



CHAPTER - 09

FINANCIAL STATEMENTS OF NOT-FOR-PROFIT
ORGANISATIONS

Meaning of Not-For-Profit Organisation:

All trading and business organisations are profit organizations since their main objective is to earn profit. Not-For-Profit Organisations are those organizations whose main aim/objective is to rendering service to their members or the society at large and not the earning of profits.

Their main aim is to provide services to its members or the society at large. The funds, raised by such organizations are represented as capital funds or general funds. The main source; of their income usually are subscriptions from their members, donations, grants, income from investment, etc.

These organization keeps the accounting records to meet the statutory requirements and controlling utilization of their funds. They usually prepare them at the end of the financial year to ascertain their income and expenditure and the financial position of the organization and submit them to the statutory authority i.e. Registrar of Societies.

Characteristics of Not-For-Profit Organisation:

1. **Service Motive**-Such organisations are set up to provide services to a specific group or public at large such as education, health care etc. The main aim of these organisations is to provide service either free or at nominal rates and not to earn profit.
2. **Form:** Not-For-Profit Organisations are organized as charitable trusts or societies. The subscribers to such trust or societies are called its members.
3. **Managed by Elected Members:** These organisations are usually managed by a managing or executive committee elected by its members.
4. **Source of Income:** The main source of income of these organizations are:

1. Subscriptions from members
2. Life-membership fees
3. financial assistance from government in form of grant-in-aid
4. Donations
5. Legacies
6. Grant-in-aid
7. Income from investments etc.

5. **Separate Entity:** Not for profit organisations are treated as separate entity distinct from its members. In other words, it is not effected by admission of new members and the death or insolvency of a existing member.

6. **Surplus Added to Capital Fund:** The surplus generated in the form of excess income over expenditure is simply added to the capital fund or general fund and is not distributed amongst its members.

7. **Form of Accounts:** The accounting records of these organizations are totally different from the trading or business organization. They are not prepared financial statements like Trading Account and Profit and Loss Account, instead, they prepare Receipts and Payment Account and Income and Expenditure Account. The preparation of the Balance Sheet is the same in both organizations.

8. **Accounts:** These organisations also have to maintain proper accounts to meet the legal requirement and to exercise proper control over utilisation of their funds.

Distinction between Not-for-Profit Organisations and Profit Earning Organisations

Basis of distinction	Not-for-Profit Organisation	Profit Earning Organisation or Business firm
1. Primary Motive	Primary motive of such organisations is to provide service.	Primary motive of such organisations is to earn profits.
2. Capital vs Capital Fund	They do not maintain any Capital fund. Instead they maintain 'Capital Fund', comprising life membership fees, legacies, surpluses etc.	They maintain a capital account.
3. Financial Statements	Financial statements of such organisations include: (i) Receipts and Payments Account (ii) Income and Expenditure Account (iii) Balance Sheet	Financial statements of such organisations include: (i) Manufacturing Account (ii) Trading Account (iii) Profit and Loss Account (iv) Balance Sheet
4. Surplus vs Profit	The net result shown by Income and Expenditure Account is either surplus or deficit.	The net result shown by Profit and Loss account is either net profit or net loss.
5. Distribution of Profit	Surplus or deficit is not distributed among its members. It is adjusted in Capital fund.	Profit or loss distributed among the owners of the business.

Accounting Records of Not-For-Profit Organisations:

As we know that Not-For-Profit Organisations are not engaged in any trading or business activity normally. Their main source of income is subscriptions/donations, financial assistance or grant from the government, etc. Most of their transactions are in form of cash or through the bank. These organizations are required by law to keep proper accounting records and keep proper control over the utilization of their funds.

For maintaining accounting records these organizations usually keep a cash book to record all receipts and payments and maintain ledger accounts of all income, expenses, assets, and liabilities. In addition, they maintain a stock register to keep records of all fixed assets and consumables.

In place of the capital account, they maintain a capital fund or general fund that goes on increases due to surpluses, life membership fees, donations, legacies, etc. received from year to year.

Final Accounts or Financial Statements of Not-For-Profit Organisations:

As they are non-profit making entities, so they are not required to make Trading and Profit and Loss Account but instead of these accounts to know whether the income during the year was enough to meet the expenses or not they prepare:

1. Receipts and Payment Account,
2. Income and Expenditure Account, and
3. Balance Sheet.

For the preparation of these financial statements, the general principles of accounting are fully applicable. The statements provide the necessary financial information to members, donors, and to the Registrar of Societies.

Along with all these, Not-For-Profit organizations also prepare a trial balance for checking the accuracy of ledger accounts. The trial balance also facilitates the preparation of an accurate Receipt and Payment Account as well as the Income and Expenditure Account and the Balance Sheet.

Receipts and Payment Account:

A Receipts and Payments Account is a summary of cash transactions. It is prepared at the end of the accounting period from the cash receipts journal and cash payment journals.

"Receipts and Payment Account is nothing more than a summary of the cash book (Cash and Bank transactions) over a certain period, analyzed and classified under the suitable heading. It is the form of account most commonly adopted by the treasurers of societies, clubs, associations, etc. When preparing the results of the year's working." – William Pickles

In 'other words, the Receipt and Payment Account simply is a summary of cash and bank transactions under various heads. On the debit side, it begins with an opening balance of cash and bank and records all the items of receipts irrespective of whether they are of capital or revenue nature or whether they pertain to the current or past or future accounting periods.

The payments are recorded on the credit side without making any distinction between items of revenue and capital nature and whether they belong to the current or past or future accounting period(s). It may be noted that this account does not show any non-cash item like depreciation.

At the end of the period, this account is balanced to ascertain the balance of cash in hand or cash at the bank. The annual totals of various items of receipts and payments are found from their respective accounts in the ledger or from the cash book and are then entered in the Receipts and Payment Account.

Salient Features of Receipts and Payment Account:

1. **Real Account:** It is a real account, so the rule of a real account i.e. 'Debit what comes in and credit what goes out, is followed. Thus receipts are recorded on the Debit side and the payments are recorded on the Credit side.
2. **It starts with opening balance of cash in hand and bank:** Cash in hand always shows a debit balance and

will, therefore, be written on its debit side. Cash at bank may show a debit or favourable balance, in which case it will be written on its debit side. But if bank balance is an overdraft or unfavourable balance, it will be placed on credit side.

3. **Nature of items recorded on Dr. side-** It is a summary of Cash Book. All cash receipts are shown on the debit side of this account irrespective of the fact whether they are of capital nature or of revenue nature or whatever they relate to previous year, current year or next year.
4. **Nature of items recorded on Cr. Side:** Likewise, all cash payments are shown on its credit side, irrespective of the fact whether they are of capital nature or of revenue nature and whether they relate to current year, previous year or next year.
5. **Closing balance of this account shows closing balance of Cash in hand and at Bank:** This account is balanced

at the end of the year, by entering the closing balance of cash in hand and at bank, on the credit side. However, if the closing balance is bank overdraft it shall be shown on the debit side.

6. **Do not show non-cash items:** Non-cash items like depreciation, outstanding expenses, accrued income, etc. are not shown in this account. This account records only the actual receipts and payments of cash.
7. **Purpose:** This account does not tell us whether the current incomes exceed the current expenditure or vice versa. It merely shows the closing balance of cash in hand and at bank. In order to ascertain the net income or loss of a particular period, Income and Expenditure Account has to be prepared with the help of Receipts and Payments Account and after considering various adjustments.

Format of Receipts and Payments Account

Receipts and Payments Account

Dr.	for the year ended...		Cr.
Receipts	Amt (₹)	Payments	Amt (₹)
To Balance b/d (Opening balance)		By Balance b/d (Opening)	...
Cash in Hand	...	(In case of bank overdraft)	
Cash at Bank	...	Revenue Payments	
Revenue Receipts		By Salaries	...
To Subscriptions (Present, past and future)	...	By Rent	...
To Entrance Fees (In recurring nature)	...	By Postage Expenses	...
To General Donations	...	By Advertisement Expenses	...
To Locker's Rent	...	By Newspapers and Magazines, etc.	...
To General Grants	...	By Repairs	...
To Sale of Newspapers, Grass, etc.	...	By Audit Fee	...
To Interest on Investments	...	By Entertainment Expenses	...
To Sale of Old Used Sports Materials	...	By Maintenance Expenses	...
To Proceeds from Entertainment	...	By Insurance	...
To Income from Concerts/Lectures	...	By Secretary's Honorarium	...
To Receipts from Show	...	By Lecturer's Honorarium	...
To Dividends	...	By Municipal Tax	...
To Rent	...	By Gardening	...
To Interest	...	By Prize Distributed	...
To Miscellaneous Receipts	...	By Office Expenses	...
Capital Receipts		By Expenses on Show	...
To Life Membership Fees	...	By Miscellaneous Payments	...
To Subscriptions for Specific Purpose	...	Capital Payments	
To Donation for Specific Purpose	...	By Purchase of Fixed Assets (e.g. Furniture)	...
To Grant for Specific Purpose	...	By Sports Equipment	...
To Entrance Fees (Non-recurring)	...	By Investments	...
To Legacies	...	By Books	...
To Endowment Fund	...	By Loan (Repayment)	...
To Sale of Fixed Assets	...	By Building Construction	...
To Receipts on Account of Special Fund, i.e., Match Fund, Prize Fund, etc.	...	By Balance c/d (Closing balance)	
To Balance c/d (closing) (in case of bank overdraft)	...	Cash in Hand	...
		Cash at Bank	...

Income and Expenditure Account:

It is a nominal account of the Not-For-Profit Organisation equivalent to the profit and loss account of the trading concerns. The terms profit is substituted by the words excess of income over expenditure (surplus) and the loss is expressed as an excess of expenditure over income (deficit).

It reveals the surplus or deficit arising out of the organization's activities during an accounting period. This account is prepared on an accrual basis and includes only items of revenue nature. All the revenue items relating to the current period are shown in this account, the expenses and losses on the expenditure side (debit side), and incomes and gains on the income side (credit side) of the account. It shows the net operating result in the form of surplus or deficit, which is transferred to the capital fund shown in the balance sheet.

Salient Features of Income and Expenditure Account:

- Nominal Account:** It is a nominal account, therefore the rule of nominal account i.e. "Debit all expenses and losses and credit all incomes and gains" is followed.
- Ignore Items of Capital Nature:** In this account, only items of revenue nature are to be considered and all the items of capital nature should be ignored. For example,

Format of Income and Expenditure Account

Income and Expenditure Account

Dr.	for the year ending ...		Cr.
Expenditure	Amt (₹)	Income	Amt (₹)
To Salaries ...		By Subscriptions ...	
(+) Outstanding at the End ...		(+) Outstanding at the End ...	
(-) Outstanding in the Beginning (...)	...	(+) Advance in the Beginning
To Rent	(-) Outstanding in the Beginning (...)	...
To Insurance Premium	(-) Advance at the End (...)	...
(-) Prepaid (...)	...	By Entrance Fees (Only that amount which is treated as revenue ...)	...
To Audit Fees	By Donations
To Printing and Stationery	By Sale of Old Newspapers
To Honorarium	By Hall Rent
To Telephone Expenses	By Sundry Receipts
To Repairs	By Deficit (Excess of Expenditure over Income)*	...
To Depreciation on Building		
To Sports Material Used		
To Surplus (Excess of Income over Expenditure)*	...		

*Either of the two will appear.

amount received from sale of furniture will not be recorded in it but the profit earned or loss suffered on sale of furniture will be recorded in it.

- Omission of opening and closing balance of cash:** No opening and closing balance of cash and bank are recorded in it.
- Adjustments:** This account is prepared in the same manner in which a Profit and Loss account is prepared. As such, all adjustments relating to current year such as depreciation, earned income etc. are taken into consideration while preparing the income and expenditure account.
- It records income and expenditure of current period:** It excludes all items, of income and expenditure which do not pertain to the current period. In other words all items relating to previous years and future years are excluded in it.
- Purpose:** The closing statement balance of this statement reveals surplus or deficit. If the credit side exceeds the debit, it reveals the surplus and on the other hand, if the debit side exceeds the credit, it reveals deficit. The surplus is added to the capital fund and deficit is deducted from it.

Distinction between Income and Expenditure Account and Receipt and Payment Account

Basis of Distinction	Income and Expenditure Account	Receipts and Payments Account
Nature	It is a summary of cash book.	It is like Profit and Loss account of profit seeking entity.
Sides	Debit side of this account records receipts and credit side records payments.	Debit side of this account records expenses and losses and credit side records incomes and gains.
Types of Account	It is a real account.	It is a nominal account

Opening Balance	It starts with the opening balance of cash and bank.	It has no opening balance.
Closing Balance	Closing balance of this account represents the closing cash in hand and at bank or overdraft at bank.	Closing balance of this account indicates either excess of income over expenditure or excess of expenditure over income.
Capital and Revenue items	It records receipts and payments both of capital and revenue nature.	It records income and expenditure of only revenue nature.
Period of Incomes and Expenses	It records all receipts and payments made during the year whether they relate to current, previous or next year.	It records incomes and expenditures of current year only.
Adjustments	Adjustments are not considered while preparing it, because it is prepared on cash bases of accounting.	It is necessary to consider adjustments while preparing it, because it is prepared on accrual basis of accounting.
Balance Sheet	It need not necessarily be accompanied by a Balance Sheet because all revenue as well as capital items are included in it.	Balance sheet must accompany this account because it includes only revenue items, whereas the Balance sheet contains the remaining balance.
Transfer of Closing Balance	Closing balance of this account is transferred to the receipt and payments account of the next period.	Closing balance of this account is transferred to the capital fund in the balance sheet.

Balance Sheet:

Not-For-Profit organizations prepare a Balance Sheet at the end of an accounting period to ascertain the financial position of the organization. The preparation of their Balance Sheet is the same as that of the business or trading entities. It is prepared in the usual way showing assets on the 'right-hand side' and the liabilities on the 'left-hand side. However, the term capital is not to be found.

Instead, there will be a capital fund or a general fund, or an accumulated fund, and the surplus or deficit as per Income and Expenditure Account shall be added to or deducted from this fund. Some capitalized items like legacies, entrance fees, and life membership fees directly (added) in the capital fund.

In absence of a trial balance, the following points should be kept in consideration while preparing a balance sheet:

Assets:

- (1) Fixed assets appearing in the previous year's Balance Sheet (also known as the Opening Balance Sheet) should be adjusted for assets purchased, sold and depreciation during the year. Only the adjusted amount will appear in the closing Balance Sheet. The adjustment in the fixed assets will be made as under:
 - (i) If some new asset has been purchased during the year the payment for such asset must have been shown on the credit side of the Receipts and Payments Account. Such assets must be added to the previous year's assets and shown on the assets side of the current year's Balance Sheet
 - (ii) If some asset has been sold during the year it must be appearing on the debit side of Receipts and Payments Account. The book value of such asset should be deducted from the concerned asset of the previous year.
 - (iii) If some depreciation is to be provided, it should be deducted accordingly

- (2) Prepaid expenses, accrued incomes and investments should be shown on the assets side.

- (3) The closing balance of cash and bank as shown by the Receipts and Payments Account should be shown on the assets side. However if there is overdraft balance of bank, it will be shown on the liabilities side.

Liabilities:

- (1) The loans appearing on the liabilities side of the previous year's should be seen and Receipts and Payments Account should be scanned to find out whether any new loan has been raised or the old loans have been repaid. Only the net amount of loan will be shown on the liabilities side of the Balance Sheet
- (2) If any loan has been raised it will be found on the debit side of the Receipts and Payments Account. It should also be shown on the liabilities side.
- (3) If there is a special receipt like donations for building, it will be shown on the liabilities side Similarly, special funds created for meeting expenses such as prize fund, tournament or sports fund will be shown on the liabilities side.
- (4) Outstanding expenses and the incomes received for next year (unearned incomes) will be shown on the liabilities side.
- (5) Any excess of Assets over Liabilities in case of a non-profit seeking organisation is called Capital Fund. It occupies the same position which the capital account occupies in case of profit seeking entities. First of all, opening capital fund is calculated by deducting the opening liabilities from opening assets and then the current year's surplus as shown by Income and Expenditure Account will be added to it or the deficit, if any, will be deducted from it.

The net amount of Capital Fund will be shown on the liabilities side.

Format of Balance Sheet

Balance Sheet

as at...

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital Fund		Fixed Assets	
Opening Balance	...	Building	
(+) Surplus [or(-) Deficit]	.../(...)	Opening Balance	...
	...	(+) Additions	...
(+) Entrance Fees (Capitalised amount)	(-) Depreciation	(...) ...
Building Fund		Furniture	
Opening Balance	...	Opening Balance	...
(+) Donation for Building	...	(+) Additions	...
Income from Building Fund	...	(-) Depreciation	(...) ...
Investments	Sale	(...) ...
Sports Fund		Current Assets	
Opening Balance	...	Cash in Hand	...
(+) Donation for Sports Fund	...	Cash at Bank	...
Interest on Sports Fund	...	Subscriptions in Arrear	...
Investments	Accrued Interest	...
	...	Investments	
(-) Sports Prize Awarded	(...) ...	Building Fund Investments	...
Current Liabilities		Sports Fund Investments	...
Outstanding Expenses		Prepaid Expenses	
Rent	...	Insurance	...
Salaries	...	Rent	...
Electricity/Water Charges	...		
Subscriptions Received in Advance		

Important Items relating to Non-Profit seeking organisation

- Subscription:** It is the main source of income of a non-profit entity. It will be appearing on the debit side of Receipts and Payments Account and out of it the subscription belonging to current year will be posted to the credit side of Income and Expenditure Account.
- Life Membership Fees:** In order to become a member of an organization for the whole of the life, some members pay the fee in lump sum i.e. once in their lifetime. It is a receipt of non-recurring nature since the members will not be required to pay the fees regularly. It is shown on the receipt side of the Receipt and Payment Account and added to the Capital Fund in the Balance Sheet. It should not be credited to 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."
– Eric L. Kohler
Thus, Endowment Fund is a capital receipt and is shown on the liabilities side of the Balance Sheet.
- Entrance Fees:** The entrance fee also known as the Admission Fee is paid only once the member at the time of becoming a member.

- In the case of organizations like clubs and some charitable institutions, where the membership is limited and the amount of Entrance Fees is quite large. It is treated as a non-recurring item and added directly to Capital Fund in the Balance Sheet and also shows in the receipt side of the Receipt and Payment Account.
- For some organizations like educational institutions the entrance fee is a regular income and the amount is quite small. So it is treated as the recurring item and shown in the income side of the Income and Expenditure Account. It is also shown on the receipt side by the Receipt and Payment Account.
From the examination point of view, if there is no specific instruction about Entrance Fees, it should be treated as revenue receipt and may be shown on the Liabilities side of Current year's Balance Sheet.
- Donations:** It is a type of gift in cash or in property received from some person, firm, or company. The donation can be for specific purposes or for general purposes. Both the donation received appears on the receipts side of the Receipts and Payments Account.
(a) Specific Donations: If the amount received as the donation is for a specific purpose such as a donation for extension of the existing building, donation for

the library, for construction of new computer laboratory, etc., it is capitalized and is shown in the liabilities side of Balance Sheet.

(b) General Donations: It is of two types:

(i) **General Donation of Big Amount:** It is shown on the liability side of the Balance Sheet because it is non-recurring in nature as the donations of huge amounts cannot be expected every year.

(ii) **General Donation of Small Amount:** 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.

6. **Legacies:** It is in the nature of a gift, received in cash or in the property as per the will of a deceased person. It is not treated as an income because it is not of recurring nature. Such receipts come very rarely and therefore it is of a capital nature and is shown on the liabilities side of the Balance Sheet. It appears on the receipt side of the Receipts and Payments Account and is directly added to Capital Fund in the Balance Sheet. However, legacies of the small amount may be treated as income and show on the income side of the Income and Expenditure Account.

7. **Sale of Old Assets:** Receipt from the sale of the old asset appears in the receipt side of Receipt and Payment Account. It is a capital receipt and as such should not be transferred to Income and Expenditure account. However, the profit or loss on the sale of asset must be taken to Income and Expenditure account.

8. **Sale of Old Newspapers and Sports Materials:** It appears on the debit side of income and expenditure account and is transferred to credit side of Income and Expenditure Account due to fact that selling newspapers and used sports materials like old bats, balls etc. is a regular feature of any non-profit seeking institution.

9. **Payment of Honorarium:** It is the payment made to a person for his specific services rendered by him, not as a regular employee. This is an item of expense and is shown in the 'debit or expenditure side' of the Income and Expenditure Account.

General and Specific Funds

In case of non-profit organisations there is no Capital A/c. The difference between the assets and outside liabilities is known by the name 'Capital Fund' and the difference of income and expenditure is transferred to this fund every year. This 'Capital Fund' is also known as the 'General Fund' to distinguish it from any special fund which the organization may create for any specific purpose.

Preparation of Income and Expenditure Account and Balance Sheet from Receipts and Payments Account

(i) **Opening Balance Sheet:** It is prepared to ascertain the amount of 'Capital Fund' at the beginning of the year

(ii) **Income & Expenditure Account :** It is prepared more or less in the same manner in which the Profit & Loss Account is prepared.

(iii) **Closing Balance Sheet:**

The above statements may be drawn up by means of the following procedure

(1) The opening balance of cash in hand and at bank appears at the start on the Debit side of Receipts and Payments Account. It should not be taken to the Income & Expenditure Account but written on the assets side of the Opening Balance Sheet.

(2) Similarly, the closing balance of cash in hand and at bank appears at the end of the Credit side of Receipts and Payments Account. It should be taken to the Assets side of the Closing Balance Sheet

(3) After this, the items appearing on the debit side of Receipts and Payments Account should be classified into two parts:

(A) Capital Receipts

(B) Revenue Receipts

(A) Capital Receipts: It includes those receipts which will yield benefits to the not for profit organisation in the current year as well as in future years. They are of non-recurring nature or in other words, they are not received at regular intervals.

They include :

(i) Life Membership Fees

(ii) Endowment Fund Receipts

(iii) Donations for specific purposes such as construction of building, special contribution for Silver Jubilee Celebration, Donation for club pavilion etc.

(iv) Legacies, i.e the amount received under a will.

All the four receipts mentioned above should be shown on the liabilities side of the Balance Sheet .

All Reserves: Any receipt related to a specific fund or reserve is treated as capital receipt such as Charity Fund, Match Fund, Prize Fund, Sports Fund, Tournament Fund. Pension Fund etc. All these reserves or funds should be shown on the liabilities side of the Balance Sheet after deducting the expenses in respect of these funds. For example, tournament expenses are deducted from Tournament Fund, prizes paid are deducted from Prize Fund, Charity expenses are deducted from Charity Fund and so on.

(v) **Sale of Assets:** For example, if out of machinery of the book value of ₹5,000, machinery of the book value of ₹1,000 is sold for ₹1,100; ₹100 is the revenue receipt which will be shown on the credit side of Income and Expenditure Account and ₹1,000 is the capital receipt which will be deducted from machinery on the assets side of the Balance Sheet.

Thus, machinery appearing in the Balance Sheet will be ₹4,000 (₹5,000 less sold ₹1,000).

(B) Revenue Receipts

Remaining items appearing on the debit side of Receipts and Payments Account are treated as revenue receipts such as Subscriptions, Rent received, Interest received, Entrance fees, Sale of old newspapers etc. These should be posted to the credit side of Income and Expenditure Account after making necessary adjustments.

For example, there may be four adjustments in respect of subscriptions received during the year

(i) Subscription Outstanding at the end of the current year: It will be (i) added to the amount of subscriptions on the credit side of Income and Expenditure Account, and (ii) will also be shown on the assets side of the closing Balance Sheet.

(ii) Subscription Outstanding at the beginning of the current year: It will be

(i) deducted from the amount of subscriptions on the credit side of Income and Expenditure Account, and

(ii) will also be shown on the assets side of the Opening Balance Sheet.

(iii) Subscription Received in advance at the end of the current year: It is an income pertaining to the next year As such, it will be (i) deducted from the amount of subscription on the credit side of Income and Expenditure Account, and (ii) will also be shown on the liabilities side of the closing Balance Sheet.

(iv) Subscription Received in advance at the beginning of the current year: This amount was received in the preceding year as an advance for the current year As such, it is the income of current year and will be (i) added in the amount of subscription on the credit side of Income and Expenditure Account, and (ii) will also be shown on the liabilities side of the Opening Balance Sheet.

The rules mentioned as above will also be applicable to other incomes.

Next, the items appearing on the credit side of Receipts and Payments Account should be scanned in order to identify the items of capital expenditure and revenue expenditure separately. If some item of expenditure is useful only for the current year it is known as revenue expenditure and hence taken to the debit side of Income and Expenditure Account. On the other hand, if the amount is useful for more than one year, it is known as capital expenditure such as the amount spent on the purchase of crockery curtains, electric installation, investments etc. All such expenditures of capital nature are shown on the assets side after providing the usual depreciation. Revenue expenditures are taken to the debit side of Income and Expenditure Account after providing for

the necessary adjustments in respect of outstanding expenses and prepaid expenses.

(A) Example of Outstanding Expenses -

Rent paid during the year	xxxx
Add: Outstanding Rent at the end of the year	xxxx
Less: Outstanding Rent at the beginning of the year	

	<u>xxxx</u>
Net amount to be transferred to the	<u>xxxx</u>

Dr. side of Income & Expenditure A/c

The amount of outstanding rent at the end of the year will also be shown on the liabilities side of the Closing Balance Sheet and the outstanding rent at the beginning of the year will be shown on the liabilities side of the Opening Balance Sheet

(B) Example of Prepaid Expenses

Insurance Charges paid during the year	xxxx
Less: Prepaid Insurance at the end of the year	xxxx
Add: Prepaid Insurance at the beginning of the year	xxxx
Net amount to be transferred to the Dr. side of	xxxx

Income & Expenditure A/c

The amount of prepaid insurance at the end of the year will also be shown on the assets side of closing balance sheet and the prepaid insurance at the beginning of the year will be shown on the assets side of the opening balance sheet.

(4) If the total of credit side of the Income and Expenditure Account exceeds the debit, the difference will be termed as surplus or excess of income over expenditure and will be added to the Capital Fund on the liabilities side of the Balance Sheet. On the contrary, if the debit side of the Income and Expenditure Account exceeds the credit, the difference is known as deficit or excess of expenditure over income and will be deducted from the Capital Fund on the liabilities side

Calculation of Cost of Consumable Goods

There are some items, of which the opening and closing stock is given in the question and also the payment made for such items is given in the Receipts and Payments Account. Such items are known as 'Consumable Goods' In other words, the items are consumed during the year such as Foodstuffs, Medicines, Sports Materials, Postage, Stationery etc. The amount to be shown in Income and Expenditure Account in respect of such items will be calculated as follows:

Payment made for consumable goods	xxxx
Add: Opening Stock	xxxx
Less: Closing stock	xxxx
Balance (to be shown in Income & Expenditure A/c)	xxxx

Opening Stock of such goods is also shown on the assets side of the Opening Balance Sheet and the Closing Stock is shown on the assets side of the Closing Balance Sheet.

Solved Examples

Q1. Show how will you deal with the following items while preparing the Balance Sheet of a Club as at 31st March, 2018.

	₹
Sports Fund	5,00,000
10% Sports Fund Investments on 1 st April, 2017	5,00,000
Interest Received on Sports Fund Investments	37,500
Donations for Sports Fund	1,20,000
Sports prizes awarded	1,00,000
Expenses on sports events	15,000

Solution:

BALANCE SHEET as at 31st March, 2018

Liabilities	₹	Assets	₹
Sports Fund	5,00,000	Sports Fund Investments	5,00,000
<i>Add:</i> Interest received on sports fund		Interest Accrued	12,500
Investments	37,500		
<i>Add:</i> Interest Accrued	12,500		
<i>Add:</i> Donations for Sports fund	<u>1,20,000</u>		
	6,70,000		
<i>Less:</i> Sports prizes Awarded	<u>1,00,000</u>		
	5,70,000		
<i>Less:</i> Expenses on Sports events	<u>15,000</u>		
	5,55,000		

Working Note:

Total Interest due on 10% Sports Fund Investments:	₹	
10% on ₹5,00,000	=	50,000
<i>Less:</i> Received during the year	=	<u>37,500</u>
Interest Accrued		<u>12,500</u>

Interest Accrued will be added to Sports Fund and will also be shown on Assets side.

Q2. Show how you would deal with the following items while preparing the Income & Expenditure Account for the year ending on 31st March 2017 and a Balance Sheet as at that date in each of the following alternative cases:

Case (i): Prizes awarded ₹5,000.

Case (ii): Prizes awarded ₹5,000; Prize Fund as on 31st March 2016 ₹40,000; Donations for prizes received during the year 2016-17 ₹7,200.

Case (iii): Prizes awarded ₹5,000; Prize Fund as on 31st March 2016 ₹40,000; Donations for prizes received during the year 2016-17 ₹7,200; 9% Prize Fund Investments as on 31st March 2016 ₹40,000; Interest received on Prize Fund Investments ₹2,700.

Solution:

Cash (i)

INCOME & EXPENDITURE ACCOUNT

Dr.

for the year ended 31st March, 2017

Cr.

.Expenditure	₹	Income	₹
To Prizes awarded	5,000		

Prizes awarded are taken to income & expenditure account because there does not exist a prize fund.

Case (ii)

BALANCE SHEET as at 31st March, 2017

Liabilities	₹	Assets	₹
Prize Fund: Opening Balance	40,000		

Dr.	Subscription Account		Cr.
	₹		₹
To Balance b/d (Outstanding on March 31, 2015)	17,000	By Balance b/d (Advance on March 31, 2015)	3,250
To Income and Expenditure A/c (Balancing figure)	62,830	By Receipts & Payments A/c	70,000
To Balance c/d (Advance on March 31, 2016)	4,670	By Balance c/d (Outstanding on March 31, 2016)	11,250
	84,500		84,500

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

BALANCE SHEET
as at March 31, 2015

Liabilities	₹	Assets	₹
Subscription received in advance	3,250	Subscription Outstanding	17,000

BALANCE SHEET
as at March 31, 2016

Liabilities	₹	Assets	₹
Subscription received in advance	4,670	Subscription Outstanding	11,250

Q4. From the following cash transactions relating to Royal Club, Green Park, prepare Income and Expenditure account for the year ended 31st March, 2014 and a Balance Sheet as at that date:

Receipts	₹	Payments	₹
To Cash in hand on 1st April, 2013	4,900	By Salaries	20,100
To Subscriptions (including ₹800 for the year ending 31.3.2015)	52,100	By Travelling Expenses	8,600
To Donations	6,000	By Printing & Stationery	1,720
To Proceeds from charity show	16,200	By Rent	16,600
To Sale of Furniture (Book value ₹4,000)	1,600	By Repairs	450
To Life membership fees	9,000	By Building purchased	30,000
To Interest on Investments (Cost of Investments ₹40,000)	4,800	By Government Bonds	5,000
To Sale of old car	20,000	By Balance c/d on 31.3.2014	32,130
	1,14,600		1,14,600

On 1-4-2013, the club owned land and building valued at ₹40,000 and furniture valued at ₹10,500. There were 150 life members on that date, each of whom had paid subscription of ₹100. The book value of car was ₹25,000. Subscriptions due on 31st March, 2013 and on 31st March, 2014 were ₹3,400 and ₹2,000 respectively. Similarly, interest on Investments due at the beginning of the year was ₹800 and at the end of the year was ₹1,000.

Solution:

OPENING BALANCE SHEET
as at 1st April, 2013

Liabilities	₹	Assets	₹
Life Membership Fees (150 members @ ₹100 each)	15,000	Cash in hand	4,900
Capital Fund (Balancing figure)	1,09,600	Outstanding Subscriptions	3,400
		Accrued interest	800
		Investments	40,000
		Land and Building	40,000
		Furniture	10,500
		Car	25,000
	1,24,600		1,24,600

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ended 31st March, 2014 Cr.

<i>Expenditure</i>	₹	<i>Income</i>	₹
To Salaries	20,100	By Subscriptions	52,100
To Travelling Expenses	8,600	Less : Advance Subscrip-	
To Printing and Stationery	1,720	tion received for the	
To Rent	16,600	year ending 31.3.2015	<u>800</u>
To Repairs	450		51,300
To Loss on sale of Furniture		Less : Outstanding	
(₹4,000 - ₹1,600)	2,400	Subscription for 2013	<u>3,400</u>
To Loss on sale of Car			47,900
(₹25,000 - ₹20,000)	5,000	Add : Outstanding	
To Excess of Income over Expenditure (Surplus)	22,230	Subscription for 2014	<u>2,000</u>
		By Donations	6,000
		By Proceeds from Charity show	16,200
		By Interest on Investments	4,800
		Less : Accrued interest at the beginning	<u>800</u>
			4,000
		Add : Accrued interest at the end	<u>1,000</u>
			5,000
	77,100		77,100

BALANCE SHEET

as at 31st March, 2014

Liabilities	₹	Assets	₹
Subscriptions for the year ending 31 st March, 2015 received in Advance	800	Cash in hand	32,130
Life Membership Fees 15,000		Outstanding Subscriptions	2,000
Add : Life Membership fees of current year <u>9,000</u>	24,000	Accrued interest	1,000
Capital Fund 1,09,600		Investments	40,000
Add: Surplus 22,230	1,31,830	Government Bonds	5,000
		Land and Building 40,000	
		Add: Additions <u>30,000</u>	70,000
		Furniture 10,500	
		Less: <u>4,000</u>	6,500
	1,56,630		1,56,630

- Q5.** On the basis of the information given below calculate the amount of Stationery to be debited to the 'Income and Expenditure Account' of Good Health Sports Club for the year ended 31st March 2017:

	April 1, 2016	March 31, 2017
	₹	₹
Stock of Stationery	8,000	6,000
Creditors for Stationery	9,000	11,000

Stationery purchased during the year ended 31-3-2017 was ₹47,000.

Solution:

INCOME AND EXPENDITURE ACCOUNT

Dr. for the year ended 31st March, 2017 Cr.

Expenditure	₹	Income	₹
To Stationery Consumed:			
Purchases of Stationery during the year 2016-17	47,000		
Add : Stock in the Beginning	<u>8,000</u>		
	55,000		

Less : Stock at the end	<u>6,000</u>	49,000	
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Note: Creditors for Stationery will be ignored because stationery purchased (and not the amount paid for stationery) during the year is given in the question.

Alternate Solution:

Dr.

STOCK OF STATIONERY ACCOUNT

Cr.

	₹		₹
To Balance b/d	8,000	By Income & Expenditure A/c	
To Creditors for Stationery A/c (Stationery purchased)	47,000	(Balancing figure, being stationery consumed during the year 2016-17)	49,000
		By Balance c/d	6,000
	<u>55,000</u>		<u>55,000</u>

Q6. Following is the Receipt and Payment Account of Literacy Club for the year ended 31-3-2016:

Receipts		₹	Payment		₹
Balance b/d		19,550	Salary		3,000
Subscriptions:			Newspapers		2,050
2014-2015	1,200		Electricity Bill		1,000
2015-2016	26,500		Fixed deposit		
2016-2017	<u>500</u>	28,200	(on 1-7-2015 @ 9% p.a.)		20,000
Sale of old newspapers		1,250	Books		10,600
Government Grants		10,000	Rent		6,800
Sale of old furniture (Book value ₹7,000)		5,700	Furniture		10,500
Interest on fixed deposits		450	Balance c/d		11,200
		<u>65,150</u>			<u>65,150</u>

Additional Information:

(i) Subscriptions outstanding as on 31-3-2015 were ₹2,000 and on 31-3-2016 ₹2,500.

(ii) On 31-3-2016 salary outstanding was ₹600 and rent outstanding was ₹ 1,200.

(iii) The Club owned furniture ₹15,000 and books ₹7,000 on 1-4-2015.

Prepare Income and Expenditure Account of the Club for the year ended 31-3-2016 and ascertain 'Capital Fund' on 31-3-2015 . Also prepare a Balance Sheet as at 31st March, 2016.

Solution:

BALANCE SHEET

as at 31st March, 2015

Liabilities	₹	Assets	₹
Capital Fund (Balancing figure)	43,550	Cash in Hand	19,550
		Subscription Outstanding	2,000
		Furniture	15,000
		Books	7,000
	<u>43,550</u>		<u>43,550</u>

INCOME & EXPENDITURE ACCOUNT

for the year ending 31st March, 2016

Dr.

Cr.

Expenditure		₹	Income		₹
To Salary	3,000		By Subscriptions	26,500	
Add : Outstanding	<u>600</u>	3,600	Add : Outstanding for		
To Newspapers		2,050	2015-16*	<u>1,700</u>	28,200
To Electricity Bill		1,000	By Sale of old newspapers		1,250
To Rent	6,800		By Government Grants		10,000
Add : Outstanding	<u>1,200</u>	8,000	By Interest on Fixed Deposit	450	
To Loss on sale of furniture (₹7,000 - ₹5,700)		1,300	Add : Accrued Interest	<u>900</u>	1,350
To Excess of Income over Expenditure		<u>24,850</u>			
		<u>40,800</u>			<u>40,800</u>

9. Calculate the amount of locker rent to be transferred to income and expenditure account.

Particulars	31 st March, 2021 (₹)	31 st March, 2022 (₹)
Outstanding Locker Rent	9,200	12,600
Advance Locker Rent	6,000	8,000

Locker rent received during the year 2021-22, ₹ 64,000.

- (a) ₹65,400 (b) ₹66,500
(c) ₹66,000 (d) ₹73,000
10. Opening balance of prize fund was ₹ 16,400. During the year, donations received towards this fund amounted to ₹ 7,700, while amount spent on prizes was ₹6,150 and interest received on prize fund investment was ₹ 2,000. The closing balance of prize fund will be
(a) ₹28,250 (b) ₹32,250
(c) ₹19,950 (d) ₹15,950
11. Capital fund in non-profit organisation will be
(a) Total Assets — Total Liabilities
(b) Total Assets — External Liabilities
(c) Total Assets — Internal Liabilities
(d) Total Fund — Total External Liabilities
12. Item that should be debited in the income and expenditure account of a college is
(a) tuition fees received from students
(b) equipment purchased for science laboratory
(c) amount of reward
(d) fines collected from students
13. Which of the following cannot be recorded in the receipt and payment account of a club?
(a) Payment made to workers
(b) Sale of old newspaper
(c) Loss on sale of fixed asset
(d) All of the above
14. Uttam Charitable gets surplus from his income and expenditure account of ₹65,000 in 2018-19. It will be recorded in debit side of the account.
(a) receipts and payments (b) income and expenditure
(c) Both (a) and (b) (d) None of these

15. Which of the following will be recorded in credit side of receipts and payments account?

- (a) ₹300 received from entrance fees
(b) Cash purchases of books ₹700
(c) Donation received ₹800
(d) Outstanding ₹300 for repair

16. Pass the journal entry for Royal Dance Club, whose deficit is calculated ₹91,000 during 2019-20.

- (a) Income and Expenditure A/c Dr 91,000
To Deficit A/c 91,000
(b) Deficit A/c Dr 91,000
To Income and Expenditure A/c 91,000
(c) Cash A/c Dr 91,000
To Income and Expenditure A/c 91,000
(d) None of the above

17. A non-profit organisation normally prepares before preparing balance sheet.

- (a) income and expenditure account
(b) real account
(c) trading account
(d) None of the above

18. Debit balance in receipts and payments account was shown as ₹80,000, subscription received amounted to ₹9,600 out of which ₹3,000 is related to next year. According to you, what amount will be shown in receipts and payments account?

- (a) ₹ 80,000 (b) ₹89,600
(c) ₹9,600 (d) ₹86,600

19. What is an accounting treatment of cash received for life membership fees?

- (a) Debit in income and expenditure account
(b) Credit in income and expenditure account
(c) To be shown in liabilities column of balance sheet
(d) To be shown in assets column of balance sheet

20. Which of the following is/are account(s) in NPO where outstanding expenses, prepaid expenses, etc. are not recorded?

- (a) Income and expenditure account
(b) Balance Sheet
(c) Receipts and payments account
(d) All of the above

SUBJECTIVE QUESTIONS

1. How the following items for the year ended 31st March, 2018 will be presented in the financial statements of Aisko Club:

Particulars	Dr. (₹)	Cr. (₹)
Tournament Fund		1,50,000
Tournament Fund Investment	1,50,000	
Income from Tournament Fund Investments		18,000
Tournament Expenses	12,000	

Additional Information:

Interest accrued on Tournament Fund Investments ₹6,000.

2. Show how would you deal with the Building Fund of Heritage Club:

Particulars	(₹)
Capital Fund as on 31 st March, 2017	20,00,000
Building Fund as on 31 st March, 2017	10,00,000
9% p.a. Building Fund Investment as on 31 st March, 2017	10,00,000
Donations collected for Building during the year 2017-18	5,00,000
Interest received on Building Fund Investments for 2017-18	45,000
Expenditure made on construction of Auditorium for 2017-18 (The construction work is in progress and has not completed yet)	4,50,000

3. There are 300 members of a Club each paying ₹500 per annum. Subscriptions received during the year ₹1,00,000. Subscriptions received in advance in the beginning of the year is ₹25,000 and at the end of the year ₹10,000. Calculate Subscriptions outstanding at the end of the year.
4. From the following information related to a 'Health Club', calculate the amount of subscriptions received during the year ended 31st March, 2018:

Particulars	₹
Income from subscriptions for the year ended 31 st March, 2018	1,20,000
Subscriptions received in advance during the year ended 31 st March, 2018	10,000
Subscriptions outstanding on 1 st April, 2017	27,000
Subscriptions outstanding on 31 st March, 2018	22,000
Subscriptions received in advance on 1 st April, 2017	8,000

5. From the following information, calculate the amount of subscription to be credited in the Income and Expenditure Account of Bharat Sports Club for the year ending 31st March, 2018:

Particulars	For the year ended 31 st March, 2017 (₹)	For the year ended 31 st March, 2017 (₹)
Advance Subscriptions	8,000	9,500
Outstanding Subscriptions	7,000	12,500

During the year, the club received ₹ 1,20,000 as subscription which included ₹5,000 for the year ended 31st March, 2017.

6. From the following information, calculate the amount of subscriptions for the year ending 31st March, 2018 and show the same in Income and Expenditure Account for the year ending 31st March, 2018 and Balance Sheets of a club as at 31st March, 2017 and 2018:

Receipts and Payment Account

Dr.		Cr.	
for the year ended 31 st March, 2018			
Particulars	Amount	Particulars	Amount
To Subscriptions	26,000		

Additional information:

- (i) Subscriptions outstanding on 31st March, 2017 ₹5,200.
(ii) Subscriptions outstanding on 31st March, 2018 ₹8,400.
(iii) Subscriptions received in advance on 31st March, 2017 ₹4,800.
(iv) Subscriptions received in advance on 31st March, 2018 ₹4,000.
7. Calculate the amount of stationery to be posted to Income and Expenditure Account of Indian Cultural Society for the year ending 31st March, 2018 from the following information:

Particulars	1 st April, 2017 (₹)	1 st April, 2018 (₹)
Stock of Machinery	21,000	18,000
Creditors of Machinery	11,000	23,000

Stationery purchased during the year ended 31st March, 2018 was ₹75,000.

Also, present the relevant items in the Balance Sheet of the society as at 31st March, 2018.

8. Janta Kalayan Club has 1,250 members each paying an annual subscription of ₹150. During the year ended 31st March, 2018 the club did not receive subscription from 45 members and received subscriptions in advance from 46 members for the year ending 31st March, 2019. On 31st March, 2017 the outstanding subscriptions were ₹15,000 and subscriptions received in advance were ₹3,000.
Calculate the amount of subscription that will be debited to the 'Receipts and Payments Account' for the year ended 31st March, 2018.

9. Calculate the amount to be debited to Income and Expenditure Account from the following information for 2017-18:

Particulars	1 st April, 2017 (₹)	31 st March, 2018
Stock of Sports Material	2,600	4,600
Creditors for Sports Material	2,400	2,660

Amount paid for Sports Material during 2017-18 is ₹5,780.

10. A charitable organisation provides vocational training to youngsters to make a career in the competitive world. The organisation uses computers to train them. From the following information, prepare Computers Account. You are also required to show the item 'Computer' in the books of a not-for-profit organisation as at 31st March, 2018: Computers as on 1st April, 2017 ₹1,50,000, 2 computers (having a book value as on 1st April, 2017 – ₹ 60,000) were sold for ₹65,000 on 1st July, 2017. Three more computers were purchased on 1st January, 2018 for ₹85,000. Depreciation is to be charged @20% p.a.

HOMEWORK

MCQ

- Choose Non-Profit Organisation (NPO) from the following.
 - Oscar Pvt. Ltd.
 - Rajesh exports
 - Infosys foundation
 - Private hospital
- Which of the following is not a revenue expenditure?
 - Insurance
 - Lecturer's honorarium
 - Municipal tax
 - Purchase of fixed asset
- There are 450 members in Cheema club, paying an annual subscription of ₹ 100 each. Subscription received during the year was ₹ 25,000 including ₹ 4,000 for next year. The amount to be shown as an outstanding subscription will be
 - ₹20,000
 - ₹66,000
 - ₹70,000
 - ₹24,000
- Donation received for a special purpose:
 - Should be credited to Income and Expenditure Account
 - Should be credited to separate account and shown in balance sheet
 - Should be shown on the assets side
 - Should not be recorded at all
- Sports Star Charitable Club has income of ₹16,000 and 'deficit' debited to capital fund of ₹4,300 for the year 2019-20, then expenditure for the year 2019-20 is
 - ₹11,700
 - ₹4,300
 - ₹20,300
 - None of these
- Which of the following statements is not true for receipts and payments account?
 - It is a summary of the cash book.
 - It records receipts and payments of revenue nature only.
 - The receipts and payments may relate to current, preceding or succeeding accounting periods.
 - Depreciation is not shown in it.
- Which of the following is not to be recorded in receipts and payments account of a club?
 - Sale of old newspaper
 - Loss on sale of fixed asset
 - Payment made to worker
 - None of these
- Life membership fees received by club is shown in the
 - income and expenditure account
 - balance sheet
 - receipts and payment account
 - profit and loss account
- What amount of salary is to be transferred to income and expenditure account, if salary paid during the year was ₹ 80,000 and salary outstanding at the end of the year ₹10,500 and salary outstanding at the beginning of the year ₹6,545?
 - ₹76,045
 - ₹83,955
 - ₹97,045
 - ₹62,955
- Match fund of ₹1,500 exists in the books. Match expenses for the year amount to ₹2,000. will be shown in the income and expenditure account.
 - ₹3,500
 - ₹500
 - ₹2,000
 - ₹1,500
- Calculate the amount of locker rent to be transferred to income and expenditure account.

Particulars	31 st March, 2019(₹)	31 st March, 2020(₹)
Outstanding Locker rent	9,200	12,600
Advance Locker rent	6,000	8,000

Locker rent received during the year 2019-20, ₹64,000.

 - ₹65,400
 - ₹66,500
 - ₹66,000
 - ₹73,000
- Consider the following statements.
 - Income and expenditure records both capital and revenue items.
 - Receipts and payments account record revenue and capital items during the year.

Alternatives

 - Only (ii) correct
 - Only (i) correct
 - Both are correct
 - Both are incorrect
- Find incorrect combination.

- (a) Opening capital–opening balance sheet
- (b) Subscription–source of income
- (c) Sports club–non-profit organisation
- (d) Receipts and payments account – nominal account

14. Match column I with the column II and select correct answer using the codes given below.

Column -I	Column -II
A. Endowment Fund	(i) Posted to credit side of income and expenditure account
B. Entrance Fees	(ii) Any income or loss adjusted in the income and expenditure account
C. Sale of old assets	(iii) Sometimes capitalised and sometimes treated as revenue receipt
D. Sale of old newspaper	(iv) Permanent means of support

A B C D

- (a) (iv) (iii) (ii) (i)
- (b) (i) (ii) (iii) (iv)
- (c) (iii) (iv) (i) (ii)
- (d) (iii) (iv) (ii) (i)

Directions (Q. Nos. 15 to 19) There are two statements marked as Assertion (A) and Reason (R).

Read the statements and choose the appropriate option from the options given below.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Direction Read the following case study and answer the question no. 20 to 23 on the basis of the same. Following is the receipts and payments account of Sears Club, Noida as on 31st March, 2020.

Receipts and Payments Account of Sears Club

Dr.		For the year ended 31 st March, 2020		Cr.
Receipts	Amt(₹)	Payments		Amt (₹)
To Balance b/d	20,000	By Stationery		23,400
To Subscriptions		BY 12% Investments		8,000
2018-19	40,000	By Electricity Expenses		10,600
2019-20	94,000	BY Expenses on Lectures		30,000
2020-21	7,200	By Sports Equipment		59,000
To Donations for Building	40,000	By Books		40,000
To Interest on Investments	800	By Balance c/d		50,000
To Government Grant	17,400			
To Sale of Old Furniture (Book value ₹ 4,000)	1,600			
	2,21,000			2,21,000

Additional Information

- (a) The club has 200 members each paying an annual subscription of ₹ 1,000. ₹60,000 were in arrears for last year and 25 members paid in advance in the last year for the current year.
- (b) Stock of stationery on 1st April, 2019 was ₹3,000 and 31st March, 2020 was ₹4,000.

20. Loss on the sale of old furniture is

- (a) ₹1,600
- (b) ₹5,600
- (c) ₹2,400
- (d) Insufficient data

21. Stationery consumed during the year was

- (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true, but Reason (R) is false
- (d) Assertion (A) is false, but Reason (R) is true

15. **Assertion (A):** The main objective of non-profit organisation is to serve the society at free of cost or a nominal cost.

Reason (R): It is managed by the managing committee who is elected by its members.

16. **Assertion (A):** Opening and closing balances are recorded in income and expenditure account.

Reason (R): It is prepared at the end of accounting year.

17. **Assertion (A):** Income and expenditure account is prepared on accrual basis of accounting.

Reason (R): The transactions related to current year are added and those relate to previous or followed year are to be subtracted.

18. **Assertion (A):** Balance sheet shows the financial position of the company.

Reason (R): Receipts and payments records cash receipts and cash expenditures.

19. **Assertion (A):** NGOs are charitable trusts or societies and subscribers to such organisation are called members.

Reason (R): Profits are distributed among its members.

- (a) ₹30,400 (b) ₹16,400
(c) ₹22,400 (d) ₹26,400

22. How much interest on investment should be received during the year?

- (a) ₹960 (b) ₹160
(c) ₹800 (d) ₹1,080

23. The total annual subscription of the firm will be:

- (a) ₹25,000 (b) ₹2,00,000
(c) ₹50,000 (d) ₹1,00,000

Direction: Read the following case study and answer the question no.24 to 27 on the basis of the same. Namanjyot Society showed the following position

**Balance Sheet
as at 31st March, 2018**

Liabilities	Amt(₹)	Assets	Amt(₹)
Capital Fund	72,000	Furniture	40,000
Subscriptions Received in Advance	6,000	Cash at Bank	30,000
		Cash in Hand	8,000
	78,000		78,000

**Receipts and Payments
for the year ending 31st March, 2018**

Dr.		Cr.	
Receipts	Amt (₹)	Payments	Amt (₹)
To Balance b/d		By Computers (1 st October, 2018)	1,00,000
Cash at Bank 30,000		BY Office Expenses	29,000
Cash in Hand 24,000	54,000	By Electric Charges	15,000
To Sale Proceeds of Old Newspapers	900	By Postage and Stationery	9,000
To Locker's Rent	7,000	By 10% Investments (on 1 st December, 2017)	60,000
To Interest on Investments	1,600	By Balance c/d	
To Entrance fees	50,000	Cash at bank 80,000	
To Life Membership Fees	1,00,000	Cash at Bank 35,500	1,15,500
To Membership Subscriptions	98,000		
To Subscriptions for Relief Fund	17,000		
	3,28,500		3,28,500

Additional Information

- (a) Computers were to be depreciated @ 60% p.a. and furniture @ 10% p.a.
(b) Membership subscription included ₹20,000 received in advance.
(c) Electric charges outstanding ₹10,000.

24. How much depreciation is to be charged on computers?

- (a) ₹60,000 (b) ₹30,000
(c) ₹1,00,000 (d) None of these

25. Accrued interest on investment will be

- (a) ₹4,400 (b) ₹6,000
(c) ₹2,000 (d) ₹400

26. Subscription for relief fund will be transferred to

- (a) income and expenditure account
(b) balance sheet
(c) Both (a) and (b)
(d) added in membership subscription

27. Out of the total subscription received, current year subscription will be

- (a) ₹84,000 (b) ₹1,01,000
(c) ₹72,000 (d) ₹1,24,000

28. Match the following items in NPO:

(i) Service Motive	A. Assets side
(ii) Accrued Interest	B. Profit Earning Organisation
(iii) Subscription received in advance	C. Liabilities Side
(iv) Profit Motive	D. Non Profit Organisation

(a) i – A, ii – B, iii – C, iv – D

(b) i – D, ii – A, iii – C, iv – B

(c) i – B, ii – A, iii – C, iv – D

(d) i – C, ii – B, iii – A, iv – D

29. Subscription received by a school for organising annual function is treated as:

(a) Capital receipt (i.e. Liability)

(b) Revenue receipt (i.e. Income)

(c) Assets.

(d) Earned income.

30. Salary paid in cash during the current year was ₹80,000; Outstanding salary at the end was ₹4,000. Salary paid in advance last year pertaining to the current year was ₹3,200; paid in advance during current year for next year was ₹5,000. The amount debited to Income and Expenditure Account will be:

(a) ₹85,800

(b) ₹77,800

(c) ₹82,200

(d) ₹74,200

SUBJECTIVE QUESTIONS

1. Following are the extracts from the Receipts and Payments Account of a sports club. You are required to show the different items in the Income and Expenditure Account and Balance Sheet of the club after taking into account the additional information given:

Receipts and Payments Account for the year ended 31st March, 2018

Dr.

Cr.

Receipts	(₹)	Payments	(₹)
To Donations for Pavilion	50,000		
To Subscription for Governor's Party	2,000		
To Donations	100		

Additional Information:

(i) Amount spent on Pavilion ₹10,000.

(ii) Outstanding subscription for Governor's party ₹500.

2. From the following information prepare the Income and Expenditure Account of Active Recreation Club as at 31st March, 2018:

Particulars	(₹)	Particulars	(₹)
Fees collected (including ₹16,000 for previous year)	96,000	Travelling expenses	3,600
Salaries paid (including ₹6,000 for previous year)	56,000	Purchase of Books	3,600
Salary outstanding at 31 st March, 2018	10,000	Rent paid	2,400
Tournament expenses	3,000	Postage and telephone charges	2,000
Meeting expenses	3,000	Donations received (capitalised)	10,000
Fire Insurance Premium	400	Depreciation on Books	200
Entrance Fees	2,000	Life Membership Fees	4,000

3. Following is the summary of cash transactions of Good Health Club for the year ending 31st March, 2018:

Particulars	(₹)
Opening Balance – Cash	70,000
Bank	3,00,000

Subscriptions Received:	
2016 – 2017	40,000
2017 – 2018	3,75,000
2018 – 2019	20,000
Donations for Gym	1,64,000
Admission Fees	14,000
Life Membership Fees	45,000
Wages and Salaries	55,000
Locker Rent	11,000
Invested in 9% Debentures of XYZ Ltd.	2,40,000
Health Journals	5,000
Stationery	12,500
Insurance Premium	6,760
Courier Charges	800
Municipal Taxes	9,570
Machinery Purchased	38,000
Sales of Old Newspapers	300
Interest of Bank Balance	1,740
Cash in Hand	43,000

From the above summary, prepare a Receipts and Payments Account of Good Health Club for the year ending 31st March, 2018.

4. Following is the Receipts and Payments Account of Literacy Club for the year ended 31st March, 2016:

Receipts	(₹)	Payments	(₹)
To balance b/d	19,550	By Salary	3,000
To Subscriptions		By Newspapers	2,050
2014-15	1,200	By Electricity Bill	1,000
2015-16	26,500	By Fixed Deposit	20,000
2016-17	<u>500</u>	(on 1 st July, 2015 @9%p.a.)	
To Sale of old newspapers	1,250	By Books	10,600
To Government Grants	10,000	By Rent	6,800
To Sale of old furniture	5,700	By Furniture	10,500
(Book value ₹7,000)			11,200
To Interest on Fixed Deposits	450		
	65,150		65,150

Additional Information:

(i) Subscriptions outstanding as on 31.3.2015 were ₹2,000 and on 31.3.2016 ₹2,500.

(ii) On 31.3.2016 salary outstanding was ₹ 600 and rent outstanding was ₹ 1,200.

(iii) The Club owned furniture ₹ 15,000 and books ₹ 7,000 on 1.4.2015.

Prepare Income and Expenditure Account of the Club for the year ended 31.3.2016 and ascertain 'Capital Fund' on 31.3.2015.

5. From the following Receipts and Payments Account and additional information, prepare Income and Expenditure Account and Balance Sheet of Sears Club, Noida as on March 31, 2018:

**Receipts and Payments Account of Sears Club
for the year ended 31st March, 2018**

Receipts	(₹)	Payments	(₹)
To Balance b/d	20,000	By Stationery	23,400
To Subscriptions		By 12% Investments	8,000
2016–17	40,00	By Electricity expenses	10,600
2017–18	94,000	By Expenses on lectures	30,000
2018–19	<u>7,200</u>	By Sports equipment	59,000
To Donations for building	40,000	By Books	40,000
To Interest on Investments	800	By Balance c/d	50,000
To Government Grant	17,400		
To Sale of old furniture			

(Book value ₹ 4,000)	1,600	
	2,21,000	2,21,000

Additional Information:

- (i) The club has 200 members each paying an annual subscription of ₹1,000. ₹60,000 were in arrears for last year and 25 members paid in advance in the last year for the current year.
- (ii) Stock of stationery on 1st April, 2017 was ₹3,000 and on 31st March, 2018 was ₹4,000.
6. Following Receipts and Payments Account was prepared from the cash book of Delhi Charitable Trust for the year ending 31st March, 2018:

Receipts and Payments Account			
<i>for the year ended 31st March, 2018</i>			
Dr.			Cr.
Receipts	₹	Payments	₹
To Balance b/d:		By Charity	11,500
Cash in hand	11,500	By Rent and taxes	3,200
Cash at bank	12,600	By Salary	6,000
To Donation	9,000	By Printing	600
To Subscriptions	42,800	By Postage	300
To Legacies	18,000	By Advertisement	4,500
To Interest on investment	4,500	By Insurances	2,000
To Sale of old newspapers	200	By Furniture	21,600
		By Investment	23,000
		By Balance c/d	
		Cash in Hand	9,900
		Cash at Bank	16,000
	98,600		98,600

Prepare Income and Expenditure Account for the year ended March 31, 2018, and a Balance Sheet as at that date after the following adjustments.

- (i) It was decided to treat one-third of the amount received on account of donation as income.
- (ii) Insurance premium was paid in advance ₹500.
- (iii) Interest on investment ₹1,100 accrued was not received.
- (iv) Rent ₹600, salary ₹900 and advertisement expenses ₹1,000 outstanding as on March 31, 2018.
7. From the following Receipts and Payments Account and opening Balance Sheet, prepare final accounts of the Progress Club for the year ended 31st March, 2018:

Receipts and Payments Account			
<i>for the year ended 31st March, 2018</i>			
Dr.			Cr.
Receipts	₹	Payments	₹
To Balance b/d	22,500	By Furniture and Fixtures	27,000
To Sale of Old Furniture (costing ₹9,000)	6,000	By Library books	15,000
To Subscriptions;		By Salaries	90,000
2016-17 27,000		By Honorarium	18,000
2017-18 90,000		By General expenses	27,000
2018-19 <u>18,000</u>	1,35,000	By Electricity changes	18,000
To Sale of old newspapers	16,200	By Newspapers and Periodicals	50,700
To Profit from Charity Show	66,000	By Postage	4,500
To Rent of Hall	1,26,000	By Stationery	60,000
		By Audit free	12,000
		By Balance c/d	49,500
	3,71,700		3,71,700

Balance Sheet
as at 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Outstanding Salaries	9,000	Cash	22,500
Capital Fund	10,41,000	Outstanding subscriptions	27,000
		Library Books	45,000
		Furniture and Fixtures	55,500
		Land and Building	9,00,000
	10,50,000		10,50,000

Additional Information:

- (i) The Club had 500 members each paying an annual Subscriptions of ₹225.
(ii) On 31st March, 2018 salaries outstanding amounted to ₹1,800 and salaries paid included ₹9,000 for the year 2016-17.
(iii) Provide 5% depreciation on Land and Building.
8. From the following Receipts and Payments Account and the additional information of Jan Kalyan Club, prepare Income and Expenditure Account and Balance Sheet for the year ending 31st March, 2018.

Receipts and Payments Account
for the year ending on 31st March, 2018

Dr.		Cr.	
Receipts	(₹)	Payments	(₹)
To Cash in hand as on 1st April, 2017	6,800	By Salaries	24,000
To Subscription	60,200	By Travelling Expenses	6,000
To Donation	3,000	By Stationery	2,300
To Sale of Furniture (book value ₹6,000)	4,000	By Rent	16,000
To Entrance Fee	800	By Repair	700
To Life Membership Fee	7,000	By Books Purchased	6,000
To Interest on Investment (@ 5% for the year)	5,000	By Building Purchased	30,000
		By Cash in hand on 31 st March, 2018	1,800
	86,800		86,800

Additional Information:

Particulars	As on 1st April, 2017	As on 31st March, 2018
	(₹)	(₹)
(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

9. (a) During the year 2016-17, the subscriptions received were ₹11,000. These subscriptions include ₹600 for the year 2015-16 and ₹400 for 2017-18. On 31st March, 2017 subscriptions due but not received were ₹ 1,000. The amount of outstanding subscription on 31st March, 2016 was ₹700. What amount of Subscriptions should be credited to Income and Expenditure Account for the year 2016-17?
- (b) From the following extracts of Receipts and Payments Account and additional information, you are required to calculate the income from subscriptions for the year ending 31st March, 2018 and show them in Income and Expenditure Account and the Balance Sheet of Royal Club:

**Receipts and Payments Account
for the year ending 31st March, 2018**

Dr. Receipts	(₹)	Payments	(₹)
To Subscriptions:			
2016-2017	5,000		
2017-2018	30,000		
2018-2019	6,000		

Additional information:

- (i) Subscriptions outstanding on 31st March, 2017 ₹6,000;
- (ii) Subscriptions outstanding on 31st March, 2018 ₹5,000;
- (iii) Subscriptions received in advance on 31st March, 2017 ₹6,000.

10. From the following Receipts and Payments Account and additional information of Swachh Bharat Club, New Delhi for the year ended 31st March, 2018, prepare Income and Expenditure Account and Balance Sheet:

**Receipt and Payments Account of Swachh Bharat Club
for the year ended 31st March, 2018**

Dr. Receipts	(₹)	Payments	(₹)
To Balance b/d		By Campaign Expenses	1,30,000
Cash 20,000		By Office rent	40,000
Bank <u>40,000</u>	60,000	By Salary	10,000
To Subscriptions	1,80,000	By Furniture hire rent	12,000
To Sale of old furniture (book value ₹ 3,000)	2,000	By Advertisement	15,000
To Life Membership fees	30,000	By Fixed deposit (On 1st August, 2017 @12% p.a.)	2,00,000
To Government grants	2,00,000	By Balance c/d	
		Cash 25,000	
		Bank <u>40,000</u>	65,000
	<u>4,72,000</u>		<u>4,72,000</u>

Additional Information: Assets on 1st April, 2017 were : Books ₹50,000; Computers ₹75,000. Liabilities and Capital fund on 1st April, 2017 were: Creditors ₹ 60,000; Capital fund ₹ 1,28,000.

SOLUTION FOR PRACTICE QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (a): Annual Subscription Amount (500 × 50) = 25,000
 (-) Subscription Received for Current Year = (18,000)
 (20,000 - 2,000)
 Outstanding Subscription = ₹ 7,000
2. (d):
3. (a):
4. (b): Cost of Medicines Consumed = Opening Stock + Purchases - Closing Stock
 = 30,000 + 50,000 - 20,000
 = ₹ 60,000

5. (c): No item, either revenue or expenditure, pertaining to the past period or future period is entered in the income and expenditure account. Only current period items are recorded.
 $\therefore 300 \text{ Members} \times 400 \text{ each} = ₹ 1,20,000$
6. (b): Rent paid during the year = 70,000
 (+) Rent outstanding at the end = 6,000
 (-) Rent outstanding at the beginning = (8,000)
 Rent amount to be transferred to income and expenditure account = ₹ 68,000
7. (a): Assets = Land and Building + Subscription Receivables + Furniture + Cash in Hand
 = 1,00,000 + 30,000 + 65,000 + 30,000
 = ₹ 2,25,000
 Liability = Bank Overdraft + Outstanding Salary
 = 1,25,000 + 15,000 = ₹ 1,40,000
 Capital Fund = Assets - Liabilities
 = 2,25,000 - 1,40,000 = ₹ 85,000
8. (d): Sports Fund = 70,000
 (+) Donation = 15,000
 (-) Sports prizes = (10,000)
 (-) Expenses = (8,000)
 (+) Income from investment = 5,000
 = 72,000
9. (a): Locker rent paid during the year = 64,000
 (+) Locker rent outstanding at Year end 2022 = 12,600
 (+) Advance locker rent received in The year 2021 = 6,000
 (-) Outstanding locker rent in the Year 2021 = (9,200)
 (-) Advance locker rent received year end 2022 = (8,000)
 Locker rent to be shown in income and expenditure account = ₹ 65,400
10. (c): Closing Balance
 = Opening Balance + Donations Received
 + Interest Received - Expenses
 = 16,400 + 7,700 + 2,000 - 6,150 = ₹ 19,950
11. (a) 12. (b) 13. (c)
14. (b) 15. (b) 16. (b)
17. (a)
18. (b): Amount transferred to receipts and payments account will be = 80,000 + 9,600 = ₹ 89,600
19. (c)
20. (c)

SOLUTIONS FOR SUBJECTIVE QUESTIONS

1. **Balance Sheet of Aisko Club (An Extract)**
as at 31st March, 2018

Liabilities		(₹)	Assets	(₹)
Tournament Fund:			Tournament Fund Investments	1,50,000
Opening Balance	1,50,000		Interest Accrued on Tournament Fund Investments	6,000
Add: Income from Tournament Fund Investments				
[18,000 + 6,000 (Accrued)]	<u>24,000</u>			
	1,74,000			
Less: Tournament Expenses	<u>12,000</u>	1,62,000		

2. **Balance Sheet of Heritage Club (An Extract)**
as at 31st March, 2018

Liabilities		(₹)	Assets	(₹)
Building Fund	10,00,000		9% p.a. Building Fund Investments	10,00,000
Add: Donations Collected	<u>5,00,000</u>		Accrued Interest on Investments (WN1)	45,000
	15,00,000		Auditorium (work-in-progress)	4,50,000
Add: Interest on Investment	<u>90,000</u>			
	15,90,000			
Less: Construction Exp. on Auditorium	<u>4,50,000</u>	11,40,000		
Capital Fund	20,00,000			
Add: Capital Expenditure on Auditorium (transferred from building fund)	<u>4,50,000</u>	24,50,000		

Working Notes:

1. Total Interest on ₹10,00,000 @ 9% 90,000
 Less: Received during the year 45,000
 Accrued Interest 45,000
2. Any expenditure of capital nature (e.g., construction expenditure on auditorium) is subtracted from special fund (e.g., building fund) should be shown on assets side of Balance Sheet and an amount equal to capital expenditure should be added to Capital Fund.

3. **Table showing Calculation of Subscriptions**

Particulars	(₹)
Subscriptions received during the year	1,00,000
Add: Subscriptions received in advance in the beginning of the year	25,000
	<u>1,25,000</u>
Less: Subscriptions received in advance at the end of the year	10,000
	<u>1,15,000</u>
Less: Subscriptions actually receivable during the year (300 members × ₹ 500 each)	1,50,000
Subscriptions outstanding at the end of the year	<u><u>35,000</u></u>

4. **Calculation of amount of Subscriptions received**

Particulars	₹
Income from Subscriptions (As per Income and Expenditure Account)	1,20,000
Add: Advance receipt as on 31 st March, 2018	10,000
Add: Outstanding Subscriptions as on 1 st April, 2017	27,000
	1,57,000
Less: Advance receipt as on 1 st April, 2017	(8,000)
Less: Outstanding Subscriptions as on 31 st March, 2018	(22,000)
Subscriptions received during the year	1,27,000

5. Statement showing calculation of Subscriptions

Particulars	(₹)
Subscriptions received during the year	1,20,000
Add: O/s subscription (for year ending 31st March, 2018) (12,500 – 2,000)	10,500
Advance subscription (for the year ending 31st March, 2017)	8,000
	1,38,500
Less: Received (for year ending 31st March, 2017)	(5,000)
Less: Advance Subscription (for the year ending 31st March, 2018)	(9,500)
Amount to be credited to Income and Expenditure A/c	1,24,000

6.

	(₹)
Subscriptions as per Receipts and Payments Account	26,000
Add: Subscriptions outstanding on 31st March, 2018	8,400
	34,400
Less: Subscriptions outstanding on 31st March, 2017	5,200
	29,200
Add: Subscriptions received in advance on 31st March, 2017	4,800
	34,000
Less: Subscriptions received in advance on 31st March, 2018	4,000
Amount to be credited to Income and Expenditure Account for the year ending 31 st March, 2018	30,000

Alternatively, a Subscriptions Account may be prepared as follows:

Dr.		Subscriptions Account		Cr.	
Particulars	₹	Particulars	₹		
To Outstanding Subscriptions A/c (Outstanding of last year)	5,200	By Subscriptions Received in Advance A/c (Advance received in 2017)	4,800		
To Income and Expenditure A/c (Bal. fig.)	30,000	By Cash/Bank A/c	26,000		
To Subscriptions Received in Advance A/c (Advance received in current year)	4,000	By Outstanding Subscriptions A/c (Outstanding of current year)	8,400		
	39,200		39,200		

Income and Expenditure Account
for the year ending 31st March, 2018

Dr.		Cr.	
Expenditure	(₹)	Income	(₹)
		By Subscriptions	30,000

Balance Sheet of Club (An Extract)
as at 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Subscriptions Received in Advance	4,800	Outstanding Subscriptions	5,200

Balance Sheet of Club (An Extract)
as at 31st March, 2018

Liabilities	(₹)	Assets	(₹)
Subscriptions Received in Advance	4,000	Outstanding Subscriptions	8,400

7. Dr. Stationery Account Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	21,000	By Income & Expenditure A/c (Bal. fig.)	78,000
To Bank A/c	75,000	By Balance c/d	18,000
	96,000		96,000

Alternatively:

	(₹)
Opening stock of stationery	= 21,000
Purchases made	= 75,000
	= 96,000
Less: Closing stock	= <u>18,000</u>
Amount to be debited to Income and Exp. Account	= <u>78,000</u>

Balance Sheet
as at 31st March, 2018

Liabilities	(₹)	Assets	(₹)
Creditors for Stationery	23,000	Stock of Stationery	18,000

Note: In question, stationery purchased during the year is given, it means creditors are already adjusted in it and therefore, no treatment is given to creditors.

8. **Statement showing subscription to be debited to Receipts and Payments Account**
for the year ending 31st March, 2018

Particulars	(₹)
Subscriptions for 2017-18 (1,250 × ₹ 150)	1,87,500
Add: Subscriptions Outstanding on 31 st March, 2017	15,000
Subscriptions received in advance for 2018-19 (46 × ₹ 150)	6,900
Less : Subscriptions Outstanding for 2017-18 (45 × ₹ 150)	(6,750)
Received in Advance on 31 st March, 2017	(3,000)
Subscription received during 2017-18	1,99,650

9. **Amount debited to Income and Expenditure Account**

Particulars	(₹)
Amount paid for Sports Material during the year	5,780
Add: Stock of Sports Material in the beginning	2,600
Creditors for Sports Material at the end	2,660
	11,040
Less: Stock of Sports Material at the end	4,600
Creditors for Sports Material in the beginning	<u>2,400</u>
Amount to be debited to Income and Expenditure Account	4,040

10.

Dr. Computers Account Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2017			2017		
Apr. 1	To Balance b/d	1,50,000	July 1	By Depreciation A/c	3,000
July 1	To Income and Expenditure A/c (profit on sale)	8,000		By Bank A/c (Sale)	65,000
2018			2018		
Jan. 1	To Bank A/c (Purchase)	85,000	Mar. 31	By Depreciation A/c (1,50,000-60,000)×20/100	18,000
				By Depreciation A/c (85,000 × 20/100 × 3/12)	4,250
				By Balance c/d	1,52,750
		2,43,000			2,43,000

Income and Expenditure Account
for the year ended 31st March, 2018

Dr. Expenditure	(₹)	Cr. Income	(₹)
To Depreciation on Computers	25,250	By Profit on Sale of Computers	8,000

(18,000 + 4,250 + 3,000)			
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Balance Sheet
as at 31st March, 2018

Liabilities	(₹)	Assets	(₹)
		Computers	1,52,750

SOLUTION FOR HOMEWORK QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (c)

2. (d)

3. (d): Annual Subscription = $450 \times 100 = 45,000$
 (-) Subscription received for current year (25,000-4,000) = (21,000)
 Subscription Outstanding = 24,000

4. (b)

5. (c)

6. (b)

7. (b)

8. (b)

9. (b):

(b) Salary paid during the year = 80,000
 (+) Salary outstanding at the end = 10,500
 (-) Salary outstanding at the beginning = (6,545)
 Salary amount transferred to income and expenditure account 83,955

10. (b)

11. (a):

Locker rent paid during the year = 64,000
 (+) Locker rent outstanding at year end 2020 = 12,600
 (+) Advance Locker rent received in the year 2019 = 6,000
 (-) Outstanding locker rent in the year 2019 = (9,200)
 (-) Advance locker rent received in the year end 2020 = (8,000)
 Locker rent to be shown in income and expenditure account = 65,400

12. (a)

13. (d)

14. (a)

15. (b)

16. (d)

17. (a)

18. (b)

19. (c)

20. (c): $4,000 - 1,600 = ₹2400$

21. (c): $3,000 + 23,000 - 4,000 = ₹ 22,400$

22. (a): Total Interest on Investment = $8,000 \times 12/100 = ₹960$

23. (b): $200 \text{ members} \times 1,000 \text{ each} = ₹2,00,000$

24. (d)

25. (d): Interest on investment = $60,600 \times 10/100 \times 4/12 = ₹2,000$
 Accrued interest = $2,000 - 1,600 = ₹400$

26. (b)

27. (a): Current year subscription = Total subscription received – Subscription received in advance for the next year +
 Subscription received in last year for current year
 = $98,000 - 20,000 + 6,000 = ₹84,000$

28. (b)

29. (a)

30. (c)

SOLUTION FOR SUBJECTIVE QUESTIONS

1.

Income and Expenditure Account

for the year ended 31st March, 2018

Expenditure	(₹)	Income	(₹)
		By Donations	100

Balance Sheet *as at 31st March, 2018*

Liabilities	(₹)	Assets	(₹)
Pavilion Fund (donations received) 50,000		Subscription due for Governor's Party	500
Less: Cost incurred for Pavilion <u>10,000</u>	40,000	Pavilion (cost incurred)	10,000
Subscriptions for Governor's Party (including outstanding)	2,500		
Amount transferred from Pavilion Fund to be added to Capital Fund	10,000		

Notes:

- (i) The amount of donations received for pavilion is a specific donation and, therefore, has been taken to the Balance Sheet on the liabilities side.
- (ii) The subscriptions received for Governor's Party is also for a specific purpose, and therefore, has been taken to the Balance Sheet. The amount of outstanding subscriptions has also been added to this amount and has been shown on both sides of the Balance Sheet.
- (iii) The expenditure of ₹10,000 incurred on construction of pavilion has been shown as an asset in the Balance Sheet.

2. Active Recreation Club

Income and Expenditure Account

for the year ended 31st March, 2018

Expenditure	(₹)	Income	(₹)
To Salaries 56,000		By Fees 96,000	
Less: Outstanding in the beginning <u>6,000</u>		Less: Outstanding in the beginning <u>16,000</u>	80,000
50,000		By Entrance Fees	2,000
Add: Outstanding at the end <u>10,000</u>	60,000		
To Tournament Expenses	3,000		
To Meeting Expenses	3,000		
To Travelling Expenses	3,600		
To Rent Paid	2,400		
To Postage and Telephone Charges	2,000		
To Depreciation on Books	200		
To Fire Insurance Premium	400		
To Surplus	7,400		
	82,000		82,000

Notes:

1. Donations are capitalised and therefore are to be shown in the Balance Sheet as a liability.
2. Salary is adjusted for the current year.
3. Purchase of books is treated as a capital asset.
4. Since, there is no tournament fund, these expenses will be taken to the income and expenditure account.
5. Since life membership fees is a non-recurring receipt, it will be capitalised.

3.

Receipts and Payments Account of Good Health Club

for the year ended 31st March, 2018

Receipts	(₹)	Payments	(₹)
To Balance b/d		By Wages and Salaries	55,000
Cash	70,000	By Investment in 9% Deb. Of XYZ Ltd.	2,40,000

Bank	3,00,000	By Health Journals	5,000
To Subscription Received		By Stationery	12,500
2016-17	40,000	By Insurance Premium	6,760
2017-18	3,75,000	By Courier Charges	800
2018-19	<u>20,000</u>	By Municipal Taxes	9,570
To Donations for Gym	1,64,000	By Machinery purchased	38,000
To Admission Fees	14,000	By Balance c/d	
To Life Membership Fees	45,000	Cash in hand	43,000
To Locker rent	11,000	Bank (Balancing Figure)	6,30,410
To Sale of old Newspapers	300		
To Interest on Bank Balance	1,740		
	<u>10,41,040</u>		<u>10,41,040</u>

4. **Income and Expenditure Account**
for the year ended 31st March, 2016

Dr.		Cr.	
Expenditure	(₹)	Income	(₹)
To Salary	3,000	By Subscriptions	26,500
Add: Outstanding	<u>600</u>	Add: Outstanding for 2015-16 (WN)	<u>1,700</u>
To Newspapers	2,050	By Government Grants	10,000
To Electricity bill	1,000	By Sale of old newspapers	1,250
To Rent	6,800	By Interest on Fixed deposits	450
Add: Outstanding rent	<u>1,200</u>	Add: Accrued Interest	<u>900</u>
To Loss on sale of furniture (7,000-5,700)	1,300		
To Surplus	24,850		
	<u>40,800</u>		<u>40,800</u>

Balance Sheet
as at 31st March, 2015

Liabilities	(₹)	Assets	(₹)
Capital Fund (Bal. fig.)	43,550	Cash Balance	19,550
		Subscription Outstanding	2,000
		Furniture	15,000
		Books	7,000
	<u>43,550</u>		<u>43,550</u>

Working Note:

Subscriptions outstanding on 31 st March, 2016	₹2,500
Less: Subscriptions outstanding for 2014-15	₹800
[₹2,000 - ₹1,200 (received during the year)]	
Subscriptions outstanding for 2015-16	<u>₹1,700</u>

5. **Income and Expenditure Account**
for the year ended 31st March, 2018

Dr.		Cr.	
Expenditure	(₹)	Income	(₹)
To Stationery consumed	22,400	By Subscriptions (200 × ₹1,000)	2,00,000
To Loss on sale of old furniture	2,400	By Interest on investments	800
To Electricity expenses	10,600	Add: Interest accrued	<u>160</u>
To Expenses on lectures	30,000	By Government Grant	17,400
To Surplus	1,52,960		
	<u>2,18,360</u>		<u>2,18,360</u>

Balance Sheet of Sears Club
as at 31st March, 2018

Liabilities	(₹)	Assets	(₹)
Subscription received in advance	7,200	Outstanding Subscriptions	
Donations for building	40,000	For 2016-17	20,000
Capital Fund	62,000	For 2017-18	<u>81,000</u>
Add: Surplus	<u>1,52,960</u>	Stock of Stationery	4,000
		Cash	50,000
		12% Investments	8,000
		Interest accrued on investments	160
		Sports Equipment	59,000
		Books	40,000
	<u>2,62,160</u>		<u>2,62,160</u>

Working Notes:

Balance Sheet of Sears Club
as at 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Subscriptions received in advance	25,000	Outstanding Subscriptions	60,000
Capital Fund (Bal. fig.)	62,000	Stock of Stationery	3,000
		Cash	20,000
		Furniture	4,000
	<u>87,000</u>		<u>87,000</u>

2. Outstanding Subscription for 2016-17 = 60,000 - 40,000 = 20,000

Outstanding Subscription for 2017-18 = 2,00,000 - (94,000 + 25,000) = 81,000

6.

Income and Expenditure Account
for the year ended 31st March, 2018

Dr.	(₹)	Income	Cr.
Expenditure		Income	(₹)
To Charity	11,500	By Donations (one-third as income)	3,000
To Rent and Taxes	3,200	By Subscriptions	42,800
Add: Outstanding	<u>600</u>	By Interest on Investment	4,500
To Salary	6,000	Add: Accrued	<u>1,100</u>
		By Sale of old newspapers	200
Add: Outstanding	<u>900</u>		
To Printing	600		
To Postage	300		
To Advertisement	4,500		
Add: Outstanding	<u>1,000</u>		
To Insurance	2,000		
Less:	<u>500</u>		
To Surplus	21,500		
	<u>51,600</u>		<u>51,600</u>

Balance Sheet
as at 31st March, 2018

Liabilities	(₹)	Assets	(₹)
Donation	6,000	Cash	9,900
Legacies	18,000	Bank	16,000
Capital Fund	24,100	Prepaid Insurance	500
Add: Surplus	<u>21,500</u>	Furniture	21,600
Outstanding Rent	600	Investment	23,000
Outstanding Salary	900	Accrued Interest on Investment	1,100
Outstanding Advertisement	1,000		
	<u>72,100</u>		<u>72,100</u>

Working Note:

Balance Sheet (opening)

as at 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Capital Fund (Bal. fig.)	24,100	Cash	11,500
		Bank	12,600
	<u>24,100</u>		<u>24,100</u>

7.

Income and Expenditure Account
for the year ended on 31st March, 2018

Dr.	(₹)	Cr.	(₹)
Expenditure		Income	
To Loss on Sale of Furniture	3,000	By Subscriptions Received	90,000
To Salaries	90,000	Add: Outstanding (1,12,500 – 90,000)	<u>22,500</u>
Add: Outstanding for 2017-18	<u>1,800</u>	By Sale of Old Newspapers	16,200
	91,800	By Profit from Charity Show	66,000
Less: Outstanding for 2016-17	<u>9,000</u>	By Rent of Hall	1,26,000
To General Expenses	27,000	By Deficit, i.e., Excess of Expenditure	300
To Electricity Charges	18,000	over Income	
To Newspapers and Periodicals	50,700		
To Postage	4,500		
To Stationery	60,000		
To Audit fee	12,000		
To Depreciation (on land and building)	45,000		
To Honorarium	18,000		
	<u>3,21,000</u>		<u>3,21,000</u>

Balance Sheet

as at 31st March, 2018

Liabilities	(₹)	Assets	(₹)
Outstanding Salaries	1,800	Outstanding Subscriptions	22,500
Subscriptions Received in Advance	18,000	Cash	49,500
Capital Fund	10,41,000	Furniture and Fixtures (WN 1)	73,500
Less: Deficit	<u>300</u>	Library Books (WN 2)	60,000
	10,40,700	Land and Building (WN 3)	8,55,000
	<u>10,60,500</u>		<u>10,60,500</u>

Working Notes:

1. Dr.

Furniture and Fixtures Account

Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	55,500	By Bank A/c (Sale)	6,000
To Bank A/c (purchases)	27,000	By Income and Expenditure A/c (loss on sale)	3,000
		By Balance c/d (bal.fig.)	73,500
	<u>82,500</u>		<u>82,500</u>

2. Dr.

Library Books Account

Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	45,000	By Balance c/d	60,000
To Bank A/c (purchases)	15,000		
	<u>60,000</u>		<u>60,000</u>

3. Dr.		Land and Building Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d	9,00,000	By Depreciation A/c	45,000		
		By Balance c/d	8,55,000		
	<u>9,00,000</u>		<u>9,00,000</u>		

8.

Dr.		Jan Kalyan Club Income and Expenditure Account for the year ending on 31 st March, 2018		Cr.	
Expenditure	(₹)	Income	(₹)		
To Salaries	24,000	By Subscriptions	60,200		
To Travelling Expenses	6,000	Add: Advance in 2016-2017	1,000		
To Stationery (WN2)	2,700	Outstanding for 2017-2018	<u>3,700</u>		
To Rent	16,000		64,900		
Add: O/s for Current year	<u>2,000</u>	Less: Advance in 2017-2018	(3,200)		
	18,000	O/s for 2016-2017	<u>(2,000)</u>	59,700	
Less: O/s for previous year	<u>1,000</u>	By Donation		3,000	
	17,000	By Entrance Fee		800	
To Repair	700	By Interest on Investment		5,000	
To Depreciation:					
Books(WN3)	3,000				
Furniture (WN4)	<u>2,000</u>				
To Loss on Sale of Furniture	2,000				
To Surplus	<u>11,100</u>				
	68,500				
	<u>68,500</u>			<u>68,500</u>	

**Balance Sheet
as at 31st March, 2018**

Liabilities	(₹)	Assets	(₹)
Advance Subscriptions	3,200	Outstanding Subscriptions	3,700
Outstanding Rent	2,000	Cash	1,800
Life Membership Fee	7,000	Books	16,500
Capital Fund (WN1)	1,37,500	Furniture	8,000
Add: Surplus	<u>11,100</u>	Investment (100/5 × 5,000)	1,00,000
	1,48,600	Stationery	800
		Building	30,000
	<u>1,60,800</u>		<u>1,60,800</u>

Working Notes:

1.

**Balance Sheet (Opening)
as at 1st April, 2017**

Liabilities	(₹)	Assets	(₹)
Advance Subscriptions	1,000	Outstanding Subscriptions	2,000
Outstanding Rent	1,000	Cash	6,800
Capital Fund (bal. fig.)	1,37,500	Investment (100/5 × 5,000)	1,00,000
		Stationery	1,200
		Books	13,500
		Furniture	16,000
	<u>1,39,500</u>		<u>1,39,500</u>

2. Dr. Cr.
Stationery Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	1,200	By Income and Exp. A/c (bal. fig.)	2,700
To Bank A/c (purchases)	2,300	By Balance c/d	800
	<u>3,500</u>		<u>3,500</u>

3. Dr. Cr.
Books Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	13,500	By Depreciation A/c (bal. fig.)	3,000
To Bank A/c (purchases)	6,000	By Balance c/d	16,500
	<u>19,500</u>		<u>19,500</u>

4. Dr. Cr.
Furniture Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	16,000	By Bank A/c (sale)	4,000
		By Income and Exp. A/c (loss on sale)	2,000
		By Depreciation A/c (bal. fig.)	2,000
		By Balance c/d	8,000
	<u>16,000</u>		<u>16,000</u>

9. (a) (₹)

Subscriptions received in year 2016-17 (total cash amount)	11,000
Less: Received for year 2015-16	(600)
Less: Received for year 2017-18	(400)
	<u>10,000</u>

Add: Outstanding Subscriptions for the year 2016-17 [1,000 – (700 – 600)](Note) 900

Subscriptions to be credited to Income and Expenditure Account 10,900

Note: On 31st March, 2017, Subscriptions due but not received were ₹1,000. It also includes subscriptions due but not received for the year 2015-16 amounted to ₹100 [₹700 (outstanding) – 600 (received outstanding amount during current year)]. The subscriptions outstanding for the current year (2016-17) amounted to ₹900 only.

It should be noted that whenever it is said 'Subscriptions due but not received' till the current year's last day, such an amount also includes the subscriptions due for previous years too. Therefore, to arrive at Subscriptions outstanding for current year the amount due but not received for previous year should be deducted from the total of Subscriptions due at the end of the current year.

(b): The amount to be credited to Income and Expenditure Account can be worked out by preparing Subscriptions Account as follows:

Dr. Cr.
Subscriptions Account

Particulars	(₹)	Particulars	(₹)
To Outstanding Subscriptions A/c	6,000	By Subscriptions Received in Advance A/c	6,000
To Income and Expenditure A/c (b.f.)	40,000	By Cash A/c (Receipts & Payments A/c)	41,000
To Subscriptions Received in Advance A/c	6,000	By Outstanding Subscriptions	5,000
	<u>52,000</u>		<u>52,000</u>

Income and Expenditure Account
for the year ending 31st March, 2018

Dr. Cr.

Expenditure	(₹)	Income	(₹)
		By Subscriptions	40,000

Balance Sheet of Royal Club
as at 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Subscription Received in Advance	6,000	Outstanding Subscriptions	6,000

**Balance Sheet of Royal Club
as at 31st March, 2018**

Liabilities	(₹)	Assets	(₹)
Subscription Received in Advance	6,000	Oustanding Subscriptions	
		2016-17	1,000
		2017-18	<u>4,000</u>
			5,000

Note: Outstanding Subscriptions include subscription outstanding for the year 2016-17 ₹1,000 [i.e., ₹6,000 – ₹5,000 received during 2017-18] and outstanding subscription for the year 2017-18 ₹4,000.

10.

**Income and Expenditure Account
for the year ending 31st March, 2018**

Dr. Expenditure	(₹)	Cr. Income	(₹)
To Campaign Expenses	1,30,000	By Subscriptions	1,80,000
To Office Rent	40,000	By Govt. Grant	2,00,000
To Salary	10,000	By Interest accrued on Fixed Deposit	16,000
To Furniture hire rent	12,000		
To Advertisement	15,000		
To Loss on sale of old Furniture	1,000		
To Surplus (Excess of income over Expenditure)	1,88,000		
	<u>3,96,000</u>		<u>3,96,000</u>

**Balance Sheet
as at 31st March, 2018**

Liabilities	(₹)	Assets	(₹)
Capital Fund	1,28,000	Fixed Deposits	2,00,000
Add: Surplus	1,88,000	Add: Accrued Interest	<u>16,000</u>
Add: Life Memb. Fees	<u>30,000</u>	Books	50,000
Creditors	60,000	Computers	75,000
		Cash at Bank	40,000
		Cash in Hand	25,000
	<u>4,06,000</u>		<u>4,06,000</u>