payment Account and Income and Expenditure Account;*
- *Prepare Income and Expenditure Account and Balance Sheet from a given Receipt and Payment Account;*
- *Explain treatment of certain peculiar items of Receipts and Payments such as subscriptions from members, special funds, legacies, sale of old fixed assets, etc.*

There are certain organisations which are set up for providing *service* to its members and the public in general. Such organisations include clubs, charitable institutions, schools, religious organisations, trade unions, welfare societies and societies for the promotion of art and culture. These organisations have service as the main objective and not the *profit* as is the case of organisations *in business*. Normally, these organisations do not undertake any business activity, and are managed by trustees who are fully accountable to their members and the society for the utilization of the funds raised for meeting the objectives of the organisation. Hence, they also have to maintain proper accounts and prepare the financial statement which take the form of Receipt and Payment Account; Income and Expenditure Account; and Balance Sheet. at the end of for every accounting period (normally a financial year).

This is also a legal requirement and helps them to keep track of their income and expenditure, the nature of which is different from those of the business organisations. In this chapter we shall learn about the accounting aspects relating to not-for-profit organisation.

### 1.1 Meaning and Characteristics of Not-for-Profit Organisation

Not-for-Profit Organisations refer to the organisations that are for used for the welfare of the society and are set up as charitable institutions

which function without any profit motive. Their main aim is to provide service to a specific group or the public at large. Normally, they do not manufacture, purchase or sell goods and may not have credit transactions. Hence they need not maintain many books of account (as the trading concerns do) and Trading and Profit and Loss Account. The funds raised by such organisations are credited to capital fund or general fund. The major sources of their income usually are subscriptions from their members donations, grants-in-aid, income from investments, etc. The main objective of keeping records in such organisations is to meet the statutory requirement and help them in exercising control over utilisation of their funds. They also have to prepare the financial statements at the end of each accounting period (usually a financial year) and ascertain their income and expenditure and the financial position, and submit them to the statutory authority called Registrar of Societies.

*The main characteristics of such organisations are:*

1. Such organisations are formed for providing service to a specific group or public at large such as education, health care, recreation, sports and so on without any consideration of caste, creed and colour. Its sole aim is to provide service either free of cost or at nominal cost, and not to earn profit.
2. These are organised as charitable trusts/societies and subscribers to such organisation are called members.
3. Their affairs are usually managed by a managing/executive committee elected by its members.
4. The main sources of income of such organisations are: (i) subscriptions from members, (ii) donations (general). (iii) legacies(general). (iv) grant-in-aid, (v) income from investments, etc.
5. The funds raised by such organisations through various sources are credited to capital fund or general fund.
6. The surplus generated in the form of excess of income over expenditure is not distributed amongst the members. It is simply added in the capital fund.
7. The Not-for-Profit Organisations earn their reputation on the basis of their contributions to the welfare of the society rather than on the customers' or owners' satisfaction.
8. The accounting information provided by such organisations is meant for the present and potential contributors and to meet the statutory requirement.

## **1.2 Accounting Records of Not-for-Profit Organisations**

As stated earlier, normally such organisations are not engaged in any trading or business activities. The main sources of their income are subscriptions from members, donations, financial assistance from government and income from investments. Most of their transactions are in *cash* or through the bank. These

institutions are required by law to keep proper accounting records and keep proper control over the utilization of their funds. This is why they usually keep a cash book in which all receipts and payments are duly recorded. They also maintain a ledger containing the accounts of all incomes, expenses, assets and liabilities which facilitates the preparation of financial statements at the end of the accounting period. In addition, they are required to maintain a stock register to keep complete record of all fixed assets and the consumables.

They do not maintain any capital account. Instead they maintain capital fund which is also called general fund that goes on accumulating due to surpluses generated, life membership fee, etc., received from year to year. In fact, a proper system of accounting is desirable to avoid or minimise the chances of misappropriations or embezzlement of the funds contributed by the members and other donors.

*Final Accounts or Financial Statements:* The Not-for-Profit Organisations are also required to prepare financial statements at the end of the each accounting period. Although these organisations are non-profit making entities and they are not required to make Trading and Profit & Loss Account but it is necessary to know whether the income during the year was sufficient to meet the expenses or not. Not only that they have to provide the necessary financial information to members, donors, and contributors and also to the Registrar of Societies. For this purpose, they have to prepare their final accounts at the end of the accounting period and the general principles of accounting are fully applicable in their preparation as stated earlier, the final accounts of a 'not-for-profit organisation' consist of the following:

- (i) Receipt and Payment Account
- (ii) Income and Expenditure Account, and
- (iii) Balance Sheet.

The Receipt and Payment Account is the summary of cash and bank transactions which helps in the preparation of Income and Expenditure Account and the Balance Sheet. Besides, it is a legal requirement as the Receipts and Payments Account has also to be submitted to the Registrar of Societies along with the Income and Expenditure Account, and the Balance Sheet.

Income and Expenditure Account is akin to Profit and Loss Account. The Not-for-Profit Organisations usually prepare the Income and Expenditure Account and a Balance Sheet with the help of Receipt and Payment Account. However, this does not imply that they do not make a trial balance. In order to check the accuracy of the ledger accounts, they also prepare a trial balance which facilitates the preparation of accurate Receipt and Payment Account as well as the Income and Expenditure Account and the Balance Sheet.

In fact, if an organisation has followed the double entry system they must prepare a trial balance for checking the accuracy of the ledger accounts and it will also facilitate the preparation of Receipt and Payment account. Income and Expenditure Account and the Balance Sheet.

### 1.3 Receipt and Payment Account

It is prepared at the end of the accounting year on the basis of cash receipts and cash payments recorded in the cash book. It is a summary of cash and bank transactions under various heads. For example, subscriptions received from the members on different dates which appear on the debit side of the cash book, shall be shown on the receipts side of the Receipt and Payment Account as one item with its total amount. Similarly, salary, rent, electricity charges paid from time to time as recorded on the credit side of the cash book but the total salary paid, total rent paid, total electricity charges paid during the year appear on the payment side of the Receipt and Payment Account. Thus, Receipt and Payment Account gives summarised picture of various receipts and payments, irrespective of whether they pertain to the current period, previous period or succeeding period or whether they are of capital or revenue nature. It may be noted that this account does not show any non cash item like depreciation. The opening balance in Receipt and Payment Account represents cash in hand/cash at bank which is shown on its receipts side and the closing balance of this account represents cash in hand and bank balance as at the end of the year, which appear on the credit side of the Receipt and Payment Account. However, if it is bank overdraft at the end it shall be shown on its debit side as the last item. Let us look at the cash book of Golden Cricket Club given in the example to show how the total amount of each item of receipt and payment has been worked out.

#### Example 1

#### Golden Cricket Club Cash Book (Columnar)

| Dr.      |                         |      |                   |                     | Cr.      |                             |      |                   |                     |
|----------|-------------------------|------|-------------------|---------------------|----------|-----------------------------|------|-------------------|---------------------|
| Date     | Receipts                | L.F. | Bank Amount (Rs.) | Office Amount (Rs.) | Date     | Payments                    | L.F. | Bank Amount (Rs.) | Office Amount (Rs.) |
| 2014     |                         |      |                   |                     | 2014     |                             |      |                   |                     |
| April 1  | Balance b/d             |      | 35,000            | 20,000              | April 15 | Insurance premium           |      | 15,000            |                     |
| April 10 | Subscriptions           |      | 1,20,000          |                     | May 12   | Printing and stationery     |      | 10,750            |                     |
| April 10 | Entrance fees           |      | 13,000            |                     | May 20   | Postage and courier fees    |      |                   | 430                 |
| May 20   | Life membership fees    |      | 12,000            |                     | June 16  | Telephone expenses          |      |                   | 810                 |
| June 12  | Locker rent             |      |                   | 42,000              | July 10  | Wages and salaries          |      |                   | 22,000              |
| July 23  | Life membership fees    |      | 8,000             |                     | July 15  | Rates and Taxes             |      | 17,000            |                     |
| Aug. 20  | Donation for building   |      | 60,000            |                     | July 30  | Govt. securities            |      | 1,00,000          |                     |
| Sept. 13 | Subscriptions (2013-14) |      | 30,000            |                     | Aug. 13  | Printing and stationery     |      | 15,000            |                     |
| Sept. 13 | Subscription            |      | 45,000            |                     | Aug. 15  | Postage and courier service |      |                   | 480                 |
|          |                         |      |                   |                     | Sept. 10 | Lighting                    |      | 12,250            |                     |

|          |                                   |                 |               |         |                          |                 |               |
|----------|-----------------------------------|-----------------|---------------|---------|--------------------------|-----------------|---------------|
| Sept. 14 | Entrance fees                     | 10,000          |               | Sept 13 | Telephone expenses       |                 | 830           |
| Nov. 9   | Subscription                      | 35,000          |               | Oct. 1  | Wages and salaries       | 10,000          | 12,000        |
|          |                                   |                 |               | Oct. 18 | Printing and stationery  | 13,000          |               |
| Nov. 9   | Subscription (2015-16)            | 10,000          |               | Oct. 31 | Govt. securities         | 1,00,000        |               |
| 2015     |                                   |                 |               | Dec. 31 | Wages and Salaries       | 22,000          |               |
| Feb. 07  | Subscription                      | 25,000          |               | 2015    |                          |                 |               |
|          |                                   |                 |               | Jan. 21 | Courier charges          |                 | 240           |
| Mar. 28  | Interest on government securities | 18,000          |               | Feb. 2  | Telephone expenses       |                 | 960           |
|          |                                   |                 |               | Mar. 10 | Postage and Courier fees |                 | 850           |
|          |                                   |                 |               | Mar. 27 | Lighting                 | 14,000          |               |
|          |                                   |                 |               | Mar. 27 | Wages and Salaries       | 22,000          |               |
|          |                                   |                 |               | Mar. 31 | Balance c/d              | 70,000          | 23,400        |
|          |                                   | <b>4,21,000</b> | <b>62,000</b> |         |                          | <b>4,21,000</b> | <b>62,000</b> |
|          |                                   |                 |               |         |                          |                 |               |

## Part A

### Item wise Aggregation of various Receipts

### Subscriptions (2014–2015)

| <i>Date</i>    | <i>Amount (Rs.)</i> |
|----------------|---------------------|
| April 10, 2014 | 1,20,000            |
| Sept. 13, 2014 | 45,000              |
| Nov. 9, 2014   | 35,000              |
| Feb. 7, 2015   | 25,000              |
| <b>Total</b>   | <b>2,25,000</b>     |

## Subscriptions (2013–14)

| <i>Date</i>    | <i>Amount (Rs.)</i> |
|----------------|---------------------|
| Sept. 13, 2014 | 30,000              |
| <b>Total</b>   | <b>30,000</b>       |

## Subscription (2015–16)

| <i>Date</i>  | <i>Amount (Rs)</i> |
|--------------|--------------------|
| Nov. 9, 2014 | 10,000             |
| <b>Total</b> | <b>10,000</b>      |

## Entrance Fees

| <i>Date</i>    | <i>Amount (Rs)</i> |
|----------------|--------------------|
| April 10, 2014 | 13,000             |
| Sept. 14, 2014 | 10,000             |
| <b>Total</b>   | <b>23,000</b>      |

## Locker Rent

| <i>Date</i>   | <i>Amount (Rs)</i> |
|---------------|--------------------|
| June 12, 2014 | 42,000             |
| <b>Total</b>  | <b>42,000</b>      |

## Life Membership fee

| <i>Date</i>   | <i>Amount (Rs)</i> |
|---------------|--------------------|
| May 20, 2014  | 12,000             |
| July 23, 2014 | 8,000              |
| <b>Total</b>  | <b>20,000</b>      |

## Donation for Buildings

| <i>Date</i>   | <i>Amount (Rs)</i> |
|---------------|--------------------|
| Aug. 20, 2014 | 60,000             |
| <b>Total</b>  | <b>60,000</b>      |

## Interest on Government securities

| <i>Date</i>    | <i>Amount (Rs)</i> |
|----------------|--------------------|
| March 28, 2015 | 18,000             |
| <b>Total</b>   | <b>18,000</b>      |

**Part B***Item wise Aggregation of various Payments*

## Insurance Premium

| <i>Date</i>    | <i>Amount (Rs)</i> |
|----------------|--------------------|
| April 15, 2014 | 15,000             |
| <b>Total</b>   | <b>15,000</b>      |

## Printing and Stationery

| <i>Date</i>   | <i>Amount (Rs.)</i> |
|---------------|---------------------|
| May 12, 2014  | 10,750              |
| Aug. 13, 2014 | 15,000              |
| Oct. 18, 2014 | 13,000              |
| <b>Total</b>  | <b>38,750</b>       |

## Lighting

| <i>Date</i>    | <i>Amount (Rs.)</i> |
|----------------|---------------------|
| Sept. 10, 2014 | 12,250              |
| March 27, 2015 | 14,000              |
| <b>Total</b>   | <b>26,250</b>       |

## Telephone Expenses

| <i>Date</i>    | <i>Amount (Rs.)</i> |
|----------------|---------------------|
| June 16, 2014  | 810                 |
| Sept. 13, 2014 | 830                 |
| Feb. 2, 2015   | 960                 |
| <b>Total</b>   | <b>2,600</b>        |

## Rates and Taxes

| <i>Date</i>   | <i>Amount (Rs.)</i> |
|---------------|---------------------|
| July 15, 2014 | 17,000              |
| <b>Total</b>  | <b>17,000</b>       |

## Government Securities

| <i>Date</i>   | <i>Amount (Rs.)</i> |
|---------------|---------------------|
| July 30, 2014 | 1,00,000            |
| Oct. 31, 2014 | 1,00,000            |
| <b>Total</b>  | <b>2,00,000</b>     |

## Wages and Salaries

| <i>Date</i>    | <i>Amount (Rs.)</i> |
|----------------|---------------------|
| July 10, 2014  | 22,000              |
| Oct. 1, 2014   | 22,000              |
| Dec. 31, 2014  | 22,000              |
| March 27, 2015 | 22,000              |
| <b>Total</b>   | <b>88,000</b>       |

## Postage and Courier Service

| <i>Date</i>    | <i>Amount (Rs.)</i> |
|----------------|---------------------|
| May 20, 2014   | 430                 |
| Aug. 15, 2014  | 480                 |
| Jan. 21, 2015  | 240                 |
| March 10, 2015 | 850                 |
| <b>Total</b>   | <b>2,000</b>        |

The above data can also be shown in the form of the respective accounts in the ledger. A detailed illustrative list of items of receipts and payments is given in figure 1.

**Figure 1**

| <i>Receipts</i>   | <i>Payments</i>  |
|---|--|
| 1. Donations<br>(a) General<br>(b) Specific purpose<br>2. Entrance Fees<br>3. Legacies<br>4. Sale of Investments<br>5. Sale of Fixed Assets<br>6. Subscriptions from Members<br>7. Life Membership Fees<br>8. Sale of old Newspapers<br>9. Sale of Old Sports Material<br>10. Interest on Fixed Deposits<br>11. Interest/ Dividend on Investments<br>12. Proceed from Charity Shows<br>13. Sale of Scrap<br>14. Grant-in-aid<br>15. Interest/Dividend on Specific Fund Investments<br>16. Miscellaneous Receipts. | 1. Purchase of Fixed Assets<br>2. Purchase of Sports Material<br>3. Investment in Securities<br>4. Printing and Stationery<br>5. Postage and Courier Charges<br>6. Advertisements<br>7. Wages and Salary<br>8. Honorarium<br>9. Telephone Charges<br>10. Electricity and Water Charges<br>11. Repairs and Renewals<br>12. Upkeep of Play Ground<br>13. Conveyance Charges<br>14. Subscription for Periodicals<br>15. Audit Fees<br>16. Entertainment Expenses<br>17. Municipal Taxes<br>18. Charity<br>19. Insurance |

Receipt and Payment Account is given below:

**Receipt and Payment Account for the year ending ———**

| <i>Receipts</i>                               | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>              | <i>Amount<br/>(Rs.)</i> |
|---|-------------------------|------------------------------|-------------------------|
| Balance b/d                                   |                         | Balance b/d (Bank overdraft) | xxx                     |
| Cash in Hand                                  | xxx                     | Wages and Salaries           | xxx                     |
| Cash at Bank                                  | xxx                     | Rent                         | xxx                     |
| Subscriptions                                 | xxx                     | Rates and Taxes              | xxx                     |
| General Donations                             | xxx                     | Insurance                    | xxx                     |
| Sale of newspaper/<br>periodicals/waste paper | xxx                     | Printing and Stationery      | xxx                     |
| Sale of old sports materials                  | xxx                     | Postage and courier          | xxx                     |
| Interest on fixed deposits                    |                         | Advertisement                | xxx                     |
| Interest/Dividend on general<br>investments   | xxx                     | Sundry expenses              | xxx                     |
| Locker Rent                                   | xxx                     | Telephone charges            | xxx                     |
| Sale of scraps                                | xxx                     | Entertainment expenses       | xxx                     |
| Proceeds from charity show                    | xxx                     | Audit fees                   | xxx                     |
| Miscellaneous receipts                        | xxx                     | Honorarium                   | xxx                     |
| Grant-in-aid                                  | xxx                     | Repair and Renewals          | xxx                     |
| Legacies                                      | xxx                     | Upkeep of ground             | xxx                     |
| Specific Donations                            | xxx                     | Conveyance                   | xxx                     |
| Sale of Investments                           | xxx                     | Newspapers and Periodicals   | xxx                     |
| Sale of Fixed Assets                          | xxx                     | Purchases of Assets          | xxx                     |
|   |                         | Purchase of Investments      | xxx                     |
|   |                         | Balance c/d                  | xxx                     |



|   |       |               |       |
|---|-------|---------------|-------|
| Life membership fees                          | xxx   | Cash in hand  | xxx   |
| Entrance fees                                 | xxx   | Cash at Bank* | xxx   |
| Receipts on account of specific purpose funds | xxx   |               |       |
| Interest on specific funds' investments       | xxx   |               |       |
| Balance b/d (Bank Overdraft)*                 | xxx   |               |       |
|   | xxxxx |               | xxxxx |
|   |       |               |       |

**Fig. 1.1:** Format of Receipt and Payment Account

\* There will be either of the two amounts i.e., each at bank or bank overdraft, not both.

It may be noted that the receipts side of the Receipt and Payment Account gives a list of revenue receipts (for past, current and future periods) as well as capital receipts. Similarly, the payments side of the Receipts and Payments Account lists the Revenue Payments (for past, current and future periods) as well as Capital Payments.

### 1.3.1 Salient Features

1. It is a summary of the cash book. Its form is identical with that of simple cash book (without discount and bank columns) with debit and credit sides. Receipts are recorded on the debit side while payments are entered on the credit side.
2. It shows the total amounts of all receipts and payments irrespective of the period to which they pertain. For example, in the Receipt and Payment account for the year ending on March 31, 2016, we record the total subscriptions received during 2015–16 including the amounts related to the years 2014–2015 and 2016–2017. Similarly, taxes paid during 2015–16 even if they relate to the years 2014–15 and 2016–2017.
3. It includes all receipts and payments whether they are of capital nature or of revenue nature.
4. No distinction is made in receipts/payments made in cash or through bank. With the exception of the opening and closing balances, the total amount of each receipt and payment is shown in this account.
5. No non-cash items such as depreciation outstanding expenses accrued income, etc. are shown in this account.
6. It begins with opening balance of cash in hand and cash at bank (or bank overdraft) and closes with the year end balance of cash in hand/ cash at bank or bank overdraft. In fact, the closing balance in this account (difference between the total amount of receipts and payments) which is usually a debit balance reflects cash in hand and cash at bank unless there is a bank overdraft.

### 1.3.2 Steps in the Preparation of Receipt and Payment Account

1. Take the opening balances of cash in hand and cash at bank and enter them on the debit side. In case there is bank overdraft at the beginning of the year, enter the same on the credit side of this account.
2. Show the total amounts of all receipts on its debit side irrespective of their nature (whether capital or revenue) and whether they pertain to past, current and future periods.
3. Show the total amounts of all payments on its credit side irrespective of their nature (whether capital or revenue) and whether they pertain to past, current and future periods.
4. None of the receivable income and payable expense is to be entered in this account as they do not involve inflow or outflow of cash.
5. Find out the difference between the total of debit side and the total of credit side of the account and enter the same on the credit side as the closing balance of cash/bank. In case, however, the total of the credit side is more than that of the total of the debit side, show the difference on the debit as bank overdraft and close the account.

From the following information based on the data assimilated from the cash book given in *example 1*, at page 4, the Receipt and Payment Account of Golden Cricket Club for the year ended on March 31, 2015 will be prepared as follows:

**Summary of Cash Book**

| Details                           | Amount<br>(Rs.) |
|-----------------------------------|-----------------|
| Cash in hand as on April 1, 2014  | 20,000          |
| Cash at bank as on April 1, 2014  | 35,000          |
| Subscription: Rs.                 |                 |
| 2013-14      30,000               |                 |
| 2014-15      2,25,000             |                 |
| 2015-16 <u>10,000</u>             | 2,65,000        |
| Donation for Building             | 60,000          |
| Entrance fees                     | 23,000          |
| Life membership fee               | 20,000          |
| Printing and Stationery           | 38,750          |
| Lighting                          | 26,250          |
| Rates and Taxes                   | 17,000          |
| Telephone charges                 | 2,600           |
| Postage and courier               | 2,000           |
| Wages and Salaries                | 88,000          |
| Insurance Premium                 | 15,000          |
| Interest on government securities | 18,000          |
| Locker rent                       | 42,000          |
| Purchase of government securities | 2,00,000        |
| Cash in hand as on March 31, 2015 | 23,400          |
| Cash at bank as on March 31, 2015 | 70,000          |

**Receipt and Payment Account for the year ending March 31, 2015**

Dr.

Cr.

| <i>Receipts</i>                                    | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>                      | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|--------------------------------------|-------------------------|
| Cash in hand as on<br>April 1, 2014                | 20,000                  | Printing and Stationery              | 38,750                  |
| Cash at bank as on<br>April 1, 2014                | 35,000                  | Lighting                             | 26,250                  |
| Subscription:                                      |                         | Rates and Taxes                      | 17,000                  |
| 2013-14           30,000                           |                         | Telephone charges                    | 2,600                   |
| 2014-15       2,25,000                             |                         | Postage and Courier                  | 2,000                   |
| 2015-16 <u>10,000</u>                              | 2,65,000                | Wages and Salaries                   | 88,000                  |
| Donation for building                              | 60,000                  | Insurance Premium                    | 15,000                  |
| Entrance fees                                      | 23,000                  | Purchase of govt. securities         | 2,00,000                |
| Life membership fee                                | 20,000                  | Cash in hand as on<br>March 31, 2015 | 23,400                  |
| Interest on investment in<br>Government securities | 18,000                  | Cash at bank as on<br>March 31, 2015 | 70,000                  |
| Locker rent  | 42,000                  |                                      |                         |
|  | <b>4,83,000</b>         |                                      | <b>4,83,000</b>         |

**Illustration 1**

From the following particulars relating to Silver Point, prepare a Receipt and Payment account for the year ending March 31, 2017.

| <i>Particulars</i>           | <i>Amount<br/>(Rs.)</i> | <i>Particulars</i>                          | <i>Amount<br/>(Rs.)</i> |
|------------------------------|-------------------------|---|-------------------------|
| Opening cash balance         | 1,000                   | Sale of old sports materials                | 1,200                   |
| Opening bank balance         | 7,200                   | Donation received for pavilion              | 4,600                   |
| Subscriptions collected for: |                         | Rent paid                                   | 3,000                   |
| 2015-16       Rs. 500        |                         | Sports materials purchases                  | 4,800                   |
| 2016-17       Rs. 7,600      |                         | Purchase of refreshments                    | 600                     |
| 2017-18       Rs. <u>900</u> | 9,000                   | Expenses for maintenance<br>of tennis court | 2,000                   |
| Sale of refreshments         | 1,000                   | Salary paid                                 | 2,500                   |
| Entrance fees received       | 1,000                   | Tournament expenses                         | 2,400                   |
|                              |                         | Furniture purchased                         | 1,500                   |
|                              |                         | Office expenses                             | 1,200                   |
|                              |                         | Closing cash in hand                        | 400                     |

**Solution**

**Books of Silver Point**  
**Receipt and Payment Account**  
**for the year ending March 31, 2017**

| Dr.                          |                 | Cr.                        |                 |
|------------------------------|-----------------|----------------------------|-----------------|
| Receipts                     | Amount<br>(Rs.) | Payments                   | Amount<br>(Rs.) |
| Balance b/d                  |                 | Rent                       | 3,000           |
| Cash                         | 1,000           | Sports materials purchased | 4,800           |
| Bank                         | 7,200           | Purchase of refreshments   | 600             |
| Subscriptions                |                 | Maintenance expenses for   | 2,000           |
| 2015-16                      | 500             | tennis court               |                 |
| 2016-17                      | 7,600           | Salary                     | 2,500           |
| 2017-18                      | <u>900</u>      | Tournament expenses        | 2,400           |
| Sale of refreshments         | 1,000           | Furniture purchased        | 1,500           |
| Entrance fees                | 1,000           | Office expenses            | 1,200           |
| Sale of old sports materials | 1,200           | Balance c/d                |                 |
| Donation for pavilion        | 4,600           | Cash                       | 400             |
|                              |                 | Bank (balancing figure)    | 6,600           |
|                              | 25,000          |                            | 25,000          |
|                              |                 |                            |                 |

**1.4 Income and Expenditure Account**

It is the summary of income and expenditure for the accounting year. It is just like a profit and loss account prepared on accrual basis in case of the business organisations. It includes only revenue items and the balance at the end represents surplus or deficit. The Income and Expenditure Account serves the same purpose as the profit and loss account of a business organisation does. All the revenue items relating to the current period are shown in this account, the expenses and losses on the expenditure side and incomes and gains on the income side of the account. It shows the net operating result in the form of surplus (i.e. excess of income over expenditure) or deficit (i.e. excess of expenditure over income), which is transferred to the capital fund shown in the balance sheet.

The Income and Expenditure Account is prepared on accrual basis with the help of Receipts and Payments Account along with additional information regarding outstanding and prepaid expenses and depreciation etc. Hence, many items appearing in the Receipts and Payments need to be adjusted. For example, as shown in Example 1, (Page No. 10) subscription amount of Rs.2, 65,000 received during the year 2014-15 appearing on the receipts side of the Receipt and Payment Account includes receipts for the periods other than the current period. But the subscription amount of Rs. 2,25,000 pertaining to the current year only will be shown as income in Income and Expenditure Account for the year 2014-15.

### 1.4.1 Steps in the Preparation of Income and Expenditure Account

Following steps may be helpful in preparing an Income and Expenditure Account from a given Receipt and Payment Account:

1. *Persue* the Receipt and Payment Account thoroughly.
2. Exclude the opening and closing balances of cash and bank as they are not an income.
3. Exclude the capital receipts and capital payments as these are to be shown in the Balance Sheet.
4. Consider only the revenue receipts to be shown on the income side of Income and Expenditure Account. Some of these need to be adjusted by excluding the amounts relating to the preceding and the succeeding periods and including the amounts relating to the current year not yet received.
5. Take the revenue expenses to the expenditure side of the Income and Expenditure Account with due adjustments as per the additional information provided relating to the amounts received in advance and those not yet received.
6. Consider the following items not appearing in the Receipt and Payment Account that need to be taken into account for determining the surplus/deficit for the current year :
  - (a) Depreciation of fixed assets.
  - (b) Provision for doubtful debts, if required.
  - (c) Profit or loss on sale of fixed assets.

Now you will observe how the income and expenditure account is prepared from the receipts and payments account given in example 1, on page 10.

#### Income and Expenditure Account for the year ending on March 31, 2015

| <i>Dr.</i>   |                         |                          | <i>Cr.</i>              |
|--|-------------------------|--------------------------|-------------------------|
| <i>Expenditure</i>                                       | <i>Amount<br/>(Rs.)</i> | <i>Income</i>            | <i>Amount<br/>(Rs.)</i> |
| Printing and Stationery                                  | 38,750                  | Subscriptions            | 2,25,000                |
| Lighting   | 26,250                  | Entrance fees            | 23,000                  |
| Rates and Taxes  | 17,000                  | Interest on investment   | 18,000                  |
| Telephone charges  | 2,600                   | in government securities |                         |
| Postage and courier charges                              | 2,000                   | Locker rent              | 42,000                  |
| Wages and Salaries                                       | 88,000                  |                          |                         |
| Insurance Premium  | 15,000                  |                          |                         |
| Surplus ( <i>Excess of income<br/>over expenditure</i> ) | 1,18,400                |                          |                         |
|  | <b>3,08,000</b>         |                          | <b>3,08,000</b>         |

Note that-

1. Opening and closing cash/bank balances have been excluded.
2. Payment for purchase of Government securities being capital expenditure has been excluded.
3. Amount of subscriptions received for the year 2013-14 and 2015-16 have been excluded.
4. Life membership fee is an item of capital receipt and so excluded.
5. Donation for building is a receipt for a specific purpose and so excluded.

### Illustration 2

From the Receipt and Payment Account given below, prepare the Income and Expenditure Account of Clean Delhi Club for the year ended March 31, 2017.

#### Receipt and Payment Account for the year ending March 31, 2017

| Dr.                        |               | Cr.                                     |               |
|----------------------------|---------------|---|---------------|
| Receipts                   | Amount (Rs.)  | Payments                                | Amount (Rs.)  |
| Balance b/d (Cash in hand) | 3,200         | Salary                                  | 1,500         |
| Subscriptions              | 22,500        | Rent                                    | 800           |
| Entrance Fees              | 1,250         | Electricity                             | 3,500         |
| Donations                  | 2,500         | Taxes                                   | 1,700         |
| Rent of hall               | 750           | Printing and Stationery                 | 380           |
| Sale of investments        | 3,000         | Sundry expenses                         | 920           |
|                            |               | Books purchased                         | 7,500         |
|                            |               | Govt. bonds purchased                   | 10,000        |
|                            |               | Fixed deposit with bank (on 31.03.2017) | 5,000         |
|                            |               | Balance c/d                             |               |
|                            |               | Cash in hand                            | 400           |
|                            |               | Cash at bank                            | 1,500         |
|                            | <b>33,200</b> |   | <b>33,200</b> |

### Solution

#### Books of Clean Delhi Club

#### Income and Expenditure Account for the year ending March 31, 2017

| Dr.   |               | Cr.           |               |
|---|---------------|---------------|---------------|
| Expenditure                                 | Amount (Rs.)  | Income        | Amount (Rs.)  |
| Salary                                      | 1,500         | Subscriptions | 22,500        |
| Rent  | 800           | Entrance fees | 1,250         |
| Electricity                                 | 3,500         | Donation      | 2,500         |
| Taxes                                       | 1,700         | Rent of hall  | 750           |
| Printing & Stationery                       | 380           |               |               |
| Sundry Expenses                             | 920           |               |               |
| Surplus (excess of income over expenditure) | 18,200        |               |               |
|   | <b>27,000</b> |               | <b>27,000</b> |

**Illustration 3**

From the following Receipt and Payment Account for the year ending March 31, 2015 of Negi's Club, prepare Income and Expenditure Account for the same period:

**Receipt and Payment Account for the year ending March 31, 2015**

| Dr.                              |                 | Cr.                            |                 |
|----------------------------------|-----------------|--------------------------------|-----------------|
| Expenditure                      | Amount<br>(Rs.) | Income                         | Amount<br>(Rs.) |
| Balance c/d Bank                 | 25,000          | Purchase of furniture (1.7.14) | 5,000           |
| Subscriptions                    |                 | Salaries                       | 2,000           |
| 2013                      1,500  |                 | Telephone expenses             | 300             |
| 2014                      10,000 |                 | Electricity charges            | 600             |
| 2015 <u>500</u>                  | 12,000          | Postage and Stationery         | 150             |
| Donation                         | 2,500           | Purchase of books              | 2,500           |
| Hall rent                        | 300             | Entertainment expenses         | 900             |
| Interest on bank deposits        | 450             | Purchase of 5% government      | 8,000           |
| Entrance fees                    | 500             | papers (1.10.14)               |                 |
|                                  |                 | Miscellaneous expenses         | 600             |
|                                  |                 | Balance c/d:                   |                 |
|                                  |                 | Cash                           | 300             |
|                                  |                 | Bank                           | 20,400          |
|                                  | <b>40,750</b>   |                                | <b>40,750</b>   |

The following additional information is available:

- (i) Salaries outstanding – Rs. 1,500;
- (ii) Entertainment expenses outstanding – Rs. 500;
- (iii) Bank interest receivable – Rs. 150;
- (iv) Subscriptions accrued – Rs. 400;
- (v) 50 per cent of entrance fees is to be capitalised;
- (vi) Furniture is to be depreciated at 10 per cent per annum.

**Solution****Books of Negi's Club****Income and Expenditure Account for the year ending 31.3.2015**

| Dr.                    |                 | Cr.                       |                 |
|------------------------|-----------------|---------------------------|-----------------|
| Expenditure            | Amount<br>(Rs.) | Income                    | Amount<br>(Rs.) |
| Salaries               | 2,000           | Subscriptions             | 10,400          |
| Add: Outstanding       | <u>1,500</u>    | Donation                  | 2,500           |
| Telephone expenses     | 300             | Bank interest             | 450             |
| Electricity charges    | 600             | Add: Outstanding interest | <u>150</u>      |
| Postage and Stationery | 150             |                           | 600             |

|   |            |               |                        |               |
|---|------------|---------------|------------------------|---------------|
| Entertainment expenses                      | 900        |               | Interest on investment | 200           |
| Add: Outstanding expenses                   | <u>500</u> | 1,400         | Hall rent              | 300           |
| Miscellaneous expenses                      |            | 600           |                        |               |
| Depreciation on furniture                   |            | 375           |                        |               |
| Surplus (Excess of Income over Expenditure) |            | 7,075         |                        |               |
|   |            | <b>14,000</b> |                        | <b>14,000</b> |

#### 1.4.2 Distinction between Income and Expenditure Account and Receipt and Payment Account

Based upon discussion made in regard to the Receipts and Payments Account and the Income and Expenditure Account we make the distinction between Income and Expenditure Account and Receipts and Payments Account in the tabular form:

| Basis of distinction Account | Income and Expenditure   | Receipt and Payment Account   |
|------------------------------|--|---|
| Nature                       | It is like as profit and loss account.   | It is the summary of the cash book.   |
| Nature of Items              | It records income and expenditure of <i>revenue</i> nature only.               | It records receipts and payments of <i>revenue as well as capital</i> nature.                 |
| Period                       | Income and expenditure items relate only to the current period.                | Receipts and payments may also relate to preceding and succeeding periods.                    |
| Debit side                   | Debit side of this account records expenses and losses.                        | Debit side of this account records the receipts.  |
| Credit side                  | Credit side of this account records income and gains.                          | Credit side of this account records the payments.   |
| Depreciation                 | Includes depreciation.   | Does not includes depreciation.   |
| Opening Balance              | There is no opening balance.   | Balance in the beginning represents cash in hand /cash at bank or overdraft at the beginning. |
| Closing Balance              | Balance at the end represents excess of income over expenditure or vice-versa. | Balance at the end represents cash in hand at the end and bank balance (or bank overdraft).   |



## 1.5 Balance Sheet

'Not-for-Profit' Organisations prepare Balance Sheet for ascertaining the financial position of the organisation. The preparation of their Balance Sheet is on the same pattern as that of the business entities. It shows assets and liabilities as at the end of the year. Assets are shown on the right hand side and the liabilities on the left hand side. However, there will be a Capital Fund or General Fund in place of the Capital and the surplus or deficit as per Income and Expenditure Account which is either added to/deducted from the capital fund, as the case may be. It is also a common practice to add some of the capitalised items like legacies, entrance fees and life membership fees directly in the capital fund.

Besides the Capital or General Fund, there may be other funds created for specific purposes or to meet the requirements of the contributors/donors such as building fund, sports fund, etc. Such funds are shown separately in the liabilities side of the balance sheet.

Some times it becomes necessary to prepare Balance Sheet as at the beginning of the year in order to find out the opening balance of the capital/general fund.

### 1.5.1 Preparation of Balance Sheet

The following procedure is adopted to prepare the *Balance Sheet*:

1. Take the Capital/General Fund as per the opening balance sheet and add surplus from the Income and Expenditure Account. Further, add entrance fees, legacies, life membership fees, etc. received during the year.
2. Take all the fixed assets (not sold/discarded/or destroyed during the year) with additions (from the Receipts and Payments account) after charging depreciation (as per Income and Expenditure account) and show them on the assets side.
3. Compare items on the receipts side of the Receipts and Payments Account with income side of the Income and Expenditure Account. This is to ascertain the amounts of: (a) subscriptions due but not yet received; (b) incomes received in advance; (c) sale of fixed assets made during the year; (d) items to be capitalised (i.e. taken directly to the Balance Sheet) e.g. legacies, interest on specific fund investment and so on.
4. Similarly compare, items on the payments side of the Receipt and Payment Account with expenditure side of the Income and Expenditure Account. This is to ascertain the amounts if: (a) outstanding expenses; (b) prepaid expenses; (c) purchase of a fixed asset during the year; (d) depreciation on fixed assets; (e) stock of consumable items like stationery in hand; (f) Closing balance of cash in hand and cash at bank as, and so on.

A proforma Balance Sheet is given for the proper understanding of preparing the balance sheet.

**Balance Sheet of as on .....**

| <i>Liabilities</i>                | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>                                | <i>Amount<br/>(Rs.)</i> |
|-----------------------------------|-------------------------|--|-------------------------|
| <i>Capital fund:</i>              |                         |  |                         |
| Opening Balance                   | .....                   | <i>Cash in hand and /or Cash<br/>at Bank</i> | .....                   |
| Add: Surplus                      |                         | <i>Outstanding Incomes</i>                   | .....                   |
| OR                                |                         | <i>Prepaid Expenses</i>                      | .....                   |
| Less: Deficit                     |                         | <i>Stock of Consumable Items:</i>            |                         |
| Add: Capitalised Income of the    | .....                   | Previous Balance                             |                         |
| Current Year on account of:       |                         | Add: Purchases in the current                |                         |
| Legacies                          | .....                   | period                                       |                         |
| Entrance Fees                     | .....                   | Less: Value consumed during                  | .....                   |
| Life Membership Fees              | .....                   | the period                                   |                         |
| Closing Balance                   | .....                   | Previous Balance                             | .....                   |
| <i>Special Fund/Donations:</i>    |                         | Add: Purchases in the current                |                         |
| Previous Balance (If any )        |                         | period                                       |                         |
| Add: Receipts for the item        |                         | Less: Book Value of the Asset                |                         |
| during the period                 |                         | sold/disposed off                            |                         |
| Add: Income earned on             |                         | <i>Closing Balance</i>                       | .....                   |
| fund/Donations'                   |                         |  |                         |
| Investments                       |                         |  |                         |
| Less: Expenses paid out of        |                         |  |                         |
| fund/Donations                    |                         |  |                         |
| Net Balance                       | .....                   |  |                         |
| <i>Creditors for Purchases</i>    |                         |  |                         |
| <i>and/or supplies</i>            | .....                   |  |                         |
| <i>Bank Overdraft</i>             | .....                   |  |                         |
| <i>Outstanding Expenses:</i>      |                         |  |                         |
| <i>Income received in Advance</i> | .....                   |  |                         |
|                                   | .....                   |  | .....                   |

**Fig. 1.2:** Proforma Balance Sheet**Illustration 4**

From the following Receipt and Payment Account and additional information relating to Excellent Cricket Club, prepare Income and Expenditure Account for the year ended March 31, 2015 and Balance Sheet as on date.

| <i>Dr.</i>                   |                         | <i>Cr.</i>                   |                         |
|------------------------------|-------------------------|------------------------------|-------------------------|
| <i>Receipts</i>              | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>              | <i>Amount<br/>(Rs.)</i> |
| Balance b/d (Cash in Hand)   | 18,000                  | Balance b/d (bank overdraft) | 16,000                  |
| Member's subscriptions       | 2,50,000                | Upkeep of field and pavilion | 1,15,000                |
| Member's admission fee       | 15,000                  | Tournament expenses          | 40,000                  |
| Sale of old sports materials | 2,500                   | Rates and Insurance          | 10,000                  |
| Hire of ground               | 28,000                  | Telephone                    | 3,500                   |
| Subscription for tournament  | 60,000                  | Postage and Courier charges  | 4,000                   |
| Life membership fee          | 20,000                  | Printing and Stationery      | 26,000                  |
| Donation for tournament      | 6,00,000                | Miscellaneous expenses       | 4,400                   |

|  |                 |                              |                 |
|--|-----------------|------------------------------|-----------------|
|  |                 | Secretary's honorarium       | 30,000          |
|  |                 | Grass seeds                  | 2,600           |
|  |                 | Investments                  | 6,00,000        |
|  |                 | Purchase of sports materials | 68,000          |
|  |                 | Balance c/d                  | 74,000          |
|  | <b>9,93,500</b> |                              | <b>9,93,500</b> |

Assets at the beginning of the year were:

|                           |          |
|---------------------------|----------|
|                           | Rs.      |
| Play ground               | 5,00,000 |
| Cash in hand              | 18,000   |
| Stock of sports materials | 85,000   |
| Printing and Stationery   | 11,000   |
| Subscriptions receivable  | 28,000   |

Donations and Surplus on account of tournament are to be kept in Reserve for a permanent pavilion. Subscriptions due on March 31, 2015 were Rs. 42,000. Write-off fifty per cent of sports materials and thirty per cent of printing and stationery.

### Solution

#### Books of Excellent Cricket Club

#### Income and Expenditure Account for the year ending on March 31, 2015

Dr.

Cr.

| Expenditure                         | Amount<br>(Rs.) | Income                      | Amount<br>(Rs.) |
|-------------------------------------|-----------------|-----------------------------|-----------------|
| Upkeep of field and pavilion        | 1,15,000        | Subscriptions               | 2,50,000        |
| Rates and Insurance                 | 10,000          | Add: Outstanding            |                 |
| Telephone                           | 3,500           | (closing)                   | <u>42,000</u>   |
| Postage and Courier charges         | 4,000           |                             | 2,92,000        |
| Printing & stationery               | 26,000          | Less: Outstanding           |                 |
| Add: Opening stock                  | <u>11,000</u>   | (opening)                   | <u>28,000</u>   |
| Available for use                   | 37,000          |                             | 2,64,000        |
| Less: Closing stock                 | <u>25,900</u>   | Admission fees              | 15,000          |
| Stationery consumed                 | 11,100          | Sale of old sports material | 2,500           |
| Miscellaneous expenses              | 4,400           | Rent of hall                | 28,000          |
| Secretary's honorarium              | 30,000          |                             |                 |
| Grass seeds                         | 2,600           |                             |                 |
| Sports materials consumed:          |                 |                             |                 |
| Opening stock                       | 85,000          |                             |                 |
| Add: Purchases                      | <u>68,000</u>   |                             |                 |
|                                     | 1,53,000        |                             |                 |
| Less: Closing stock                 | <u>76,500</u>   |                             |                 |
| Surplus                             | 76,500          |                             |                 |
| (Excess of income over expenditure) | 52,400          |                             |                 |
|                                     | <b>3,09,500</b> |                             | <b>3,09,500</b> |

Note: Since the opening balance of the capital fund is not given, the same has been ascertained by preparing opening balance sheet.

**Balance Sheet of Excellent Cricket Club as on March 31, 2015**

| Liabilities                                       | Amount<br>(Rs.)  | Assets                                  | Amount<br>(Rs.)  |
|---|------------------|---|------------------|
| Capital Fund 6,26,000                             |                  | Cash in hand 74,000                     |                  |
| Add: Surplus 52,400                               |                  | Outstanding subscriptions 42,000        |                  |
| 6,78,400  |                  | Stock of sports materials 76,500        |                  |
| Add: Life membership fee 20,000                   | 6,98,400         | Stock of printing and stationery 25,900 |                  |
| Pavilion Fund:                                    |                  | Investments 6,00,000                    |                  |
| Surplus from Tournament (Rs.60,000-40,000) 20,000 |                  | Play ground 5,00,000                    |                  |
| Donation 6,00,000                                 | 6,20,000         |   |                  |
|   | <b>13,18,400</b> |   | <b>13,18,400</b> |

**Balance Sheet of Excellent Cricket Club as on March 31, 2014**

| Liabilities                                      | Amount<br>(Rs.) | Assets                           | Amount<br>(Rs.) |
|--|-----------------|----------------------------------|-----------------|
| Bank overdraft 16,000                            |                 | Cash in hand 18,000              |                 |
| Capital/General fund (balancing figure) 6,26,000 |                 | Outstanding subscription 28,000  |                 |
|  |                 | Stock of sports materials 85,000 |                 |
|  |                 | Printing and Stationery 11,000   |                 |
|  |                 | Play ground 5,00,000             |                 |
|  | <b>6,42,000</b> |                                  | <b>6,42,000</b> |

**Test your Understanding – I**

State with reasons whether the following statements are TRUE or FALSE:

- Receipt and Payment Account is a summary of all capital receipts and payments.
- If there appears a sports fund, the expenses incurred on sports activities will be shown on the debit side of Income and Expenditure Account.
- The balancing figure on credit side of Income and Expenditure Account denotes excess of expenses over incomes.
- Scholarships granted to students out of funds provided by government will be debited to Income and Expenditure Account.
- Receipt and Payment Account records the receipts and payments of revenue nature only.
- Donations for specific purposes are always capitalized.
- Opening balance sheet is prepared when the opening balance of capital fund is not given.
- Surplus of Income and Expenditure Account is deducted from the capital/general fund.
- Receipt and Payment Account is equivalent to profit and loss account.
- Receipt and Payment Account does not differentiate between capital and revenue receipts.

### 1.6 Some Peculiar Items

Final accounts of the Not-for-Profit organisations are prepared on the similar pattern as that of a business organisation. However, a few items of income and expenses of such organisations are somewhat different in nature and need special attention in their treatment in final accounts. They are peculiar to these organisations. Some of the common peculiar items are explained as under:

**Subscriptions:** Subscription is a membership fee paid by the member on annual basis. This is the main source of income of such organisations. Subscription paid by the members is shown as receipt in the Receipt and Payment Account and as income in the Income and Expenditure Account. It may be noted that Receipt and Payment Account shows the total amount of subscription actually received during the year while the amount shown in Income and Expenditure Account is confined to the figure related to the current period only irrespective of the fact whether it has been received or not. For example, a club received Rs. 20,000 as subscriptions during the year 2016-17 of which Rs.3,000 relate to year 2015-16 and Rs.2,000 to 2017-18, and at the end of the year 2016-17 Rs.6,000 are still receivable. In this case, the Receipt and Payment Account will show Rs.20,000 as receipt from subscriptions. But the Income and Expenditure Account will show Rs. 21,000 as income from subscriptions for the year 2016-17, the calculation of which is given as below:

|   |               |
|---|---------------|
|   | Rs.           |
| Subscriptions received in 2016-17                   | 20,000        |
| Less: Subscriptions for the year 2015-16            | 3,000         |
|   | 17,000        |
| Less: Subscription for the year 2017-18             | 2,000         |
|   | 15,000        |
| Add: Subscriptions outstanding for the year 2016-17 | 6,000         |
| Income from subscriptions for the year 2016-17      | <b>21,000</b> |

The above amount of subscriptions to be shown as income can also be ascertained by preparing the subscription account as follows:

| Dr.  |   |      |               | Cr.  |  |      |               |
|------|---|------|---------------|------|--|------|---------------|
| Date | Particulars                                       | J.F. | Amount (Rs.)  | Date | Particulars  | J.F. | Amount (Rs.)  |
|      | Balance b/d (outstanding at the beginning)        |      | 3,000         |      | Balance b/d (received in advance during previous year) |      | Nil           |
|      | Income and Expenditure Account (balancing figure) |      | 21,000        |      | Cash (subscription received)                           |      | 20,000        |
|      | Balance c/d (received in advance)                 |      | 2,000         |      | Balance c/d (outstanding at the end)                   |      | 6,000         |
|      |   |      | <b>26,000</b> |      |  |      | <b>26,000</b> |

**Illustration 5**

As per Receipt and Payment Account for the year ended on March 31, 2017, the subscriptions received were Rs. 2,50,000. Additional Information given is as follows:

1. Subscriptions Outstanding on 1.4.2016 Rs. 50,000
2. Subscriptions Outstanding on 31.3.2017 Rs.35,000
3. Subscriptions Received in Advance as on 1.4.2016 Rs.25,000
4. Subscriptions Received in Advance as on 31.3.2017 Rs.30,000

Ascertain the amount of income from subscriptions for the year 2016–17 and show how relevant items of subscriptions appear in opening and closing balance sheets.

**Solution**

| Details   | Amount<br>(Rs.) |
|---|-----------------|
| Subscriptions Received as per Receipt and Payment account | 2,50,000        |
| Add: Subscriptions outstanding on 31.3.2017               | 35,000          |
| Add: Subscriptions received in advance on 1.4.2016        | 25,000          |
|   | 3,10,000        |
| Less: Subscriptions outstanding on 1.4.2016               | 50,000          |
|   | 2,60,000        |
| Less: Subscriptions received in advance on 31.3.2017      | 30,000          |
| Income from subscription for the year 2016–17             | <b>2,30,000</b> |

Alternately, income received from subscriptions can be calculated by preparing a Subscriptions account as under.

**Subscription Account**

| Dr.  |   |      |                 | Cr.  |                           |      |                 |
|------|---|------|-----------------|------|---------------------------|------|-----------------|
| Date | Particulars                                       | J.F. | Amount<br>(Rs.) | Date | Particulars               | J.F. | Amount<br>(Rs.) |
|      | Balance b/d (outstanding)                         |      | 50,000          |      | Balance b/d (advance)     |      | 25,000          |
|      | Income and Expenditure Account (balancing figure) |      | 2,30,000        |      | Receipts and Payments A/c |      | 2,50,000        |
|      | Balance c/d (advance)                             |      | 30,000          |      | Balance c/d (outstanding) |      | 35,000          |
|      |   |      | <b>3,10,000</b> |      |                           |      | <b>3,10,000</b> |

Relevant items of subscription can be shown in the opening and closing balance sheet as under:

**Balance Sheet as on March 31, 2014**

| Liabilities                       | Amount<br>(Rs.) | Assets                   | Amount<br>(Rs.) |
|-----------------------------------|-----------------|--------------------------|-----------------|
| Subscriptions received in advance | 25,000          | Subscription outstanding | 50,000          |

\*Relevant data only

**Balance Sheet as on March 31, 2015**

| Liabilities                       | Amount<br>(Rs.) | Assets                    | Amount<br>(Rs.) |
|-----------------------------------|-----------------|---------------------------|-----------------|
| Subscriptions received in advance | 30,000          | Subscriptions outstanding | 35,000          |

\*Relevant data only

**Illustration 6**

Extracts of Receipt and Payment Account for the year ended March 31, 2017 are given below:

| Receipt<br>Subscriptions | (Rs.)         |
|--------------------------|---------------|
| 2015-16                  | 2,500         |
| 2016-17                  | 26,750        |
| 2017-18                  | 1,000         |
|                          | <u>30,250</u> |

**Additional Information:**

Total number of members: 230.

Annual membership fee: Rs. 125.

Subscriptions outstanding on April 1, 2016: Rs. 2,750.

Prepare a statement showing all relevant items of subscriptions viz., income, advance, outstanding, etc.

**Solution**

Amount of subscription due for the year 2016-17 irrespective of cash Rs. 28,750 (i.e. Rs. 125 × Rs. 230).

| Details   | Amount<br>(Rs.) |
|---|-----------------|
| Subscriptions received as per Receipts and Payments Account | 30,250          |
| Add: Subscriptions outstanding on March 31, 2017            | 2,250           |
| Add: Subscriptions received in advance on April 1, 2016     | NIL             |
|   | 32,500          |
| Less: Subscriptions outstanding on April 1, 2016            | 2,750           |
|   | 29,750          |
| Less: Subscriptions received in advance on March 31, 2017   | 1,000           |
| Income from Subscription for the year 2016-17. (125×230)    | <b>28,750</b>   |

*Note:* The amount of subscriptions outstanding as on 01-04-2017 has been ascertained as follows:

| Details                          | (Rs.)         | (Rs.)        |
|----------------------------------|---------------|--------------|
| (i) Outstanding as on 01.04.2016 | 2,750         |              |
| Received for 2015-16             | <u>2,500</u>  | 250          |
| (ii) Due for 2016-17 (125×230)   | 28,750        |              |
| Received for 2016-17             | <u>26,750</u> | 2,000        |
| Outstanding as on 31-3-2017      |               | <b>2,250</b> |

**Illustration 7**

From the following extract of Receipt and Payment Account and the additional information, compute the amount of income from subscriptions and show as how they would appear in the Income and Expenditure Account for the year ending March 31, 2015 and the Balance Sheet.

**Receipt and Payment Account for the year ending March 31, 2015**

| Receipts                            | Amount<br>(Rs.) | Payments | Amount<br>(Rs.) |
|-------------------------------------|-----------------|----------|-----------------|
| Subscriptions:                      |                 |          |                 |
| 2013-14                      7,000  |                 |          |                 |
| 2014-15                      30,000 |                 |          |                 |
| 2015-16                      5,000  | <b>42,000</b>   |          |                 |

**Additional Information:**

|   |        |
|---|--------|
|   | Rs.    |
| 1. Subscriptions outstanding March 31, 2014               | 8,500  |
| 2. Total Subscriptions outstanding March 31, 2015         | 18,500 |
| 3. Subscriptions received in advance as on March 31, 2014 | 4,000  |

**Solution****Income and Expenditure Account for the year ending on March 31, 2015**

| Expenditure | Amount<br>(Rs.) | Income                               | Amount<br>(Rs.) |
|-------------|-----------------|--------------------------------------|-----------------|
|             |                 | Subscriptions                        | 30,000          |
|             |                 | Received for 2014-15                 |                 |
|             |                 | Add: Outstanding for 2014-15         | 17,000          |
|             |                 | Add: Received in advance for 2014-15 | 4,000           |
|             |                 |                                      | <b>51,000</b>   |

**Note:** Total amount of subscriptions outstanding as on 31-3-2015 are Rs. 18,500. This, includes Rs. 1,500 (Rs. 8,500 – Rs. 7,000) for subscriptions still outstanding for 2013-14. Hence, the subscriptions outstanding for 2014-15 are Rs. 17,000 (Rs. 18,500 – Rs. 1,500).



**Balance Sheet (Relevant Data) as on March 31, 2015**

| Liabilities                                  | Amount<br>(Rs.) | Assets  | Amount<br>(Rs.) |
|--|-----------------|---|-----------------|
| Subscription Received in Advance for 2014-15 | <b>5,000</b>    | Subscription Outstanding:<br>2013-14 1,500<br>2014-15 <u>1,7000</u> | <b>18,500</b>   |

\*Relevant data only

**Do it Yourself**

1. Subscriptions received by the health club during the year 2015 were as under:

|      | Rs.             |
|------|-----------------|
| 2014 | 3,000           |
| 2015 | 96,000          |
| 2016 | <u>2,000</u>    |
|      | <u>1,01,000</u> |

|  | Rs.    |
|--|--------|
| Subscriptions Outstanding as on 31.12.14           | 5,000  |
| Subscriptions Outstanding as on 31.12.15           | 12,000 |
| Subscriptions received in advance in 2014 for 2015 | 5,000  |

Calculate the amount of subscriptions to be shown on the income side of Income and Expenditure A/c.

2. During the year 2015, subscriptions received by a sports club were Rs. 80,000. These included Rs. 3,000 for the year 2014 and Rs.6,000 for the year 2016. On March 31, 2016 the amount of subscriptions due but not received was Rs.12,000. Calculate the amount of subscriptions to be shown in Income and Expenditure Account as income from subscription.

3. Subscriptions received during the year ended December 31, 2015 by Royal Club were as under:

|      | Rs.           |
|------|---------------|
| 2014 | 3,000         |
| 2015 | 93,000        |
| 2016 | <u>2,000</u>  |
|      | <u>98,000</u> |

The club has 500 members each paying @ Rs.200 as annual subscription. Subscriptions outstanding as on March 31, 2016 are Rs. 6,000. Calculate the amount of subscriptions to be shown as income in the Income and Expenditure Account for the year ended March 31, 2016 and show the relevant data in the Balance Sheet as on date.

**Donations:** It is a sort of gift in cash or property received from some person or organisation. It appears on the receipts side of the Receipts and Payments Account. Donation can be for specific purposes or for general purposes.

- (i) **Specific Donations:** If donation received is to be utilised to achieve specified purpose, it is called Specific Donation. The specific purpose can be an

extension of the existing building, construction of new computer laboratory, creation of a book bank, etc. Such donation is to be capitalised and shown on the liabilities side of the Balance Sheet irrespective of the fact whether the amount is big or small. The intention is to utilise the amount for the specified purpose only.

- (ii) *General Donations:* Such donations are to be utilised to promote the general purpose of the organisation. These are treated as revenue receipts as it is a regular source of income hence, it is taken to the income side of the Income and Expenditure Account of the current year.

*Legacies:* It is the amount received as per the *will* of a deceased person who may or may not specify the use of the amount. Legacies, use of which is specified are specific legacy and is shown in the balance sheet as liability. If the use is not specified it is considered as revenue nature and credited to income and expenditure account.

*Life Membership Fees:* Some members prefer to pay lump sum amount as life membership fee instead of paying periodic subscription. Such amount is treated as capital receipt and credited directly to the capital/general fund.

*Entrance Fees:* Entrance fee also known as admission fee is paid only once by the member at the time of becoming a member. In case of organisations like clubs and some charitable institutions, is limited and the amount of entrance fees is quite high. Hence, it is treated as non-recurring item and credited directly to capital/general fund.

*Sale of old asset:* Receipts from the sale of an old asset appear in the Receipts and Payments Account of the year in which it is sold. But any gain or loss on the sale of asset is taken to the Income and Expenditure Account of the year. For example, if an item furniture with a book value of Rs. 800 is sold for Rs. 700, this amount of Rs. 700 will be shown as receipt in Receipts and Payments Account and Rs. 100 on the expenditure side of the Income and Expenditure Account as a loss on sale of old asset and while showing furniture in the balance sheet Rs. 800 will be deducted from its total book value.

*Sale of Periodicals:* It is an item of recurring nature and shown as the income side of the Income and Expenditure Account.

*Sale of Sports Materials:* Sale of sports materials (*used* materials like old balls, bats, nets, etc) is the regular feature with any Sports Club. It is usually shown as an income in the Income and Expenditure Account.

*Payments of Honorarium:* It is the amount paid to the person who is not the regular employee of the institution. Payment to an artist for giving performance

at the club is an example of honorarium. This payment of honorarium is shown on the expenditure side of the Income and Expenditure Account.

**Endowment Fund:** It is a fund arising from a bequest or gift, the income of which is devoted for a specific purpose. Hence, it is a capital receipt and shown on the Liabilities side of the Balance Sheet as an item of a specific purpose fund.

**Government Grant:** Schools, colleges, public hospitals, etc. depend upon government grant for their activities. The recurring grants in the form of maintenance grant is treated as revenue receipt (i.e. income of the current year) and credited to Income and Expenditure account. However, grants such as building grant are treated as capital receipt and transferred to the building fund account. It may be noted that some Not-for-Profit organisations receive cash subsidy from the government or government agencies. This subsidy is also treated as revenue income for the year in which it is received.

### *Special Funds*

The Not-for-Profit Organisations office create special funds for certain purposes/activities such as 'prize funds', 'match fund' and 'sports fund', etc. Such funds are invested in securities and the income earned on such investments is added to the respective fund, not credited to Income and Expenditure Account. Similarly, the expenses incurred on such specific purposes are also deducted from the special fund. For example, a club may maintain a special fund for sports activities. In such a situation, the interest income on sports fund investments is added to the sports fund and all expenses on sports deducted therefrom. The special funds are shown in balance sheet. However, if, after adjustment of income and expenses the balance in specific or special fund is negative, it is transferred to the debit side of the Income and Expenditure Account or adjusted as per prescribed directions. (see Illustrations 8 and 9.)

### **Illustration 8**

Show how you would deal with the following items in the financial statements of a Club:

| <i>Details</i>                     | <i>Debit<br/>Amount<br/>(Rs.)</i> | <i>Credit<br/>Amount<br/>(Rs.)</i> |
|------------------------------------|-----------------------------------|------------------------------------|
| Prize Fund                         |                                   | 80,000                             |
| Prize Fund Investments             | 80,000                            |                                    |
| Income from Prize Fund Investments |                                   | 8,000                              |
| Prizes awarded                     | 6,000                             |                                    |

**Solution****Balance Sheet as on.....**

| Liabilities                        | Amount<br>(Rs.) | Assets                 | Amount<br>(Rs.) |
|------------------------------------|-----------------|------------------------|-----------------|
| Prize fund 80,000                  |                 | Prize Fund Investments | 80,000          |
| Add: Income from Investments 8,000 |                 |                        |                 |
| Less: Prizes Awarded 6,000         | 82,000          |                        |                 |

**Illustration 9**

- (a) Show the following information in financial statements of a 'Not-for-Profit' Organisation:

| Details                 | Amount<br>(Rs.) |
|-------------------------|-----------------|
| Match Expenses          | 16,000          |
| Match Fund              | 8,000           |
| Donation for Match Fund | 5,000           |
| Sale of Match tickets   | 7,000           |

- (b) What will be the effect, if match expenses go up by Rs. 6,000 other things remaining the same?

**Solution**

(a)

**Balance Sheet as on.....\***

| Liabilities                      | Amount<br>(Rs.) | Assets | Amount<br>(Rs.) |
|----------------------------------|-----------------|--------|-----------------|
| Match fund 8,000                 |                 |        |                 |
| Add: Donation (Specific) 5,000   |                 |        |                 |
| Add: Sale of Match Tickets 7,000 |                 |        |                 |
| Less: Match Expenses 16,000      | 4,000           |        |                 |
|                                  | <b>4,000</b>    |        |                 |

\* Only relevant data.

(b)

If match expenses go up by Rs. 6,000, the net balance of the match fund becomes negative i.e. Debit exceeds the Credit, and the resultant debit balance of Rs. 2,000 shall be charged to the Income and Expenditure Account of that year.

**Test your Understanding – II**

How would you treat the following items in the case of a 'not-for-profit' organisation?

1. Tournament Fund Rs. 40,000. Tournament Expenses Rs. 14,000. Receipts from Tournament Rs. 16,000.
2. Table Tennis match expenses Rs. 4,000.
3. Prize Fund Rs. 22,000. Interest on Prize fund Investments Rs. 3,000. Prizes given Rs. 5,000. Prize fund Investments Rs. 18,000.
4. Receipts from Charity Show Rs. 7,000. Expenses on Charity Show Rs. 3,000.

**Illustration 10**

Extract of a Receipt and Payment Account for the year ended on March 31, 2015:

*Payments:*

Stationery Rs. 23,000

Additional Information:

| Details                  | April 1, 2014 | March 31, 2015 |
|--------------------------|---------------|----------------|
| Stock of stationery      | 4,000         | 3,000          |
| Creditors for stationery | 9,000         | 2,500          |

**Solution**

| Details  | Amount (Rs.)  |
|--|---------------|
| Payment made for the purchase of stationery as per Receipts and Payments account                             | 23,000        |
| Less: Creditors in the beginning   | 9,000         |
| Payment made for the year 2014-15  | 14,000        |
| Add: Payment not yet made (i.e. creditors at the end)  | 2,500         |
| Stationery Purchased for the year 2014-15  | 16,500        |
| Add: Stock in the beginning  | 4,000         |
| Stationery Available for consumption during 2014-15  | 20,500        |
| Less: Stock at the end   | 3,000         |
| Stationery Consumed during 2014-15 to be taken to the Expenditure side of the Income and Expenditure account | <b>17,500</b> |

**Stationery:** Normally expenses incurred on stationary, a consumable items are charged to Income and Expenditure Account. But in case stock of stationery (opening and/or closing) is given, the approach would be make necessary adjustments in purchases of stationery and work out cost of stationery consumed and show that amount in Income and Expenditure Account and its stock in the

balance sheet. For example, the Receipt and Payment Account shows a payment for stationery amounting to Rs. 40,000 and there is an opening and closing stationery amounting to Rs. 12,000 and Rs. 15,000. The amount of expense on stationery will be worked out as follows:

|                     |        |
|---------------------|--------|
| Stationery          |        |
| Purchases           | 40,000 |
| Add: Opening stock  | 12,000 |
|                     | <hr/>  |
|                     | 52,000 |
| Less: Closing stock | 15,000 |
|                     | <hr/>  |
|                     | 37,000 |

In case stationery is also purchased on credit, the amount of its consumption will be worked out as given in Illustration 12.

#### Do it Yourself

- Find out the cost of medicines consumed during 2014-15 from the following information:

| Details                            | Amount<br>(Rs.) |
|------------------------------------|-----------------|
| Payment for purchase of medicines  | 3,70,000        |
| Creditors for medicines purchased: |                 |
| On 1.4.2014                        | 25,000          |
| On 31.3.2015                       | 17,000          |
| Stock of Medicines:                |                 |
| On 1.4.2014                        | 62,000          |
| On 31.3.2015                       | 54,000          |
| Advance to suppliers of medicines: |                 |
| On 1.4.2014                        | 11,500          |
| On 31.3.2015                       | 18,200          |

- What amount of sports material will be posted to Income and Expenditure Account for the year ended March 31, 2016 as expenditure? :

|   | Amount<br>(Rs.) |
|---|-----------------|
| Stock of sports materials as on April 1, 2014           | 7,500           |
| Creditors for sports material as on April 1, 2014       | 2,000           |
| Stock of sports material as on March 31, 2016           | 6,200           |
| Amount paid for sports material during the year 2015-16 | 17,000          |
| Advance paid for sports material as on March 31, 2016   | 3,500           |
| Creditors for sports material as on March 31, 2016      | 1,200           |

**Illustration 11**

Following is the Receipt and Payment Account of an Entertainment Club for the period April 1, 2016 to March 31, 2017.

**Receipt and Payment Account for the year ending March 31, 2017**

| <i>Receipts</i>          | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>              | <i>Amount<br/>(Rs.)</i> |
|--------------------------|-------------------------|------------------------------|-------------------------|
| Balance b/d              |                         | Salaries                     | 24,000                  |
| Cash 27,500              |                         | Entertainment expenses       | 81,000                  |
| Bank 60,000              | 87,500                  | Telephone bill               | 35,000                  |
| Member's subscriptions:  |                         | Subscription for periodicals | 14,500                  |
| 2015-2016 12,500         |                         | Printing and stationery      | 13,000                  |
| 2016-2017 1,00,000       |                         | Sports expenses              | 50,000                  |
| 2017-2018 10,000         | 1,22,500                | Secretary's honorarium       | 30,000                  |
| Sale of furniture        |                         | 8% Investments (31.3.2017)   | 1,00,000                |
| (book value: Rs. 8,000)  | 10,000                  | Balance c/d:                 |                         |
| Legacies (general)       | 1,00,000                | Cash 21,500                  |                         |
| Sale of old periodicals  | 3,200                   | Bank 45,000                  | 66,500                  |
| and newspapers           |                         |                              |                         |
| Hire of ground used      | 48,750                  |                              |                         |
| for marriage             |                         |                              |                         |
| Donation for sports fund | 25,000                  |                              |                         |
| Locker Rent              | 17,050                  |                              |                         |
|                          | <b>4,14,000</b>         |                              | <b>4,14,000</b>         |

**Additional Information**

- The club had 225 members, each paying an annual subscription of Rs. 500. Subscription outstanding as on 31 March 2016 Rs. 15,000.
- Telephone bill outstanding for the year 2016-2017 is Rs. 2,000.
- Locker Rent Rs. 3,050 outstanding for the year 2015-16 and Rs. 1,500 for 2016-17.
- Salary outstanding for the year 2016-17 Rs. 4,000.
- Opening Stock of Printing and stationery Rs. 2,000 and closing stock of printing and stationery is Rs. 3,000 for the year 2016-17.
- On 1<sup>st</sup> April 2016 other balances were as under:

|             | Rs.      |
|-------------|----------|
| Furniture   | 1,00,000 |
| Building    | 6,50,000 |
| Sports fund | 15,000   |

- Depreciation Furniture and Building @ 12.5% and 5% respectively assuming that it is on reducing balance for the year ending March 31, 2017

Prepare Income and Expenditure account and Balance Sheet as on that date.

**Solution**

**Book of Entertainment Club**  
**Income and Expenditure Account**  
**for the year ending on March 31, 2017**

| <i>Expenditure</i>                                 | <i>Amount<br/>(Rs.)</i> | <i>Income</i>                      | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|------------------------------------|-------------------------|
| Salary 24,000                                      |                         | Subscriptions 1,00,000             |                         |
| Add: Outstanding <u>4,000</u>                      | 28,000                  | Add: Outstanding <u>12,500</u>     | 1,12,500                |
| Entertainment expenses 81,000                      |                         | Sale of old periodicals 3,200      |                         |
| Telephone Bill 35,000                              |                         | Profit on sale of furniture 2,000  |                         |
| Add: Outstanding <u>2,000</u>                      | 37,000                  | Hire of ground for marriage 48,750 |                         |
| Subscription for periodicals 14,500                |                         | Locker rent 17,050                 |                         |
| Printing and Stationery 13,000                     |                         | Less: Opening o/s <u>3,050</u>     |                         |
| Add: Opening Stock <u>2,000</u>                    | 15,000                  | 14,000                             |                         |
| 15,000   |                         | Add: Closing o/s <u>1,500</u>      | 15,500                  |
| Less: Closing stock <u>3,000</u>                   | 12,000                  | Donations 1,00,000                 |                         |
| Secretary's honorarium 30,000                      |                         |                                    |                         |
| Sports Expenses 50,000                             |                         |                                    |                         |
| Less: Opening Balance of sports fund <u>15,000</u> |                         |                                    |                         |
| 35,000   |                         |                                    |                         |
| Less: Donation for Sports <u>25,000</u>            | 10,000                  |                                    |                         |
| Depreciation On:                                   |                         |                                    |                         |
| Furniture 11,500                                   |                         |                                    |                         |
| Building <u>32,500</u>                             | 44,000                  |                                    |                         |
| Surplus (Excess of Income over Expenditure) 25,450 |                         |                                    |                         |
|  | <b>2,81,950</b>         |                                    | <b>2,81,950</b>         |



**Balance Sheet of Entertainment Club as on March 31, 2016**

| <i>Liabilities</i>   | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>            | <i>Amount<br/>(Rs.)</i> |
|----------------------|-------------------------|--------------------------|-------------------------|
| Sports fund          | 15,000                  | Cash in hand             | 27,500                  |
| Capital/General Fund | 8,42,550                | Cash at bank             | 60,000                  |
| (Balancing figure)   |                         | Outstanding subscription | 15,000                  |
|                      |                         | Outstanding locker Rent  | 3,050                   |
|                      |                         | Printing & Stationery    | 2,000                   |
|                      |                         | Furniture                | 1,00,000                |
|                      |                         | Buildings                | 6,50,000                |
|                      | <b>8,57,550</b>         |                          | <b>8,57,550</b>         |
|                      |                         |                          |                         |

**Balance Sheet of Entertainment Club as on March 31, 2017**

| <i>Liabilities</i>                 | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>                    | <i>Amount<br/>(Rs.)</i> |
|------------------------------------|-------------------------|----------------------------------|-------------------------|
| Subscriptions received in advanced | 10,000                  | Cash in hand                     | 21,500                  |
| Outstanding Telephone Bill         | 2,000                   | Cash at bank                     | 45,000                  |
| Salary Outstanding                 | 4,000                   | Outstanding subscriptions        | 15,000                  |
| Capital/General Fund               | 8,42,550                | (2015 Rs 2500 and 2016 Rs 12500) |                         |
| Add: Surplus                       | <u>25,450</u>           | Outstanding locker Rent          | 1,500                   |
|                                    | 8,68,000                | Printing and Stationery          | 3,000                   |
|                                    |                         | Furniture                        | 1,00,000                |
|                                    |                         | Less: Sales                      | <u>8,000</u>            |
|                                    |                         |                                  | 92,000                  |
|                                    |                         | Less: Depreciation               | <u>11,500</u>           |
|                                    |                         |                                  | 80,500                  |
|                                    |                         | Building                         | 6,50,000                |
|                                    |                         | Less: Depreciation               | <u>32,500</u>           |
|                                    |                         | Investment                       | 1,00,000                |
|                                    | <b>8,84,000</b>         |                                  | <b>8,84,000</b>         |
|                                    |                         |                                  |                         |

**Illustration 12**

Prepare Income and Expenditure Account and Balance Sheet for the year ended March 31, 2015 from the following information.

**Receipt and Payment Account for the year ending March 31, 2015**

| <i>Receipts</i>          | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>      | <i>Amount<br/>(Rs.)</i> |
|--------------------------|-------------------------|----------------------|-------------------------|
| Balance b/d              | 41,000                  | Salaries and Wages:  |                         |
| Subscriptions:           |                         | 2013-14              | 4,800                   |
| 2013-14                  | 7,200                   | 2014-15              | <u>83,200</u>           |
| 2014-15                  | 3,37,600                | Sundry expenses      | 37,000                  |
| 2015-16                  | <u>12,000</u>           | Freehold land        | 60,000                  |
| Entrance fees            | 16,000                  | Stationery           | 16,000                  |
| Locker rent              | 58,000                  | Rates                | 24,000                  |
| Revenue from refreshment | 48,000                  | Refreshment expenses | 37,500                  |
| Income from investments  | 56,000                  | Telephone charges    | 4,000                   |
|                          |                         | Investments          | 2,50,000                |
|                          |                         | Audit fee            | 6,000                   |
|                          |                         | Balance c/d          | 53,300                  |
|                          | <b>5,75,800</b>         |                      | <b>5,75,800</b>         |

The following additional information is provided to you:

1. There are 1800 members each paying an annual subscription of Rs. 200, Rs. 8,000 were in arrears for 2013-14 as on April 1, 2014.
2. On March 31, 2015 the rates were prepaid to June 2015; the charge paid every year being Rs. 24,000.
3. There was an outstanding telephone bill for Rs. 1,400 on March 31, 2015.
4. Outstanding sundry expenses as on March 31, 2014 totaled Rs. 2,800.
5. Stock of stationery as on March 31, 2014 was Rs. 2000; on March 31, 2015, it was Rs. 3,600.
6. On March 31, 2014 Building stood at Rs. 4,00,000 and it was subject to depreciation @ 2.5% p. a.
7. Investment on March 31, 2014 stood at Rs. 8,00,000.
8. On March 31, 2015, income accrued on investments purchased during the year amounted to Rs. 1,500.

**Solution**

**Income and Expenditure Account  
for the year ending on March 31, 2015**

Dr.

Cr.

| Expenditure                             | Amount<br>(Rs.) | Income                    | Amount<br>(Rs.) |
|---|-----------------|---------------------------|-----------------|
| Salaries and Wages                      | 83,200          | Subscriptions             | 3,60,000        |
| Sundry Expenses 37,000                  |                 | Entrance fees             | 16,000          |
| Less: Outstanding on<br>31.3.2014 2,800 | 34,200          | Locker rent               | 58,000          |
| Stationery : (consumed)                 |                 | Income from refreshment:  |                 |
| Opening stock 2,000                     |                 | Revenue from 48,000       |                 |
| Add: Purchases 16,000                   |                 | refreshment               |                 |
| Less: Closing stock 3,600               | 14,400          | Less: Refreshment 37,500  | 10,500          |
| Rates 24,000                            |                 | expenses                  |                 |
| Less: Paid for 2015-16 6,000            |                 | Income from 56,000        |                 |
| Add: Prepaid in 2014-15 6,000           | 24,000          | investments               |                 |
| Telephone charges 4,000                 |                 | Add: Accrued income 1,500 | 57,500          |
| Add: Outstanding 1,400                  | 5,400           | on current year           |                 |
| audit fee                               | 6,000           | investment                |                 |
| Surplus Depreciation on building        | 10,000          |                           |                 |
| (excess of Income over<br>expenditure)  | 3,24,800        |                           |                 |
|   | <b>5,02,000</b> |                           | <b>5,02,000</b> |

**Balance Sheet as on March 31, 2015**

| Liabilities                         | Amount<br>(Rs.)  | Assets                          | Amount<br>(Rs.)  |
|-------------------------------------|------------------|---------------------------------|------------------|
| Outstanding Telephone<br>Expenses   | 1,400            | Cash and Bank Balance           | 53,300           |
| Subscription received in<br>Advance | 12,000           | Subscription in Arrears         | 23,200           |
| General Fund 12,49,400              |                  | Stock of Stationery             | 3,600            |
| Add: Surplus 3,24,800               | 15,74,200        | Rates Prepaid                   | 6,000            |
|                                     |                  | Accrued Interest on investment: | 1,500            |
|                                     |                  | Investments 8,00,000            |                  |
|                                     |                  | Additions 2,50,000              | 10,50,000        |
|                                     |                  | Building 4,00,000               |                  |
|                                     |                  | Less: Depreciation 10,000       | 3,90,000         |
|                                     |                  | Land                            | 60,000           |
|                                     | <b>15,87,600</b> |                                 | <b>15,87,600</b> |

**Balance Sheet as on March 31, 2014**

| Liabilities                  | Amount<br>(Rs.)  | Assets                  | Amount<br>(Rs.)  |
|------------------------------|------------------|-------------------------|------------------|
| Outstanding Sundry Expenses  | 2,800            | Cash and Bank balance   | 41,000           |
| Outstanding Salary and Wages | 4,800            | Subscription in arrears | 8,000            |
| General Fund                 | 12,49,400        | Stock of stationery     | 2,000            |
| (Balancing figure)           |                  | Rates prepaid           | 6,000            |
|                              |                  | Investments             | 8,00,000         |
|                              |                  | Building                | 4,00,000         |
|                              | <b>12,57,000</b> |                         | <b>12,57,000</b> |

Working Note :

**Subscription Account**

| Dr.  |  |      |                 | Cr.  |                                    |      |                    |
|------|--|------|-----------------|------|------------------------------------|------|--------------------|
| Date | Particulars  | J.F. | Amount<br>(Rs.) | Date | Particulars                        | J.F. | Amount<br>(Rs.)    |
|      | Opening Balance or<br>Balance b/d (Arrears<br>for 2013-14) |      | 8,000           |      | Receipt and Payment<br>Balance c/d |      | 3,56,800<br>23,200 |
|      | Income and Expenditure<br>(1800×200)                       |      | 3,60,000        |      |                                    |      |                    |
|      | Balance<br>c/d (Advance for<br>2015-16)                    |      | 12,000          |      |                                    |      |                    |
|      |  |      | <b>3,80,000</b> |      |                                    |      | <b>3,80,000</b>    |

**Illustration 13**

Following is the Receipt and Payment Account of Friendship Club in respect of the Year on 31.3.2016.

**Receipt and Payment Account for the year ending March 31, 2016.**

| Receipts                        | Amount<br>(Rs.) | Payment                    | Amount<br>(Rs.) |
|---------------------------------|-----------------|----------------------------|-----------------|
| Opening cash in hand            | 10,000          | Salaries                   | 20,000          |
| Subscription:                   |                 | Stationery                 | 4,500           |
| 2014-15                         | 15,000          | Rates and Taxes            | 1,500           |
| 2015-16                         | 20,000          | Telephone charges          | 7,500           |
| 2016-17                         | <u>5,000</u>    | 8% govt. securities at par | 25,000          |
| Profit from sports              | 17,800          | Sundry expenses            | 500             |
| Interest on 8% govt. securities | 5,000           | Courier service charges    | 300             |
|                                 |                 | Closing cash in hand       | 13,500          |
|                                 | <b>72,800</b>   |                            | <b>72,800</b>   |

**Additional Information :**

1. There are 500 members, each paying an annual subscription of Rs. 50, Rs. 17,500 being in arrears for 2014-15 at the beginning of 2015-16. During 2014-15, subscriptions were paid in advance by 40 members for 2015-16.
2. Stock of stationery on March 31, 2015, was Rs. 1,500 and on March 31, 2016, Rs. 2,000.
3. On March 31, 2016, the rates and taxes were prepaid to the following January 31, the annual charge being Rs. 1,500.
4. Telephone bill unpaid as on March 31, 2015 Rs. 3,000 and on March 31, 2016 Rs. 1,500.
5. Sundry expenses accruing at 31.3.2015 were Rs. 250 and at March 31, 2016 Rs. 300.
6. On March 31, 2015 Building stood in the books at Rs. 2,00,000 and it is required to write off depreciation @ 10% p.a.
7. Value of 8% Government Securities on March 31, 2015 was Rs. 75,000 which were purchased at that date at Par. Additional Government Securities worth Rs. 25,000 are purchased on March 31, 2016.

You are required to prepare:

- (a) An Income and Expenditure Account for the year ended on 31.3.2016
- (b) A Balance Sheet on that date.

**Solution**

**Books of Friendship Club**  
**Balance Sheet as on March 31, 2015**

| <i>Liabilities</i>               | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>            | <i>Amount<br/>(Rs.)</i> |
|----------------------------------|-------------------------|--------------------------|-------------------------|
| Outstanding Expenses:            |                         | Building                 | 2,00,000                |
| Telephone charges      3,000     |                         | Investment in 8% Govt.   | 75,000                  |
| Sundry Expenses <u>250</u>       | 3,250                   | Securities               |                         |
| Subscription received in Advance | 2,000                   | Stock of stationery      | 1,500                   |
| General Fund                     | 3,00,000                | Prepaid Rates and Taxes  | 1,250                   |
| (balancing figure)               |                         | Subscription outstanding | 17,500                  |
|                                  |                         | Cash in hand             | 10,000                  |
|                                  | <b>3,05,250</b>         |                          | <b>3,05,250</b>         |

**Income and Expenditure Account**  
**for the year ending on March 31, 2015**

| <i>Expenditure</i>               | <i>Amount<br/>(Rs.)</i> | <i>Income</i>                   | <i>Amount<br/>(Rs.)</i> |
|----------------------------------|-------------------------|---------------------------------|-------------------------|
| Salaries                         | 20,000                  | Profit on Sports                | 17,800                  |
| Stationery (paid)      4,500     |                         | Interest on 8% Govt.      5,000 |                         |
| Add: Opening stock <u>1,500</u>  |                         | Securities Received             |                         |
|                                  | 6,000                   | Add: Receivable <u>1,000</u>    | 6,000                   |
| Less: Closing stock <u>2,000</u> |                         | Total Subscription      40,000  |                         |
| Stationery consumed              | 4,000                   | Received during                 |                         |
| Rates and Taxes      1,500       |                         | the current year                |                         |

|                          |              |               |                                 |               |               |
|--------------------------|--------------|---------------|---------------------------------|---------------|---------------|
| Less: Closing Prepaid    | <u>1,250</u> |               | Add: Opening                    | 2,000         |               |
|                          | 250          |               | Subscription in advance         |               |               |
| Add: Opening Prepaid     | <u>1,250</u> | 1,500         | Add: Outstanding at             | 5,500         |               |
| Telephone charges paid   | 7,500        |               | the end of the                  |               |               |
| Add: Outstanding         | <u>1,500</u> |               | Current Year                    |               |               |
| (Current Year)           | 9,000        |               | (2,500+3,000)=                  | 47,500        |               |
| Less: Outstanding        | <u>3,000</u> | 6,000         | Less: Subscription              | <u>5,000</u>  |               |
| (Previous year)          |              |               | received in                     | 42,500        |               |
| Sundry expenses paid     | 500          |               | Advance(Closing)                |               |               |
| Add: Outstanding         | <u>300</u>   |               | Less: Outstanding               | <u>17,500</u> | 25,000*       |
| (Current Year)           | 800          |               | at the start of                 |               |               |
| Less: Outstanding        | <u>250</u>   | 550           | the Current Year                |               |               |
| (Previous year)          |              |               | Deficit: (Excess of Expenditure |               | 3,550         |
| Depreciation on building |              | 20,000        | over to Income)                 |               |               |
| Courier charges          |              | 300           |                                 |               |               |
|                          |              | <b>52,350</b> |                                 |               | <b>52,350</b> |

- Verification:  $500 \times 50 = 25000$ .

#### Balance Sheet of Friendship Club as on March 31, 2016

| Liabilities              | Amount<br>(Rs.) | Assets                      | Amount<br>(Rs.) |
|--------------------------|-----------------|-----------------------------|-----------------|
| Outstanding Expenses:    |                 | Building :                  | 2,00,000        |
| Telephone charges        | 1,500           | Less: depreciation          | <u>20,000</u>   |
| Sundry Expenses          | <u>300</u>      | Investment in 8%            | 75,000          |
| Subscription received in | 5,000           | Govt. Securities:           |                 |
| Advance                  |                 | Add: Purchases              | <u>25,000</u>   |
| General Fund             | 3,00,000        | Stock of stationery         | 2,000           |
| Less: Deficit            | <u>3,550</u>    | Interest on 8%              | 1,000           |
|                          | 2,96,450        | Govt. securities Receivable |                 |
|                          |                 | Prepaid Rates and Taxes     | 1,250           |
|                          |                 | Subscription outstanding    | 5,500           |
|                          |                 | (Rs. 17,500-Rs. 5,000)      |                 |
|                          |                 | +Rs. 3,000= Rs. 5,500       |                 |
|                          |                 | Cash in hand                | 13,500          |
|                          | <b>3,03,250</b> |                             | <b>3,03,250</b> |

#### 1.7 Income and Expenditure Account based on Trial Balance

In case of not-for-profit organisations, normally the Income and Expenditure Account and Balance Sheet is prepared based on the Receipts and Payments Account and the additional information given. But, sometimes, the trial balance along with some additional information is given for this purpose. See Illustration 14.

**Illustration 14**

From the trial balance and other information given below for a school, prepare Income and Expenditure Account for the year ended on 31.3.2017 and a Balance Sheet as on that date:

| <i>Debit Balance</i> | <i>Amount<br/>(Rs.)</i> | <i>Credit Balance</i>      | <i>Amount<br/>(Rs.)</i> |
|----------------------|-------------------------|----------------------------|-------------------------|
| Building             | 6,25,000                | Admission fees             | 12,500                  |
| Furniture            | 50,000                  | Tuition fees received      | 5,00,000                |
| Library books        | 1,50,000                | Creditors for supplies     | 15,000                  |
| Investment @12%      | 5,00,000                | Rent for the school hall   | 10,000                  |
| Salaries             | 5,00,000                | Miscellaneous receipts     | 30,000                  |
| Stationery           | 40,000                  | Legacies (general).        | 3,50,000                |
| General expenses     | 18,000                  | General fund               | 10,20,000               |
| Sports expenses      | 15,000                  | Donation for library books | 62,500                  |
| Cash at bank         | 1,00,000                | Sale of old furniture      | 20,000                  |
| Cash in hand         | 2,000                   |                            |                         |
|                      | <b>20,00,000</b>        |                            | <b>20,00,000</b>        |

**Additional Information:**

- Tuition fee yet to be received for the year are Rs. 25,000.
- Salaries yet to be paid amount to Rs.30,000.
- Furniture costing Rs. 40000 was purchased on October 1, 2016 was sold for Rs. 20,000.
- The book value of the furniture sold was Rs. 50,000 on April 1, 2016 was sold for Rs. 20,000.
- Depreciation is to be charged @ 10% p.a. on furniture, 15% p.a. on Library books, and 5% p.a. on building.

**Solution**

**Income and Expenditure Account  
for the year ending on March 31, 2017**

| <i>Expenditure</i>                                 | <i>Amount<br/>(Rs.)</i> | <i>Income</i>                      | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|------------------------------------|-------------------------|
| Loss on sale of old furniture<br>(50,000 – 20,000) | 30,000                  | Admission fees                     | 12,500                  |
| Salaries 5,00,000                                  |                         | Tuition fees 5,00,000              |                         |
| Add: outstanding 30,000                            | 5,30,000                | Add: Outstanding 25,000            | 5,25,000                |
| Stationery   | 40,000                  | Rent for the school hall           | 10,000                  |
| General expenses                                   | 18,000                  | Miscellaneous receipts             | 30,000                  |
| Depreciation:                                      |                         | Legacies (general)                 | 3,50,000                |
| Furniture 3,000                                    |                         | Interest accrued on<br>investments | 60,000                  |
| Building 31,250                                    |                         |                                    |                         |
| Library books 22,500                               | 56,750                  |                                    |                         |
| Sports expenses                                    | 15,000                  |                                    |                         |
| Surplus (excess of income<br>over expenditure)     | 2,97,750                |                                    |                         |
|  | <b>9,87,500</b>         |                                    | <b>9,87,500</b>         |

**Working Notes:**

1. As admission fee is a regular income of a school, so it has been taken as a revenue income of the school.
2. Depreciation on furniture has been computed as following on the assumption that furniture was sold on April 1, 2016.

|  |                         |
|--|-------------------------|
|  | <i>Amount<br/>(Rs.)</i> |
| Book Value on March 31, 2017                         | 1,00,000                |
| Less: Book Value of Sold furniture                   | (50,000)                |
|  | <b>50,000</b>           |
| Depreciation on furniture of Rs. 10,000 for one year | 1,000                   |
| Depreciation on furniture of Rs. 40,000 for 6 months | 2,000                   |
| Total depreciation                                   | <b>3,000</b>            |

**Balance Sheet as on March 31, 2017**

| <i>Liabilities</i>         | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>             | <i>Amount<br/>(Rs.)</i> |
|----------------------------|-------------------------|---------------------------|-------------------------|
| Creditors for Supplies     | 15,000                  | Buildings 6,25,000        |                         |
| Outstanding Salaries       | 30,000                  | Less: Depreciation 31,250 | 5,93,750                |
| Donation for Library Books | 62,500                  | Furniture 50,000          |                         |
| General fund 10,20,000     |                         | Less: Sold 50,000         |                         |
| Add: Surplus 2,97,750      | 12,97,750               |                           | 50,000                  |
|                            |                         | Less: Depreciation 3,000  | 47,000                  |
|                            |                         | Accrued fees              | 25,000                  |
|                            |                         | Library books 1,50,000    |                         |
|                            |                         | Less: Depreciation 22,500 | 1,27,500                |
|                            |                         | Investments @ 12%         | 5,00,000                |
|                            |                         | Interest accrued          | 60,000                  |
|                            |                         | Cash at bank              | 1,00,000                |
|                            |                         | Cash in hand              | 2,000                   |
|                            | <b>14,05,250</b>        |                           | <b>14,05,250</b>        |

**Illustration 15**

Prepare Income and Expenditure Account of Entertainment Club for the year ending March 31, 2017 and Balance Sheet as on that date from the following information:



**Receipt and Payment Account**  
**For the year ending on March 31, 2017**

| Receipts                 | Amount<br>(Rs.) | Payments                       | Amount<br>(Rs.) |
|--------------------------|-----------------|--------------------------------|-----------------|
| Balance b/d              | 24,000          | Rent and Rates                 | 48,750          |
| Subscriptions            |                 | Furniture purchased            | 40,000          |
| 2015-16 23,250           |                 | Creditors for sports materials | 61,000          |
| 2016-17 3,36,000         |                 | Purchases for sports materials | 10,000          |
| 2017-18 <u>13,000</u>    | 3,72,250        | Cost of prizes awarded         | 20,750          |
| Sale of sports materials | 26,000          | Match expenses                 | 35,150          |
| Entrance fees            | 40,000          | Miscellaneous expenses         | 1,50,000        |
| General donation         | 20,250          | Balance c/d                    | 1,34,050        |
| Donation for prize fund  | 14,000          |                                |                 |
| Interest on prize fund   |                 |                                |                 |
| Investments              | 1,500           |                                |                 |
| Miscellaneous receipts   | 1,700           |                                |                 |
|                          | <b>4,99,700</b> |                                | <b>4,99,700</b> |

*Additional Information:*

| Details   | Apr. 01, 2016 | Mar. 31, 2017 |
|---|---------------|---------------|
| Sports materials  | 20,000        | 25,000        |
| Furniture   | 2,00,000      | ?             |
| 5% Prize fund investments   | 60,000        | ?             |
| Creditors for sports materials  | 7,000         | 14,750        |
| Subscription in arrears   | 23,750        | ?             |
| Prize fund  | 60,000        | ?             |
| Rent paid in advance  | ----          | 3,750         |
| Outstanding rent  | 3,750         |               |
| Outstanding miscellaneous expenses                                    | 11,400        | 20,100        |
| Miscellaneous expenses paid in advance                                | 3,750         | 4,250         |
| Book value of sports materials sold was Rs. 20000                     |               |               |
| Depreciation on furniture is to be provided @ 10%.                    |               |               |
| Half of the entrance fee is to be capitalised.                        |               |               |
| There are 1440 members, each paying an annual subscription @ Rs. 250. |               |               |
| Subscription received in advance on 1.4.2016 were Rs. 7,000.          |               |               |

**Solution**

**Books of Entertainment Club  
Income and Expenditure Account  
for the year ending March 31, 2017**

| <i>Expenditure</i>                          | <i>Amount<br/>(Rs.)</i> | <i>Income</i>                | <i>Amount<br/>(Rs.)</i> |
|---|-------------------------|------------------------------|-------------------------|
| Rent 48,750                                 |                         | Subscriptions 3,36,000       |                         |
| Less: Opening 3,750                         |                         | Add: Received                |                         |
| Outstanding 45,000                          |                         | in advance                   |                         |
| Less: Closing rent paid in advance 3,750    | 41,250                  | 01.04.2016 7,000             |                         |
| <i>Sports Materials</i>                     |                         | Add: Outstanding             |                         |
| Opening stock 20,000                        |                         | (2015–2016) 17,000           | 3,60,000                |
| Add: Payments 61,000                        |                         | (Rs.3,60,000–Rs.3,43,000)    |                         |
| to creditor 81,000                          |                         | General donations 20,250     |                         |
| Add: Closing creditor 14,750                |                         | Entrance fees 20,000         |                         |
| 95,750                                      |                         | Sports materials             |                         |
| Add: Cash purchase 10,000                   |                         | (Profit on sale)             |                         |
| 1,05,750                                    |                         | (i.e. 26,000–20,000) 6,000   |                         |
| Less: Opening creditor 7,000                |                         | Miscellaneous receipts 1,700 |                         |
| 98,750                                      |                         |                              |                         |
| Less: Sports material Sold 20,000           |                         |                              |                         |
| 78,750                                      |                         |                              |                         |
| Less: Closing stock 25,000                  | 53,750                  |                              |                         |
| Match expenses 35,150                       |                         |                              |                         |
| Depreciation on furniture 24,000            |                         |                              |                         |
| Miscellaneous expenses:                     |                         |                              |                         |
| Paid 1,50,000                               |                         |                              |                         |
| Less: Outstanding 11,400                    |                         |                              |                         |
| (Opening) 1,38,600                          |                         |                              |                         |
| Paid in advance 4,250                       |                         |                              |                         |
| (Opening) 1,34,350                          |                         |                              |                         |
| Add: Outstanding 20,100                     |                         |                              |                         |
| (Closing) 1,54,250                          |                         |                              |                         |
| Paid in advance 3,750                       | 1,58,200                |                              |                         |
| (Closing) 95,600                            |                         |                              |                         |
| Surplus (Excess of income over expenditure) |                         |                              |                         |
|   | <b>4,07,950</b>         |                              | <b>4,07,950</b>         |

**Balance Sheet of Entertainment Club as on March 31, 2016**

| <i>Liabilities</i>               | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>                              | <i>Amount<br/>(Rs.)</i> |
|----------------------------------|-------------------------|--|-------------------------|
| Capital Fund (Balancing figure)  | 2,42,350                | Furniture                                  | 2,00,000                |
| Prize fund                       | 60,000                  | 5% Prize Fund Investments                  | 60,000                  |
| Creditors for Sports Materials   | 7,000                   | Subscription Receivable (i.e. outstanding) | 23,750                  |
| Subscription Received in Advance | 7,000                   | Stock of Sports Materials                  | 20,000                  |
| Outstanding Expenses:            |                         | Miscellaneous Expenses                     | 3,750                   |
| Rent                             | 3,750                   | Paid in Advance                            |                         |
| Miscellaneous Expenses           | 11,400                  | Cash in hand                               | 24,000                  |
|                                  | <b>3,31,500</b>         |  | <b>3,31,500</b>         |

**Balance Sheet of Entertainment as on March 31, 2017**

| <i>Liabilities</i>                 | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>                               | <i>Amount<br/>(Rs.)</i> |
|------------------------------------|-------------------------|---|-------------------------|
| Capital fund                       | 2,42,350                | <i>Furniture:</i>                           |                         |
| Add: Surplus                       | 95,600                  | Opening balance                             | 2,00,000                |
| Entrance fees                      | 20,000                  | Additions                                   | 40,000                  |
| Prize fund                         | 60,000                  |   | 2,40,000                |
| Add: Donations                     | 14,000                  | Less: Depreciation                          | 24,000                  |
| Interest received                  | 1,500                   | 5% Prize fund investments                   | 60,000                  |
| Interest accrued*                  | 1,500                   | Subscription receivable (i.e. Outstanding): |                         |
|                                    | 77,000                  | (2015-2016)                                 | 500                     |
| Less: Prizes awarded               | 20,750                  | (2016-2017)                                 | 17,000                  |
| Creditors for sports materials     | 14,750                  | Stock of sports materials                   | 25,000                  |
| Subscription received in advance   | 13,000                  | Miscellaneous expenses                      | 4,250                   |
| Outstanding miscellaneous expenses | 20,100                  | Paid in advance                             |                         |
|                                    |                         | Prepaid rent                                | 3,750                   |
|                                    |                         | Accrued interest on Prize fund investments  | 1,500                   |
|                                    |                         | Cash in hand                                | 1,34,050                |
|                                    | <b>4,62,050</b>         |   | <b>4,62,050</b>         |

Note: \* Interest on Prize Fund Investments @ 5% amounts to Rs. 3,000 whereas only Rs. 1,500 have been received; so the balance is treated as Accrued interest.

*It is preferable to prepare separate accounts of various items involving many transactions. In this case Account for Subscription, Miscellaneous Expenses, and Sports Materials may be made as a Classroom activity.*

**Illustration 16**

Shiv-e-Narain Education Trust provides the information in regard to Receipt and Payment Account and Income and Expenditure Account for the year ended March 31st 2017:

**Receipt and Payment Account for the year ending March 31, 2017**

| <i>Receipts</i>                  | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>                   | <i>Amount<br/>(Rs.)</i> |
|----------------------------------|-------------------------|-----------------------------------|-------------------------|
| Cash in hand as on April 1, 2016 | 3,000                   | Printing and Stationery           | 6,000                   |
| Cash at bank as on April 1, 2016 | 15,000                  | Lighting & Water                  | 2,600                   |
| Subscription:                    |                         | Rent                              | 21,000                  |
| 2015-16           12,000         |                         | Advertisement                     | 2,820                   |
| 2016-17           46,000         |                         | Miscellaneous Expenses            | 4,400                   |
| 2017-18 <u>15,600</u>            | 73,600                  | Staff Salaries                    | 85,000                  |
| Entrance fees                    | 25,200                  | Furniture purchased               | 28,000                  |
| Tuition fees:                    |                         | Honorarium                        | 15,000                  |
| 2016-17           80,000         |                         | Books                             | 5,000                   |
| 2017-18 <u>10,000</u>            | 90,000                  | Cash in hand as on March 31, 2017 | 9,180                   |
| Interest on investment:          |                         | Cash at bank as on March 31, 2017 | 45,000                  |
| 2015-16           4,000          |                         |                                   |                         |
| 2016-17 <u>6,000</u>             | 10,000                  |                                   |                         |
| Miscellaneous receipts           | 7,200                   |                                   |                         |
|                                  | <b>2,24,000</b>         |                                   | <b>2,24,000</b>         |

On March 31, 2016 the following balances appeared:

Investments Rs.1, 60,000; Furniture Rs.40, 000; and Books Rs.20, 000.

**Income and Expenditure Account  
for the year ending on March 31, 2017**

| <i>Expenditure</i>                         | <i>Amount<br/>(Rs.)</i> | <i>Income</i>          | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|------------------------|-------------------------|
| Printing and Stationery                    | 7,800                   | Subscription           | 46,000                  |
| Lighting & Water                           | 2,600                   | Interest on investment | 6,800                   |
| Rent                                       | 24,000                  | Miscellaneous incomes  | 7,200                   |
| Staff salaries                             | 84,000                  | Tuition fees           | 90,000                  |
| Advertisement                              | 3,200                   |                        |                         |
| Honorarium                                 | 15,000                  |                        |                         |
| Misc. expenses                             | 4,400                   |                        |                         |
| Depreciation on furniture                  | 4,000                   |                        |                         |
| Surplus(Excess of income over expenditure) | 5,000                   |                        |                         |
|  | <b>1,50,000</b>         |                        | <b>1,50,000</b>         |

Prepare opening and closing balance sheet

**Solution**

**Shiv-e-Narain Education Trust**  
**Balance Sheet as on March 31, 2016**

| <i>Liabilities</i>                         | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>               | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|-----------------------------|-------------------------|
| Capital/General Fund<br>(Balancing figure) | 2,54,000                | Investments                 | 1,60,000                |
|  |                         | Furniture                   | 40,000                  |
|  |                         | Books                       | 20,000                  |
|  |                         | Outstanding subscription    | 12,000                  |
|  |                         | Accrued Interest on Invest. | 4,000                   |
|  |                         | Cash in hand                | 3,000                   |
|  |                         | Cash at bank                | 15,000                  |
|  | <b>2,54,000</b>         |                             | <b>2,54,000</b>         |

**Balance Sheet of Shiv-e-Narain Education Trust as on March 31, 2017**

| <i>Liabilities</i>        | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>           | <i>Amount<br/>(Rs.)</i> |
|---------------------------|-------------------------|-------------------------|-------------------------|
| Tuition fee advance       | 10,000                  | Investments             | 1,60,000                |
| Rent Outstanding          | 3,000                   | Furniture               | 40,000                  |
| Advertisement Outstanding | 380                     | Less: Depreciation      | 4,000                   |
| Printing & Stationery     | 1,800                   |                         | 36,000                  |
| Outstanding               |                         | Add: Purchases          | 28,000                  |
| Advance Subscription      | 15,600                  | Books                   | 20,000                  |
| Capital/                  |                         | Add: Purchases          | 5,000                   |
| General Fund              | 2,54,000                | Interest Accrued        | 800                     |
| Add Entrance fee          | 25,200                  | Outstanding tuition fee | 10,000                  |
| Add Surplus               | 5,000                   | Staff Salary Advance    | 1,000                   |
|                           | 2,84,200                | Cash in Hand            | 9,180                   |
|                           |                         | Cash at Bank            | 45,000                  |
|                           | <b>3,14,980</b>         |                         | <b>3,14,980</b>         |

**Note:**

1. Income and Expenditure Account for the current year shows interest on investment income Rs.6,800 while Receipts and Payments Account shows the receipts of Rs.6,000 the difference of Rs.800 means interest on investment has become due but not yet receivable during the year.
2. Income and Expenditure Account shows Rs.90,000 as income from Tuition fees. However, the Receipts and Payments Account shows Rs.10,000 as tuition fees received for the year 2017-18 and Rs.80,000 for 2015-16. It implies that Rs.10,000 on account of tuition fees for the year 2016-17 are still receivable (i.e. Tuition fees are outstanding).
3. Receipt and Payment Account shows a payment of Rs.85,000 on account of staff salaries, but the Income and Expenditure Account shows expenditure

of Rs.84,000 on account of staff salaries. It means the excess of Rs.1,000 shown in the Receipt and Payment Account may either belong to the pervious year or the next year. Their is no evidence that staff salaries of Rs.1,000 was outstanding at the end of the previous year 2013-14. This is why this payment of Rs.1,000 has been considered as an advance salaries to the staff.

### **Terms Introduced in the Chapter**

1. Not-for-Profit Organisation.
2. Receipts and Payments Account
3. Income and Expenditure Account
4. Entrance Fee
5. Life Membership
6. Special Receipts
7. Subscription
8. Donation
9. Incidental Trading Activity
10. Legacy

### **Summary**

1. *Difference between Profit Seeking Entities and Not-for-Profit Entities:* Profit-seeking entities undertake activities such as manufacturing trading, banking and insurance to bring financial gain to the owners. Not-for-Profit entities exist to provide services to the member or to the society at large. Such entities might sometimes carry on trading activities but the profits arising therefrom are used for further the service objectives.
2. *Appreciation of the need for separate Accounting Treatment for Not-for-Profit Organisations:* Since not-for-profit entities are guided primarily by a service motive, the decisions made by their managers are different from those made by their counterparts in profit-seeking entities. Differences in the nature of decisions implies that the financial information on which they are based, must also be different in content and presentation.
3. *Explanation of the nature of the Principal Financial Statements prepare by Not-for-Profit enterprises:* Not-for-Profit Organisations that maintain accounts based on the double-entry system of accounting, generally prepare three principal statements to fulfil their information needs. These include Receipts and Payments Account, Income and Expenditure Account, and a Balance Sheet. The Receipts and Payments Account is summarised under relevant heads, cash book which records all cash Receipts and cash Payments without distinguishing between capital and revenue items, and between items relating to the current year and those relating to previous or future years. The Income and Expenditure Account is an income statement which is prepared to ascertain the excess of revenue income over revenue expenditure or vice

versa, for a particular accounting year, as a result of the entity's overall activities. Although it is considered to be a substitute for the Trading and Profit and Loss Account of a profit-seeking entity, there are certain conceptual differences between the two statements. The Balance Sheet is prepared at the end of the entity's accounting year to depict the financial position on that date. It includes the Capital Fund or Accumulated Fund, special purpose funds, and current liabilities on the left hand or liabilities side, and fixed assets and current assets on the right hand or assets side.

4. *Difference between the Receipt and Payment Account and the Income and Expenditure Account:* Many differences exist between the Receipt and Payment Account and the Income and Expenditure Account which is evident from the nature and purpose of two statements. While the former records both capital and revenue receipts and payments relating to any accounting year, the latter records only revenue items relating to the current accounting year. Non-cash expenses such as depreciation on fixed assets and outstanding incomes and expenses are shown in the latter but omitted in the former. The Receipt and Payment Account has an opening balance while the Income and Expenditure Account does not. The closing balance of the former account represents cash and bank balances on the closing date while in the latter account it indicates surplus or deficit from the activities of the enterprise.
5. *Conversion of a Receipt and Payment Account into an Income and Expenditure Account:* This essentially involves five steps namely, (i) adjusting the revenue receipts on the debit side to include accrued incomes and incomes relating to the current year received earlier and to exclude amounts received in arrears or in advance; (ii) adjusting revenue payments on the credit side; (iii) identifying and showing non-cash expenses and losses on the debit side of the Income and Expenditure Account; (iv) computing and showing profits/losses from trading and/or social activities on the credit/debit side of the Income and Expenditure Account; and (v) ascertaining the surplus or deficit as the closing balance of the Income and Expenditure Account.

### ***Questions for Practice***

#### **Short Answer Questions**

1. What is meant by 'Not-for-Profit' Organisations?
2. State the meaning of Receipt and Payment Account.
3. State the meaning of Income and Expenditure Account.
4. State the feature of Receipt and Payment Account.
5. What steps are taken to prepare Income and Expenditure Account from a Receipt and Payment Account?
6. What is subscription? How is it calculated?
7. What is meant by Capital Fund? How is it calculated?

**Long Answer Questions**

1. Explain the statement: "Receipt and Payment Account is a summarised version of Cash Book".
2. "Income and Expenditure Account of a Not-for-Profit Organisation is akin to Profit and Loss Account of a business concern". Explain the statement.
3. Distinguish between Receipts and Payments Account and Income and Expenditure Account.
4. Explain the basic features of Income and Expenditure Account and of Receipt and Payment Account.
5. Show the treatment of the following items by a not-for-profit organisation:
  - (i) Annual subscription
  - (ii) Specific donation
  - (iii) Sale of fixed assets
  - (iv) Sale of old periodicals
  - (v) Sale of sports materials
  - (vi) Life membership fee
6. Show the treatment of items of Income and Expenditure Account when there is a specific fund for those items.
7. What is Receipt and Payment Account? How is it different from Income and Expenditure Account?
8. Distinguish between profit and not-for-profit organisation.

**Numerical Questions**

1. From the following particulars taken from the Cash Book of a health club, prepare a Receipts and Payments Account.

|                        | Rs.      |
|------------------------|----------|
| Opening balance:       |          |
| Cash in Hand           | 5,000    |
| Cash at Bank           | 25,000   |
| Subscriptions          | 1,65,000 |
| Donations              | 35,000   |
| Investment Purchased   | 80,000   |
| Rent Paid              | 20,000   |
| General Expenses       | 21,500   |
| Postage and stationery | 2,000    |
| Courier charges        | 1,000    |
| Sundry Expenses        | 2,500    |
| Closing Cash in Hand   | 12,000   |

**(Ans:** Cash at Bank (balancing figure) Rs. 91,000)



2. The Receipt and Payment Account of Harimohan charitable institution is given:

**Receipt and Payment Account for the year ending March 31, 2015**

| Receipts               | Amount<br>(Rs.) | Payments             | Amount<br>(Rs.) |
|------------------------|-----------------|----------------------|-----------------|
| Balance b/d            |                 | Furniture            | 3,000           |
| Cash at Bank           | 22,000          | Investments          | 55,000          |
| Cash in Hand           | 8,800           | Advance for building | 20,000          |
| Donations              | 16,000          | Charities            | 60,000          |
| Subscriptions          | 50,200          | Salaries             | 10,400          |
| Endowment fund         | 60,000          | Rent and Taxes       | 4,000           |
| Legacies               | 12,000          | Printing             | 1,000           |
| Interest on Investment | 3,800           | Postage              | 300             |
| Interest on Deposits   | 800             | Advertisements       | 1,100           |
| Sale of old newspapers | 500             | Insurance            | 4,800           |
| Donation for building  | 16,000          | Balance c/d:         |                 |
| Legacy for building    | 12,000          | Cash at bank         | 32,000          |
|                        |                 | Cash in hand         | 10,500          |
|                        | <b>2,02,100</b> |                      | <b>2,02,100</b> |

Prepare the Income and Expenditure Account for the Year ended on March 31, 2015 after considering the following:

- (i) Liabilities to be provided for are:  
Rent Rs. 800; Salaries Rs. 1,200; advertisement Rs. 200.
- (ii) Rs. 2,000 due for interest on investment was not actually received.

**(Ans : Excess of income over Expenditure Rs. 1,500.)**

3. From the following particulars , prepare Income and Expenditure account:

| Details   | Amount<br>(Rs.) |
|---|-----------------|
| Fees collected, including Rs.80,000 on account of the previous year           | 5,20,000        |
| Fees for the year outstanding   | 30,000          |
| Salary paid , including Rs. 5,000 on account of the previous year             | 68,000          |
| Salary outstanding at the end of the year                                     | 3,000           |
| Entertainment expenses  | 8,000           |
| Tournament expenses   | 25,000          |
| Meeting Expenses  | 18,000          |
| Traveling Expenses  | 7,000           |
| Purchase of Books and Periodicals, including Rs. 31,000 for purchase of Books | 40,000          |
| Rent  | 15,000          |
| Postage, telegrams and telephones   | 6,000           |
| Printing and Stationery   | 18,000          |
| Donations received  | 25,000          |

**(Ans : Excess of income over expenditure Rs. 3,23,000)**

4. Following is the information given in respect of certain items of a Sports Club. Show these items in the Income and Expenditure Account and the Balance Sheet of the Club:

|                                      | Rs.    |
|--------------------------------------|--------|
| Sports Fund as on 1.4.2015           | 35,000 |
| Sports Fund Investments              | 35,000 |
| Interest on Sports Fund              | 4,000  |
| Donations for Sports Fund Investment | 15,000 |
| Sports Prizes awarded                | 10,000 |
| Expenses on Sports Events            | 4,000  |
| General Fund                         | 80,000 |
| General Fund Investments             | 80,000 |
| Interest on General Fund Investments | 8,000  |

**(Ans : Balance of Sports Fund Rs. 40,000.)**

5. How will you deal with the following items while preparing for the Bombay Women Cricket Club its income and expenditure account for the year ending 31.3.2017 and its Balance Sheet as on 31.3.2017:

|  | Rs.       |
|--|-----------|
| (a) Donation received during the year for the construction of a permanent Pavilion | 12,25,000 |
| Expenditure incurred up to 31.3.2017 on its construction                           | 10,80,000 |
| The total estimated expenditure on construction of Pavilion being                  | 25,00,000 |
| (b) Tournament Fund:   |           |
| Balance as on 1.4.2016   | 10,700    |
| Subscriptions for tournament received during the year                              | 65,800    |
| Expenditure incurred during the year on conducting tournaments                     | 72,400    |
| (c) Life Membership fee received during the year                                   | 28,000    |

Give reasons for your answers.

**(Ans : (a) Balance of Pavilion Fund Rs. 1,45,000; (b) Balance of Tournament Fund Rs. 4,100; (c) Life Membership fee to the Capitalised).**

6. From the following receipts and payments and information given below, Prepare Income and Expenditure Account and opening Balance Sheet of Adult Literacy Organisation as on December 31, 2017.

**Receipt and Payment Account for the year ending as on December 31, 2017**

| <i>Receipts</i>         | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>            | <i>Amount<br/>(Rs.)</i> |
|-------------------------|-------------------------|----------------------------|-------------------------|
| Balance b/d             |                         | General Expenses           | 3,200                   |
| Cash in hand            | 4,000                   | Newspaper                  | 1,850                   |
| Cash at Bank            | 15,550                  | Electricity                | 3,000                   |
| Subscriptions           |                         | Fixed deposit with bank    | 18,000                  |
| 2016                    | 1,200                   | (on 31.06.2017) @ 10% p.a. |                         |
| 2017                    | 26,500                  | Books                      | 7,000                   |
| 2018                    | <u>500</u>              | Salary                     | 3,600                   |
| Sale of old newspapers  | 1,250                   | Rent                       | 6,500                   |
| Govt. grant             | 12,000                  | Postage charges            | 300                     |
| Sale of old furniture   |                         | Furniture (purchased)      | 10,500                  |
| (book value Rs.5000)    | 3,700                   | Balance c/d                |                         |
| Interest received on FD | 450                     | Cash in hand               | 3,000                   |
|                         |                         | Cash at bank               | 8,200                   |
|                         | <b>65,150</b>           |                            | <b>65,150</b>           |

**Information:**

- (i) Subscription outstanding as on 31.12.2016 were Rs.2,000 and on December 31, 2017 were Rs.1,500.
- (ii) On December 31, 2017 Salary outstanding was Rs.600, and one month Rent paid in advance.
- (iii) On Jan. 01, 2016 organisation owned Furniture Rs.12,000, Books Rs.5,000.
- (Ans :** Surplus Rs. 22,300, Opening Capital Fund Rs.38,550, Total Balance Sheet Rs. 61,950).

7. The following is the Receipt and Payment Account of the Nari Kalayan Samittee for the year ended December 31, 2017:

| <i>Receipts</i>            | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>         | <i>Amount<br/>(Rs.)</i> |
|----------------------------|-------------------------|-------------------------|-------------------------|
| Balance from last year b/d | 2,270                   | Rent                    | 6,600                   |
| Subscriptions              | 32,500                  | Electric charges        | 3,200                   |
| Life membership fee        | 3,250                   | Lecturer's fee          | 730                     |
| Donation                   | 2,500                   | Office expenses         | 1,480                   |
| Profit from entertainment  | 7,250                   | Printing and Stationery | 1,050                   |
| Sale of old Books          | 750                     | Legal fee               | 1,870                   |
| (books value Rs.1,000)     |                         | Books                   | 6,500                   |
| Interest                   | 350                     | Furniture purchased     | 8,600                   |
|                            |                         | Expenses on nukar drama | 1,300                   |
|                            |                         | Balance c/d:            |                         |
|                            |                         | Cash in hand            | 8,040                   |
|                            |                         | Cash at bank            | 9,500                   |
|                            | <b>48,870</b>           |                         | <b>48,870</b>           |

You are required to prepare an Income and Expenditure Account after the following adjustments:

- Subscription still to be received are Rs.750 , but subscription include Rs.500 for the year 2018.
- In the beginning of the year the Samiti owned building Rs.20,000 and furniture Rs.3,000 and Books Rs.2,000.
- Provide depreciation on furniture @5% (including purchase ), books @ 10% and building @ 5%.

**(Ans : Surplus Rs. 24,040)**

8. Following is the Receipt and Payment Account of Indian Sports Club, prepared Income and Expenditure Account, Balance Sheet as on December 31, 2015:

**Receipt and Payment Account for the year ending December 31, 2017**

| Receipts   | Amount<br>(Rs.) | Payments                                    | Amount<br>(Rs.) |
|--|-----------------|---|-----------------|
| Balance b/d  | 7,890           | Salary                                      | 11,000          |
| Subscriptions                                      | 52,000          | Electric charges                            | 5,500           |
| Life membership fee                                | 2,200           | Billiard Table                              | 17,500          |
| Entrance fee                                       | 3,200           | Office expenses                             | 4,100           |
| Tournament fund                                    | 26,000          | Printing & Stationery                       | 2,300           |
| Locker Rent  | 1,250           | Tournament expenses                         | 18,500          |
| Sale of old sports equipment<br>(Costing Rs.2,200) | 2,500           | Repair of ground                            | 2,000           |
| Sale of old newspaper                              | 750             | Furniture purchased                         | 7,700           |
| Legacy   | 37,500          | Sports equipment                            | 12,000          |
|  |                 | Cash in hand                                | 12,690          |
|  |                 | Cash at bank                                | 10,000          |
|  |                 | Fixed deposit<br>(on 1.10.2017 for 10% p.a) | 30,000          |
|  | <b>1,33,290</b> |   | <b>1,33,290</b> |

**Other Information:**

Subscription outstanding was on December 31, 2016 Rs.1,200 and Rs.3,200 on December 31, 2017. Locker rent outstanding on December 31, 2017 Rs.250. Salary outstanding on December 31, 2017 Rs.1,000.

On January 1, 2017, club has Building Rs.36,000, furniture Rs.12,000, Sports equipments Rs.17,500. Depreciation charged on these items @ 10% (including Purchase).

**(Ans : Surplus Rs.26,300, Opening Capital fund Rs.74,590, Total of Closing Balance Sheet Rs.1,49,090)**

9. From the following Receipt and Payment Account of Jan Kalyan Club, prepare Income and Expenditure Account and Balance Sheet for the year ending March 31, 2017.

**Receipt and Payment Account  
for the year ending March 31, 2017**

| <i>Receipts</i>                                | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>            | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|----------------------------|-------------------------|
| Cash in hand as on 1.4.16                      | 6,800                   | Salaries                   | 24,000                  |
| Subscription                                   | 60,200                  | Traveling Expenses         | 6,000                   |
| Donation                                       | 3,000                   | Stationery                 | 2,300                   |
| Sale of furniture<br>(Book value Rs.6000)      | 4,000                   | Rent                       | 16,000                  |
| Entrance fee                                   | 800                     | Repair                     | 700                     |
| Life membership fee                            | 7,000                   | Books purchased            | 6,000                   |
| Interest on investment<br>(@ 5% for full year) | 5,000                   | Building purchased         | 30,000                  |
|  |                         | Cash in hand as 31.03.2017 | 1,800                   |
|  | <b>86,800</b>           |                            | <b>86,800</b>           |

*Additional Information:*

|                                      | <i>As on<br/>01.04.2016</i> | <i>As on<br/>31.03.2017</i> |
|--------------------------------------|-----------------------------|-----------------------------|
| (i) Subscription received in advance | 1,000                       | 3,200                       |
| (ii) Outstanding subscription        | 2,000                       | 3,700                       |
| (iii) Stock of stationery            | 1,200                       | 800                         |
| (iv) Books                           | 13,500                      | 16,500                      |
| (v) Furniture                        | 16,000                      | 8,000                       |
| (vi) Outstanding rent                | 1,000                       | 2,000                       |

**(Ans : Surplus Rs.11,100 ,Opening Capital fund Rs.1,37,500, Total of Closing Balance Sheet Rs.1,60,800]**

10. Receipt and Payment Account of Shankar Sports club is given below, for the year ended March 31, 2017

**Receipt and Payment Account  
for the year ending March 31, 2017**

| <i>Receipts</i>           | <i>Amount<br/>(Rs.)</i> | <i>Payments</i> | <i>Amount<br/>(Rs.)</i> |
|---------------------------|-------------------------|-----------------|-------------------------|
| Opening Cash in hand      | 2,600                   | Rent            | 18,000                  |
| Entrance fees             | 3,200                   | Wages           | 7,000                   |
| Donation for building     | 23,000                  | Billiard table  | 14,000                  |
| Locker rent               | 1,200                   | Furniture       | 10,000                  |
| Life membership fee       | 7,000                   | Interest        | 2,000                   |
| Profit from entertainment | 3,000                   | Postage         | 1,000                   |
| Subscription              | 40,000                  | Salary          | 24,000                  |
|                           |                         | Cash in hand    | 4,000                   |
|                           | <b>80,000</b>           |                 | <b>80,000</b>           |

Prepare Income and Expenditure Account and Balance Sheet with help of following Information:

Subscription outstanding on March 31, 2016 is Rs.1, 200 and Rs.2, 300 on March 31, 2017, opening stock of postage stamps is Rs.300 and closing stock is Rs. 200, Rent Rs.1, 500 related to 2015 and Rs.1, 500 is still unpaid.

On April 1, 2016 the club owned furniture Rs.15, 000, Furniture valued at Rs. 22,500 on March 31, 2016.

On March 31, 2017, the club had a loan of Rs.20,000 (@ 10% p.a) in 2017.

**(Ans : Deficit Rs.6,100, Opening Capital fund Deficit Rs.2,400, Total of Closing Balance Sheet Rs. 44,500)**

11. Prepare Income and Expenditure Account and Balance Sheet for the year ended March 31, 2016 from the following Receipt and Payment Account and Balance Sheet of culture club:

**Receipt and Payment Account  
for the year ending March 31, 2016**

| Receipts                           | Amount<br>(Rs.) | Payments                           | Amount<br>(Rs.) |
|------------------------------------|-----------------|------------------------------------|-----------------|
| Opening cash balance               | 12,000          | Furniture                          | 4,000           |
| Subscription                       |                 | Telephone expenses                 | 800             |
| 2014-15                      2,000 |                 | Salary                             |                 |
| 2015-16 <u>22,000</u>              | 24,000          | 2014-15                      1,000 |                 |
| Entrance fees                      | 2,800           | 2015-16                      4,000 |                 |
| Locker rent                        | 1,000           | Newspapers                         | 700             |
| Life membership fee                | 1,200           | Sundry expenses                    | 1,000           |
| Government grant                   | 11,000          | Defence bonds                      | 18,000          |
|                                    |                 | Land                               | 20,000          |
|                                    |                 | Closing cash balance               | 2,500           |
|                                    | <b>52,000</b>   |                                    | <b>52,000</b>   |

**Balance Sheet for the year ending March 31, 2015**

| Liabilities                      | Amount<br>(Rs.) | Assets                   | Amount<br>(Rs.) |
|----------------------------------|-----------------|--------------------------|-----------------|
| Advance locker rent              | 200             | Cash in hand             | 12,000          |
| Subscription received in Advance | 1,000           | Outstanding subscription | 3,000           |
| Outstanding salary               | 2,000           | Building                 | 35,000          |
| Loan                             | 10,000          |                          |                 |
| Capital fund                     | 36,800          |                          |                 |
|                                  | <b>50,000</b>   |                          | <b>50,000</b>   |

**(Ans : Surplus Rs. 31,500; Total of Closing Balance Sheet Rs. 80,500)**

12. From the following Receipt and Payment Account prepare final accounts of a Unity Club for the year ended March 31, 2017

**Receipt and Payment Accounts for the year ending March 31, 2017**

| <i>Receipts</i>                              | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>  | <i>Amount<br/>(Rs.)</i> |
|--|-------------------------|------------------|-------------------------|
| Balance b/d                                  | 15,000                  | Furniture        | 18,000                  |
| Sale of Old furniture<br>(costing Rs. 6,000) | 4,000                   | Library books    | 10,000                  |
| Subscriptions:                               |                         | Salaries         | 72,000                  |
| 2015-16                      18,000          |                         | General expenses | 18,000                  |
| 2016-17                      60,000          |                         | Electric charges | 12,000                  |
| 2017-18 <u>12,000</u>                        | 90,000                  | Newspapers       | 33,800                  |
| Sale of old newspapers                       | 10,800                  | Postage          | 3,000                   |
| Profit from entertainment                    | 44,000                  | Stationery       | 40,000                  |
| Rent   | 84,000                  | Audit fee        | 8,000                   |
|  |                         | Balance c/d      | 33,000                  |
|  | <b>2,47,800</b>         |                  | <b>2,47,800</b>         |

**Balance Sheet as on March 31, 2017**

| <i>Liabilities</i> | <i>Amount<br/>(Rs.)</i> | <i>Assets</i>            | <i>Amount<br/>(Rs.)</i> |
|--------------------|-------------------------|--------------------------|-------------------------|
| Outstanding Salary | 6,000                   | Cash                     | 15,000                  |
| Capital Fund       | 6,94,000                | Outstanding subscription | 18,000                  |
|                    |                         | Library Books            | 30,000                  |
|                    |                         | Furniture                | 37,000                  |
|                    |                         | Land and Building        | 6,00,000                |
|                    | <b>7,00,000</b>         |                          | <b>7,00,000</b>         |

*Additional Information:*

- The Club had 500 members each paying an annual subscription of Rs. 150.
- On 31.3.2017 salaries outstanding amounted to Rs. 1,200 and salaries paid included Rs. 6,000 for the year 2015-16.
- Provide 5% depreciation on Land and Building.

**(Ans : Deficit Rs. 200 Total of Closing Balance Sheet Rs.7,07,000)**

13. Following is the information in respect of certain items of a Sports Club. You are required to show them in the Income and Expenditure Account and the Balance Sheet.

| Details                              | Amount<br>(Rs.) |
|--------------------------------------|-----------------|
| Sports Fund as on April 1, 2016      | 80,000          |
| Sports Fund Investments              | 80,000          |
| Interest on Sports Fund Investments  | 8,000           |
| Donations for Sports Fund            | 30,000          |
| Sports Prizes awarded                | 16,000          |
| Expenses on Sports Events            | 7,000           |
| General Fund                         | 2,00,000        |
| General Fund Investments             | 2,00,000        |
| Interest on General Fund Investments | 20,000          |

14. Receipt and Payment Account of Maitrey Sports Club showed that Rs. 68,500 were received by way of subscriptions for the year ended on March 31, 2017.

The additional information was as under:

1. Subscription Outstanding as on March 31, 2016 were Rs. 6,500,
2. Subscription received in advance as on March 31, 2016 were Rs. 4,100,
3. Subscription Outstanding as on March 31, 2017 were Rs. 5,400,
4. Subscription received in advance as on March 31, 2017 were Rs. 2,500.

Show how that above information would appear in the final accounts for the year ended on March 31, 2017 of Maitrey Sports Club.

**(Ans :** Subscription credited to Income and Expenditure Account for the year ended on March 31, 2017 is Rs. 69,000. Subscription Outstanding as on 31.3.2017 is Rs. 5,400 and should be shown on the assets side of the Balance sheet as on March 31, 2017 and subscriptions of Rs. 2,500 received in advance as on March 31, 2017 on the liabilities side of the balance sheet as on March 31, 2017)

15. Following is the Receipt and Payment account of Rohatgi Trust :

**Receipt and Payment Account for the year ending December 31, 2017**

| Receipts                         | Amount<br>(Rs.) | Payments               | Amount<br>(Rs.) |
|----------------------------------|-----------------|------------------------|-----------------|
| Cash in hand                     | 14,000          | Rent                   | 6,000           |
| Cash at bank                     | 60,000          | Salary                 | 12,000          |
| Subscription:                    |                 | Postage                | 300             |
| 2016                      5,000  |                 | Electricity charges    | 6,000           |
| 2017                      83,000 |                 | Purchase of furniture  | 20,000          |
| 2018 <u>3,000</u>                | 91,000          | Books                  | 3,000           |
| Sale of investment               | 90,000          | Defence Bonds          | 1,50,000        |
| Interest on investment           | 2,000           | Help to needy students | 22,000          |
| Sale of furniture                | 3,200           | Cash in hand           | 10,900          |
| (book value Rs.3,000)            |                 | Cash at bank           | 30,000          |
|                                  | <b>2,60,200</b> |                        | <b>2,60,200</b> |



Prepare Income and expenditure account for the year ended December 31, 2017, and a balance sheet as on that date after the following adjustments: Subscription for 2017, still owing were Rs. 7,000. Interest due on defence bonds was Rs.7,000, Rent still owing was Rs. 1,000. The Book value of investment sold was Rs. 80,000, Rs. 30,000 of the investment were still in hand. Subscription received in 2017 included Rs. 400 from a life member. The total furniture on January 1, 2017 was worth Rs.12,000. Salary paid for the year 2018 is Rs.2,000.

**(Ans : Surplus Rs. 63,500, Total of Closing Balance Sheet Rs. 2,68,900)**

16. Following Receipt and Payment Account was prepared from the cash book of Delhi Charitable Trust for the year ending December 31, 2017

**Receipt and Payment Account for the year ending December 31, 2017**

| Receipts               | Amount<br>(Rs.) | Payment        | Amount<br>(Rs.) |
|------------------------|-----------------|----------------|-----------------|
| Balance b/d            |                 | Charity        | 11,500          |
| Cash in hand           | 11,500          | Rent and taxes | 3,200           |
| Cash at bank           | 12,600          | Salary         | 6,000           |
| Donation               | 9,000           | Printing       | 600             |
| Subscription:          | 42,800          | Postage        | 300             |
| Legacies               | 18,000          | Advertisements | 4,500           |
| Interest on investment | 4,500           | Insurance      | 2,000           |
| Sale of old newspapers | 200             | Furniture      | 21,600          |
|                        |                 | Investment     | 23,000          |
|                        |                 | Balance c/d:   |                 |
|                        |                 | Cash in hand   | 9,900           |
|                        |                 | Cash at bank   | 16,000          |
|                        | <b>98,600</b>   |                | <b>98,600</b>   |

Prepare Income and expenditure account for the year ended December 31, 2017, and a balance sheet as on that date after the following adjustments:

- It was decided to treat one-third of the amount received on account of donation as income.
- Insurance premium was paid in advance for three months.
- Interest on investment Rs.1,100 accrued was not received.
- Rent Rs.600: salary Rs.900 and advertisement expenses Rs.1,000 outstanding as on December 31, 2018.

**(Ans : Surplus Rs.21,400, Total of Closing Balance Sheet Rs.72,000)**

17. From the following Receipt and Payment Account of a club, prepare Income and Expenditure Account for the year ended March 31, 2017 and the Balance Sheet as on that date.

**Receipt and Payment Account for the year ending March 31, 2017**

| <i>Receipts</i>                     | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>     | <i>Amount<br/>(Rs.)</i> |
|-------------------------------------|-------------------------|---------------------|-------------------------|
| Balance b/d                         | 3,500                   | General expenses    | 900                     |
| Subscription:                       |                         | Salary              | 16,000                  |
| 2015-16                      2,000  |                         | Postage             | 1,300                   |
| 2016-17                      70,000 |                         | Electricity charges | 7,800                   |
| 2017-18 <u>3,000</u>                | 75,000                  | Furniture           | 26,500                  |
| Sale of old Books                   | 2,000                   | Books               | 13,000                  |
| (costing Rs.3,200)                  |                         | Newspapers          | 600                     |
| Rent from use of hall               | 17,000                  | Meeting expenses    | 7,200                   |
| Sale of newspapers                  | 400                     | T.V. set            | 16,000                  |
| Profit from entertainment           | 7,300                   | Balance c/d         | 15,900                  |
|                                     | <b>1,05,200</b>         |                     | <b>1,05,200</b>         |

*Additional Information:*

- (a) The club has 100 members each paying an annual subscription of Rs.900. Subscriptions outstanding on March 31, 2016 were Rs.3,600.
- (b) On March 31, 2017, salary outstanding amounted to Rs.1,000, Salary paid included Rs. 1,000 for the year 2016.
- (c) On April 1, 2017 the club owned land and building Rs.25,000, furniture Rs.2,600 and books Rs.6,200.

**(Ans :** Surplus Rs.79,700, Total of Closing Balance Sheet Rs.1,23,600)

18. Following is the Receipt and Payment Account of Women's Welfare Club for the year ended December 31, 2017:

**Receipt and Payment Account for the year ending December 31, 2017**

| <i>Receipts</i>          | <i>Amount<br/>(Rs.)</i> | <i>Payments</i>          | <i>Amount<br/>(Rs.)</i> |
|--------------------------|-------------------------|--------------------------|-------------------------|
| Balance b/d              | 7,250                   | Salary                   | 12,500                  |
| Subscriptions            | 81,750                  | Stationery               | 1,700                   |
| Donations                | 3,000                   | Electricity charges      | 9,550                   |
| Grant from Government    | 15,000                  | Insurance                | 7,500                   |
| Sale of newspapers       | 300                     | Equipments               | 30,000                  |
| Proceeds of charity show | 16,500                  | Petty expenses           | 500                     |
| Interest on investments  | 7,000                   | Expenses on charity show | 12,900                  |
| @ 10% for full year      |                         | Newspapers               | 1,000                   |
| Sundries income          | 400                     | Lectures fee             | 16,500                  |
|                          |                         | Honorarium to Secretary  | 12,000                  |
|                          |                         | Balance c/d              | 27,050                  |
|                          | <b>1,31,200</b>         |                          | <b>1,31,200</b>         |

*Additional Information:*

|                                   | 01.01.2017<br>(Rs.) | 31.12.2017<br>(Rs.) |
|-----------------------------------|---------------------|---------------------|
| Outstanding salaries              | 1,200               | 1,800               |
| Insurance prepaid                 | 700                 | 300                 |
| Subscription outstanding          | 3,750               | 2,500               |
| Subscription received in advanced | 1,750               | 1,000               |
| Electricity charges outstanding   | —                   | 1,250               |
| Stock of stationery               | 2,250               | 700                 |
| Equipments                        | 25,600              | 50,200              |
| Building                          | 1,20,000            | 1,14,000            |

Prepare Income and Expenditure Account for the year ended December 31, 2017 and Balance Sheet as on date.

**(Ans : Surplus Rs.34,100, Total of Closing Balance Sheet Rs.2,64,750)**

19. As at March 31, 2015 the following balances have been extrated from the books of the Indian Chartered Accountants Recreation Club and you are asked to prepare Income and Expenditure Account for the year ended March 31, 2017 and a Balance Sheet as at that date.

| <i>Debit Balances</i> |                 | <i>Credit Balances</i>    |                 |
|-----------------------|-----------------|---------------------------|-----------------|
|                       | (Rs.)           |                           | (Rs.)           |
| Stock-in-hand         | 1170            | Subscriptions             | 9,7110          |
| Purchases             | 24,660          | Billiard's Receipts       | 7,300           |
| Dining Room           | 32,370          | Sunday Receipts           | 410             |
| Rent                  | 10,470          | Interest on Fixed Deposit | 270             |
| Wages                 | 18,690          | Sundry Creditors          | 5370            |
| Repairs and Renewals  | 5,400           | Grant from Institute      | 42,000          |
| Fuel and Light        | 5,280           | (permanent)               |                 |
| Misc. Expenses        | 4,050           | Income and Exp. A/c       | 1,380           |
| Cash in hand          | 560             | (2016)                    |                 |
| Cash at bank          | 2,760           |                           |                 |
| Fixed Deposit         | 8,500           |                           |                 |
| Sundry Debtors        | 2,250           |                           |                 |
| Stationary            | 600             |                           |                 |
| Billiard Table        | 2,070           |                           |                 |
| Fixtures and Fittings | 870             |                           |                 |
| Furniture             | 4,140           |                           |                 |
| Club Premises         | 30,000          |                           |                 |
|                       | <b>1,53,840</b> |                           | <b>1,53,840</b> |

On March 31,2016 stock of Stationary consisted of Rs. 900 and March 31, 2017 Rs. 60 respectively. Provide depreciations Rs. 60 on fixtures and fittings, Rs. 390 on billiard table and Rs. 560 on furniture.

**(Ans: Excess of income over expenditure– Rs. 2,950: Total of Balance Sheet Rs. 51,700)**

**Check-list to Test your Understanding***Test your Understanding – I*

Ans. TRUE: (iii) (vi) (vii) (x); FALSE: (i) (ii) (iv).(v).(viii).(ix).

*Test your Understanding – II*

1. There is a specific tournament fund. The accounting treatment is as under:

| <i>Liabilities side of the Balance Sheet</i>                   | <i>Amount (Rs.)</i>  |
|--|----------------------|
| Tournament fund  | 40,000               |
| Add: Receipts from tournament                                  | <u>16,000</u>        |
|  | 56,000               |
| Less: Tournament Expenses                                      | <u>14,000</u>        |
| Balance to remain on the Liabilities side of the Balance Sheet | <b><u>42,000</u></b> |

2. There is no specific fund. So the amount incurred on Table Tennis match expenses Rs. 4,000 would be shown on the debit side of Income and Expenditure Account. It is the case of expenses independent of any specific fund.

3. There is a specific fund. The accounting treatment is as under:

| <i>Liabilities side of the Balance Sheet</i>                                | <i>Amount (Rs.)</i> |
|---|---------------------|
| Prize Fund  | 22,000              |
| Add: Interest   | <u>3,000</u>        |
|   | 25,000              |
| Less: Prizes Paid   | <u>5,000</u>        |
| Balance to remain on the Liabilities side of the Balance Sheet              | <u>20,000</u>       |
| Prize fund Investments would appear on the Assets Side of the Balance Sheet | <b>18,000</b>       |

4. There is no specific fund. Receipts from Charity Show would be shown on the credit side and expenses on charity show are deducted from the receipts and the net amount would be shown on the credit side of Income and Expenditure Account.