

## Chapter 8

# Accounting for Non-Trading Organisations

### Learning Objectives

After studying this unit, you will be able to:

- ✓ Understand the meaning of Receipts and Payments Account and Income and Expenditure Account and see the difference between these two Accounts.
- ✓ Learn how to prepare Receipts and Payments Accounts.
- ✓ Identify main sources of Income and learn the technique of preparing Income and Expenditure Account from Receipts and Payments Account.
- ✓ Preparing Balance Sheet.

### 8.1 INTRODUCTION

Non-profit making organisations such as public hospitals, public educational institutions, clubs, etc., generally prepare Receipts and Payments Account and income and Expenditure Account to show periodic performance & Balance Sheet to show financial position at the end of the accounting period.

In this Unit, we shall discuss the technique of preparing Receipts and Payments Account, Income and Expenditure Accounts and Balance Sheet of Non Profit or Non-trading organisations. Also we shall discuss and illustrate the technique of preparing Income & Expenditure Account from Receipts and Payments Account. It may be mentioned that Income and Expenditure Account is just similar to profit and Loss Account prepared for the profit making organisations.

In case of income and Expenditure Account, the excess of expenditure over Income is treated as surplus. In non-profit making organisations, total cash receipts and total cash payments are highlighted through Receipts and Payments Account.

### 8.2 Meaning of Non-trading Organisations:

The organisations whose main objectives are not to earn profit but to provide valuable services to its member and to the society are known as non-trading organisations. These organizations are involved in promoting welfare of society. Their charters prohibit the payment or provision of dividend. The example of such organisations are sports clubs, social clubs, educational institutions, libraries, hospital, religious trust, temples, churches, mosques and gurudwaras etc.

### 8.3 Characteristics of Non-trading Organisations:

- ✓ The main objective of such concern is not to earn profit but providing services to its members and society.

- ✓ *The main sources of revenues are Subscriptions money and Donation donations from member and societies.*
- ✓ *A non-profit organisation is governed and managed by elected member in the same way a business corporation is managed by a board of director.*
- ✓ *A non-profit organization employs the same accrual basis of accounting used by business enterprises.*
- ✓ *Non Profit Organisations prepare receipts and payments account, income and expenditures account and balance sheet.*

#### **8.4 Accounting procedures of Non-trading Organisation**

Non-trading organizations can keep and maintain their accounting records under single entry system or double entry system. The small sizes of organizations follow single entry whereas the large size of organizations follow double entry system. A Non Trading organisation prepares at the year end, the following three financial statements:

- A. Receipt and payment account
- B. Income and expenditure account
- C. Balance sheet

#### **8.5 Meaning of receipt and payment account**

It is summary of cash receipts and cash payments. It is real account. It is prepared at the end of the accounting period. All the cash receipts are recorded on the debit side and all the payments are recorded on the credit side of receipts and payments account.

Cash book consists of entries of receipt and payment in a chronological order, while the receipts and payment is a summary of total cash receipts and payments. Receipt and payment account starts with opening balance of cash and bank and ends with closing balance of cash and bank. It does not take into account outstanding amount in receipts and payments account. The Receipts and payments may be of capital and revenue nature. These may relate to the current or last or next year, so long, as they are actually received or paid must appear in this account.

#### **8.6 Characteristics of receipts and payment account:**

The main characteristics or attributes are as follows:

- ✓ *It is a summary of cash transactions. Like a cash book records cash receipts on debit side and payments on the credit side.*
- ✓ *It includes cash and banking transactions whether these are related with previous or current or subsequent year*

- ✓ *It records all receipts and payments whether related to capital or revenue nature.*
- ✓ *It starts with opening balance of cash in hand and cash at bank.*
- ✓ *It ends with closing balance of cash in hand cash at bank.*
- ✓ *It does not include non-cash transactions like Depreciation or outstanding expenses or revenue.*
- ✓ *It is not based on accrual basis of accounting.*

### **8.7 Limitations of receipts and payment account:**

The limitations of receipts and payments are follows:

- ✓ *It is not able to find surplus and deficit of the organizations.*
- ✓ *It does not account income and expenses on accrual basis.*
- ✓ *It does not differentiate capital and revenue receipts and payments.*
- ✓ *It does not record non-cash items such as depreciation or outstanding expenses.*

### **8.8 Format of Receipts and Payment Account**

XYZ .....			
Receipts and Payment Account			
For the Year ended ....., 20XX			
Receipts	Amount	Payments	Amount
To Balance/d:		By Rent and Taxes	.....
Cash .....		By Utilities Expense	.....
Bank .....	.....	By Wages and Salaries	.....
To Subscriptions:		By Postage and Stationary	.....
Last Year .....		By Newspapers and magazines	.....
Current Year .....		By Bar Stock/Refreshment	.....
Next Year .....	.....	By Travelling and Fare	.....
To Entrance Fees	.....	By Repairs and Maintenance	.....
To Admission Fees	.....	By Upkeep of ground	.....
To Loaker Rent	.....	By Interest and Bank Charges	.....
To Life Membership Fees	.....	By Honorarium Expenses	.....
To General/Special Donation	.....	By Entertainment Expense	.....
To Legacy/Endowment Fund	.....	By Match/tournament expennse	.....
To Grant from Govt. and others	.....	By Annual Expense	.....
To Tournament fees/Fund	.....	By Charity and Releif Expense	.....
To Sale procced from assets	.....	By Sport Material	.....
To Sale procced from newspaers	.....	By Assets (book or furniture etc.)	.....
To sales of sport materials	.....	By Investment in Securities	.....
To Interest/Dividend	.....	By Other Expenses	.....
To Match/tournament fees	.....	By Balance c/d:	
To Sale Bar/Refreshment	.....	Cash .....	
To Other Receipts	.....	Bank .....	.....
	.....		.....

## 8.9 Preparation of Receipts and Payment Account from given information

### Example 1.

From the following information of Red Cross Society, prepare Receipts and Payments Account for the year ended Dec. 31, 2019.

Cash in hand on Jan. 1, 2019 ₹ 35,000 and Cash at Bank on Jan. 1, 2019, ₹50,000.

Donation Received during the year ₹25,000 & Subscription received is ₹20,000.

Utilities Charges Paid ₹5,000; Salary Paid ₹ 45,000 and Outstanding Salary is ₹5,000

Honorarium paid to trainer ₹15,000 and Rent Paid ₹7,500.

Life membership Fees received ₹15,000 and Interest Received on Govt. Bond ₹1,000

Purchase of computer by check ₹ 30,000 and Purchase of Furniture for Cash ₹4,000

Entrance Fees Received ₹10,000.

Purchase of Supplies Material for Cash ₹6,000 and Purchase of Government Bond ₹20,000.

Payment to Petty Cashier ₹500.

Cash in Hand Dec. 31, 2019 ₹ 8,000 and Cash in Bank Dec. 31, 2019 ₹15,000.

## Solution

**Red Cross Society**  
**Receipts and Payment Account**  
**For the year ended Dec. 31, 2019**

<b>Receipts</b>	<b>Amount</b>	<b>Payment</b>	<b>Amount</b>
To Balance b/d:		By Utilities	5,000
Cash                   35,000		By Salaries	45,000
Bank <u>50,000</u>	85,000	By Computer	30,000
To Donation	25,000	By Petty Cash	500
To Subscription	20,000	By Furniture	4,000
To Life Membership fees	15,000	By Supply	6,000
To Interest on Bond	1,000	By Bonds	20,000
To Entrance Fees	10,000	By Rent	7,500
		By Balance c/d:	
		Cash -           8,000	
		Bank -         15,000	23,000
	<b>1,56,000</b>		<b>1,56,000</b>

## 8.10 Meaning of Income and expenditure account

Income and expenditure account is a nominal account. It is just like a profit and loss account. It is prepared to find out the amount of surplus or deficit made during the accounting period. It records all the expenses and losses on the debit side and all the revenue and gains on the credit side. It accounts for only revenue nature of expenditure and income. It shows only current year incomes and expenditure whether they are received or not. It excluded previous year and next year income and expenditures. In other words, incomes and expenditures have to be adjusted for both outstanding and prepaid items on matching principles of accounting.

According to F.G. Williams, "An income and expenditure account is prepared to show all the revenue income for the period whether actually received or accrued and all the revenue expenditures for the period whether actually paid or accrued that is not yet paid."

## 8.11 Characteristics of income & expenditure account

- ✓ *It records only revenue nature of expenses and incomes.*
- ✓ *It records incomes, expenses and losses and gains which related to current accounting year.*
- ✓ *It records all the expenses and losses on the debit side and all the incomes and gains on the credit side.*
- ✓ *Both cash and non-cash items such as salaries paid and depreciation incurred are taken into account.*
- ✓ *It is prepared on the basis of accrual concept.*

## 3.11 Format of Income and Expenditure Account

XYZ .....			
Income and Expenditure Account			
For the Year ended ....., 20XX			
Expenditure	Amount	Incomes	Amount
To Salaries & wages expense .....		By Subscription received .....	
Add: O/S Salaries at end .....		Add: Subs. Due at End .....	
Less: Preaid salary at end .....	.....	Add: Adv. Subs. at Beg. ....	.....
To Rent and Taxes .....	.....	Less: Adv. Sub. at End. ....	.....
To Postages & Stationaries .....	.....	Less: Sub. Due at Beg. ....	.....
To Stock/Refreshment consumed .....	.....	By Entrance & admission fees .....	.....
To Travelling & fare expense .....	.....	By Loker Rent .....	.....
To Repairs & maintenance expense .....	.....	By Life Membership Fees .....	.....
To Newspaper & Magzines .....	.....	By Donation .....	.....
To Upkeep of ground expense .....	.....	By Grant from Govt (revenue) .....	.....
To Interest & bank charges .....	.....	By Match or tournament fees .....	.....
To Honorarium expenses .....	.....	By Refreshment receipts .....	.....
To Entertainment expense .....	.....	By Profit on sale of assets .....	.....
To Match/tournament expennse .....	.....	By Sale of newspaers & magazines .....	.....
To Annual Expense .....	.....	By sales of sport materials .....	.....
To Loss on sale of assets .....	.....	By Interest received .....	.....
To Charity & releif expense .....	.....	Add: Accrued interest .....	.....
To Utilities expense .....	.....	By Other Inomces .....	.....
To Other expense .....	.....	By Deficit .....	.....
To Surplus (Excess of income over Exp.) .....	.....	(Excess of exp. Over income) .....	.....
	.....		.....

## 8.12 Items or terminologies relating to Non-trading organisations and their treatment in final accounts- Income and Expenditure and Balance Sheet.

### Subscriptions:

Subscriptions are the amounts received from the members of non-profit organisations to maintain their membership. These are main source of revenue of the organisations. These are received periodically i.e., monthly or annually. The annual subscriptions fees due from members are shown on the credit side of income and expenditure account and on accruals basis of accounting and on the debit side of receipts and payments account on the basis of cash basis of accounting. Let us see an example for treatment of subscriptions in final accounts of an NPO.

### Example 2

A charitable trust received subscriptions of ₹ 20,000 for the year ended Dec.31, 2019 and it was shown on the debit side of receipts and payments account. The additional information is provided as follows.

- Subscription received includes ₹ 2,000 for 2020 and ₹3,000 for 2018.
- Subscription Outstanding on Dec. 31, 2019 is ₹ 4,000.
- Subscription received in advance in 2018 is ₹1,500 that is subscription for 2019.

*You are required to show above information in income and expenditure account and balance sheet of the trust for the year 2019.*

### Solution.

The above information will be shown in Income and Expenditure for the year ended Dec.31 and Opening Balance Sheet as on Jan. 1, 2019 and closing Balance Sheet as on Dec. 31, 2019.

Charitable Trust.....			
Income & Expenditure Account			
For the Year Ended Dec. 31, 2019			
Expenditure	Amount	Income	Amount
		By Subscription Received.....	₹20,000
		Add: O/S Subs. at the end (2019).....	₹4,000
		Add: Advance Subs. at beg. (2018)...	₹1,500
		Less: Advance Subs. at end (2019)...	₹3,000
		Less: O/S Subs. at the end (2018)....	₹2,000
			<b>₹ 20,500</b>

Charitable Trust.....			
Balance Sheet (Closing Balance Sheet)			
For the Year Ended Dec. 31, 2019			
Assets		Liabilities	
<b>Current Assets:</b>		<b>Current Liabilities:</b>	
Accrued Subscription	₹ 4,000	Advance Subscription	₹ 3,000

Charitable Trust.....			
Balance Sheet (Opening Balance Sheet)			
As on Jan. 1, 2019			
Assets		Liabilities	
<b>Current Assets:</b>		<b>Current Liabilities:</b>	
Accrued Subscription	₹ 2,000	Advance Subscription	₹ 1,500

The amount of subscription to be shown in Income and expenditure account can be computed as Working Note as follows.

Subscription received in 2019:	₹ 20,000
Less: advance subscription received for 2020	- (3,000)
Less: Arrears of subscription received for 2018.	- (2,000)
Add: Subscription received in advance in 2018	+ 1,500
Add: Outstanding subscription at end for 2019	+ 4,000
Subscription to be shown for the year 2019	<u>₹ 20,500</u>



*Note: The accounting treatment for items like locker rent or any other item are done in final account in the same way as it is done for subscription.*

## **Donations:**

Donation is the amount received from individuals, firms, company or any other body as a gift. It is shown on the receipts side of receipt and payment account. Donation can be divided into two types:

### **a. General Donation:**

This donation is not received for specific purpose. Therefore, it can be used for any purpose. General donation is treated as revenue receipts and credited to income and expenditure account. Whether the donation is a capital or revenue receipts, it depends upon the rules and regulation of the organization and treated accordingly. In case of large amount of general donation, it is to be treated as capital receipt and shown on the liability side of balance sheet and in case of small amount of general donation, it is to be treated as revenue receipts and shown in the credit side of income and expenditure account.

### **b. Specific Donation:**

The donations which is received for specific purpose is known as specific donations such as donation for building, pavilion, tournaments, medical or educational or laboratory equipment. Specific donation is treated as capital receipts and shown on the liability side of balance sheet.

## **Legacy:**

It is also a specific donation. The amount which is left to the organization by the will of deceased person is called legacy. In other words, it refers to the amount that is donated under a will on the death of donor. Legacy is generally treated as capital receipt and shown in the liability side of balance sheet.

## **Life membership Fees:**

Generally, the members are required to make the payment in a lump sum only once which enables them to be the member for whole of the life. Life member are not required to pay the annual membership fees. Life membership fees is a capital receipts and shown in the liability side of balance sheet.

## **Entrance or Admission Fees:**

The fee which is collected from the new member at the time of their admission is known as entrance admission fees. The entrance fees are generally treated as revenue receipts and credited to the income and expenditure account.

Admission fees are paid by members only once at time of becoming a member. Hence, it is treated as a capital receipt by some organizations. Whether the



entrance fees are to be treated as capital or revenue receipt, they are decided by the rules and regulations of the organizations.

### **Grants:**

The financial assistance received for general purpose from central, state and local government, other organization is known as grant. For example, government schools, college and universities and hospitals get government grants or help to meet the expenses of their operating activities. The recurring grants received from government is treated as revenue receipts and so credited to income and expenditure account.

Government grants received for specific purposes like construction of buildings, library or hospitals etc. are treated as capital receipts and so such grants are transferred to such funds and shown in balance sheet. Therefore, general grants are treated as revenues receipts and shown on credit side of income and expenditure account. However" specific grants must be treated as capital a receipt which is shown in the liability side of balance sheet.

### **Honorarium:**

Honorarium refers to the remuneration to be paid to outside (not an employee) for their specific services like guest lecturer, special trainer ad showing stage performance and concern etc.

### **Endowment fund:**

The fund which arises from a gift. It is relatively large amount of money advanced to the concern and placed in fixed deposits or invested in securities. The endowment fund is a capital receipt and shown on the liability side of balance sheet.

### **Sale Proceeds of Newspapers, Magazines and sports materials:**

The amount receipts from sale of newspapers, magazines and sport material is treated as revenue receipts and credit to income and expenditure account.

### **Sale of old Assets:**

Amount received from sale of old assets is capital receipts. The book value of the assets sold is deducted from the relevant assets in the balance sheet. Profit on sale of old assets credited to income and expenditure account and loss on sale of old asset debited to income and expenditure account.

### **Bar Stock/Refreshment**

Non-Profit organisation like sports club during the match entertainment sells cold drinks, coffees, tea, water, snacks and others refreshment items to the audience which are known as bar stocks or refreshment. The purpose of selling such refreshment items is not earning profits but providing the viewers

necessary refreshment items during the entertainment so that they can enjoy maximum.

The buying and selling of refreshment items is of trading nature. So, the sports club can also prepare bar trading account in order to determine *Bar Trading Profit* which can be shown in income and expenditure account on the credit side. Contrary to it, the bar consumed can be shown on the debit side and receipts from sale of bar can be shown on the credit side of income and expenditure account. The opening stock of bar is shown in opening balance sheet and the closing stock of bar is shown in closing balance sheet.

### Example 3

Super Star is a non-profit organisation and its books of accounts are closed on Dec. 31 each year. The following information is available for the 2019.

Items	01-Jan	31-Dec
Stock of refreshment	₹ 1,900	₹ 2,100
Creditor for refreshment	₹ 400	₹ 500

Payment made to creditors for refreshment during the year ₹ 5,500 and Refreshment sold during the year is ₹12,000. Wages Expense ₹ 2,000 and Bar Expense ₹ 500.

You are required to find out refreshment purchased during the year and prepare Bar refreshment trading account as on Dec. 31, 2019.

Creditors for Bar Refreshment Account			
To Bank A/c	₹ 5,500	By Balance b/d	₹ 400
To Balance c/d	₹ 500	By Purchase of Bar Refreshment	₹ 5,600
	<u>₹ 6,000</u>		<u>₹ 6,000</u>
Bar Refreshment Trading Account			
To Opening Balance	₹ 1,900	By Sale of Bar Refreshment	₹ 12,000
To Purchase of Bar Refreshment	₹ 5,600	By Closing Stock	₹ 2,100
To Bar Wages	₹ 2,000		
To Bar expenses	₹ 500		
To Bar Surplus	<u>₹ 4,100</u>		
	<u>₹ 14,100</u>		<u>₹ 14,100</u>

#### Notes:

- 1) The creditors for any other expenses are prepared in same manner as creditors for bar refreshment account to determine current year expenses.
- 2) The trading surplus for any activities are prepared in same manner as for bar refreshment account.

### Special Fund:

Sometimes special funds are created to meet specific purposes such as Sport fund, Prize distribution fund, Tournament fund and Development funds. Tournament fund is created for conducting tournament, prize fund is created for giving prizes, and

development fund is created for construction purposes of buildings and grounds etc. All such funds are shown on the liabilities sides of the balance sheet.

All the income and receipts related to special funds are added to such fund balance and all expenses related to such funds are deducted from fund balance on the liabilities side of the balance sheet. If there is deficit balance in special fund, then such deficit is shown on the debit side of income and expenditure account.

#### Example 4 A

Kolkata Knight Riders Sport Club has the following items as on March 31, 2019.

Match Fund ₹1,00,000; Match Expenses ₹ 1,20,000; Sale of Match tickets ₹50,000. Show how you will deal with the above items when preparing final accounts of KKR Sport club.

#### Solution.

Match fund is special fund. Therefore, the following accounting treatment is done in the balance sheet of KKR Sport Club.

<b>KKR Sport Club</b>			
<b>Balance Sheet</b>			
<b>For the Year Ended March 31, 2019</b>			
Laibilities	Amount	Assets	Amount
Match Fund: ₹ 1,00,000			
<b>Add:</b> Sale of Match tickets 50,000			
<b>Less:</b> Match Expenses <u>1,20,000</u>	<b>₹ 30,000</b>		

#### Example 4 B

Kolkata Knight Riders Sport Club has the following items as on March 31, 2019.

Match Fund ₹1,00,000; Match Expenses ₹ 2,50,000; Sale of Match tickets ₹50,000; Match fund Investment ₹ 1,00,000 and Donation for Match ₹ 60,000.

Show how you will deal with the above items when preparing final accounts of KKR Sport club.

#### Solution.

<b>Match Fund</b>	₹ 1,00,000
<b>Add:</b> Donation for Match	60,000
<b>Add:</b> Sale of match tickkets	<u>50,000</u>
	₹ 2,10,000
<b>Less:</b> Match Expenses	<u>2,50,000</u>
Deficit to be shown in income & Expenditure account	<b>₹ -40,000</b>

#### Capital Fund:

Capital fund denotes excess of total assets over total outside liabilities. Surplus of income and expenditures account is added and deficit of income and expenditures account deducted to capital fund. Capital fund is usually made up by special donations. Legacies, capitalization of admission fees and life membership fees etc.

## Preparation of income and expenditure account from receipt and payment account:

Following steps are followed for preparing income and expenditures account:

- a. *Opening and closing balance of cash in hand and cash at bank are ignored.*
- b. *All capital receipts and capital payment are not recorded in income and expenditure account. These are directly recorded in the balance sheet.*
- c. *All revenue receipts for the current year are credited to the income and expenditures account together with accrued income if any given in adjustments.*
- d. *All revenue payments for current year are debited to income and expenditure account including outstanding expenses given in adjustments if any. All revenue non-cash expenses like depreciation, and bad debts on account of non-receipt of subscription, and losses on sale of fixed assets are also debited to income and expenditure account.*
- e. *If income side amount is more than expenditure side, the excess is known as surplus or excess of income and expenditure. On the other hands, if the total expenses exceeds total income, the shortage is known as deficit or excess of expenditure over income.*
- f. *The surplus is added to capital fund but the deficit is deducted from capital fund on liability side of balance sheet at the end of current year.*

### Balance Sheet:

Balance sheet is the statement that shows resources held in the form assets and the liabilities owed on a particular date by a non-trading organisation. It is prepared at the end of accounting year to show the financial position of non-trading or profit organisations as well as business organisation.

### Opening Balance Sheet:

Opening balance sheet is summary of assets and liabilities in the beginning of the year. It is prepared for calculating opening capital fund. It is prepared from the additional information and receipts and payment account. All the assets and liabilities of last year are taken into account in the preparation of opening balance sheet. Opening capital fund is the difference between the amount of assets and liabilities.

## 8.13 Format of Balance Sheet

XYZ Trust/Organisation			
Balance Sheet			
For the Year ended Dec. 31, 201X			
Liabilities	Amount	Assets	Amount
<b>Capital Fund*</b> .....		<b>Non Current Assets:</b>	
Add: Capital Receipt:		Playground	
(i) Donation .....		Building .....	
(ii) Life membershi fees .....		Less: Accum. Dep: ....	.....
(iii) Entrance Fees .....		Plant & Machinery .....	
(iv) Legacy .....		Add: Purchase .....	
Add: Surplus .....		Less: Sale .....	
Less: Deficit .....	.....	Less: Accum. Dep: ....	.....
<b>Restrcited or Special Donaion:</b>		Furniture .....	
Donation for Building .....		Less: Depreciation .....	.....
Donation for Equipment .....		Motor Vehicles .....	
Donation fo Books .....		Less: Depreciation .....	.....
Donation for Matches .....		Other Equipments .....	
<b>Restrcited or Specific Fund:</b>		Less: Depreciation .....	.....
Tournament Fund .....		Library Books .....	
Construction/building Fund .....		Less: Depreciation .....	
Endowment Fund .....		<b>Investment:</b>	
Prize Fund .....		Investment in Bonds &	
Government Grants .....		Securites .....	.....
<b>Non Current Liabilities:</b>		Fixed Deposits .....	.....
Bank Loan .....		<b>Current Assets:</b>	
<b>Current Liabilities:</b>		Stock of Material & Supply .....	.....
Outstanding Expense .....		Prepaid Expense .....	.....
Advance Subscription .....		Debtors .....	.....
Advance Income .....		Accrued Subscription .....	.....
Creditors .....		Accrued Incomes .....	.....
Bank Overdraft .....		Cash at Bank .....	.....
Other current Liabilities .....	.....	Cash in Hand .....	.....
	.....		.....

## 8.14 Additional information or adjustments:

Adjustments are unrecorded events or transactions of non-trading organisation. Since every transaction have two sides effect according to accounting principle. Every adjustment, therefore, has two sides effect on final account of non-trading organisation that is on income and expenditures account and balance sheet. These adjustments are related to the following items:

- ✓ *Outstanding expenses*
- ✓ *Prepaid expenses*

- ✓ *Accrued income/income earned but not received*
- ✓ *Advance incomes*
- ✓ *Last year's expenses:*
- ✓ *Last year's incomes:*
- ✓ *Revenue and capital expenditure*
- ✓ *Profit or Loss on sale of assets*
- ✓ *Depreciation on fixed assets*
- ✓ *Receipts from sale of newspaper, magazines and periodicals*

### **Adjustment for Outstanding Expenses**

The expenses which are incurred but not paid during the accounting period are called outstanding expenses. These are the expenses from which services or goods have been received but amount is not yet paid. Current year outstanding expenses are shown in income and expenditure account.

### **Adjustment for Prepaid Expenses:**

The expenses which has been paid in advance but its benefits is yet to be received for goods or services. In other words, prepaid expenses related to future accounting period. Prepaid expenses at beginning is added and at end deducted from expenses of current year expense and balance is shown in income and expenditure account. It is current assets and shown in balance sheet.

### **Adjustment for Accrued incomes/outstanding incomes**

The income earned but not received is known as accrued incomes. The adjustment of outstanding incomes is to show such income for current period and also present such income under the balance sheet as current assets.

### **Advance income/ unearned incomes**

The income which is not earned but received in advanced is known as advance income. For example, subscription received in advance for next year or future period of time. Such unearned income is subtracted from subscription money received on the basis of matching principles and are to be shown as current liabilities if such income is expected to be expired within one year.

### **Adjustment for Last year Expenses**

#### **1. Outstanding Expense**

The expenses which were incurred in previous year but could not be paid in the previous year. Such expenses are expected to be paid during the current year.

#### **2. Last year prepaid expense**

The expenses paid in advance in the previous year though not incurred in last year. These are expected to be incurred in current year. Thus, it is to be shown as current year expense in income and expenditure account and current assets in beginning balance sheet.

## Adjustment for Last year income

### 1. Accrued income

The income earned in the last year but not received, such income would be received during the current year. Thus, accrued income of last year if received in current year is to be subtracted from current year such revenue in income and expenditure account and to be shown in beginning balance sheet as current assets.

### 2. Advance income of last year

The income which was received but not earned in last year is known as advance income of last year. The advance income received in last year is actually income of current year and therefore it is shown in current year income and expense account and as current liability in the beginning balance sheet.

## Capitalization of revenue incomes

Sometimes the revenue income like entrance fees, general donation etc. may be transferred to capital fund partially or fully.

### Profit or loss on sale of fixed assets

If selling price of the assets is more than its book value on the date of sale, then the excess of selling price over the book value is known as profit on sales of fixed assets. Such profit on sale of assets is shown on the credit side as profit on sale of assets and the book value of assets together with accumulated depreciation is removed from balance sheet. On the other hand, if selling price is less than the book value of assets, then the shortage is known as loss on sale of fixed assets. Such losses are shown on the debit side of income and expenditure account.

### Depreciation Expense

The reduction in value of fixed assets due to its use or wear and tear is known as depreciation expense. It is revenue expenses and it is shown on the debit side of income and expenditure account. Due to depreciation expenses, there is reduction in the value of fixed assets. Thus, the accumulated depreciation is subtracted from fixed assets and net fixed assets is shown in the closing balance sheet. The assets held in the beginning of the current year are shown in the beginning balance sheet.

## Receipts from sale of newspapers, magazines and periodicals



The amount receipts from sale of newspapers, magazines and periodical are treated as revenue receipts as these are recurring in nature so credit to income and expenditure account. Though these receipts are insignificant still they are presented in the final accounts of non-trading and profit organisation. These items are different from the books which are treated as assets and capital expenditure.

### Example 5

The following Receipts and Payment account is prepared by Red Cross Society for the year ended Dec. 31, 2019.

**Red Cross Society**  
**Receipts and Payment Account**  
**For the year ended Dec. 31, 2019**

<b>Receipts</b>	<b>Amount</b>	<b>Payment</b>	<b>Amount</b>
To Balance b/d:		By Utilities Expense	5,000
Cash 35,000		By Salaries Expense	45,000
Bank 50,000	85,000	By Honorarium	15,000
To Donation	25,000	By Computer	30,000
To Subscription	20,000	By Rent Expense	7,500
To Life Mem. fee	15,000	By Furniture	4,000
To Interest on Bond	1,000	By Supply	6,000
To Entrance Fees	10,000	By Bonds	20,000
		By Balance c/d:	
		Cash-	8,500
		Bank-	<u>15,000</u>
			23,000
	<b>1,56,000</b>		<b>1,56,000</b>

### Additional Information:

- Subscription Received includes ₹ 2,000 for 2020 and ₹3,000 for 2018.
- Subscription Outstanding on Dec. 31, 2019 is ₹ 4,000
- Subscription received in advance in 2018 is ₹1,000 that is subscription for 2019.
- Computer was Purchased on April 1, 2019 and Furniture on 1 July 2019.
- The Society had other fixed assets ₹150,000 as on Jan. 1 2019.
- Depreciation Rate on Fixed Assets and Furniture is 10% per year and on Computer 15% per Year.
- The Govt. Bonds is purchased on 1 July 2019 and rate of interest is 12% per year.
- Outstanding Salary is ₹ 5,000 for 2019 and Donation is general Donation.

From the above information Prepare Income and Expenditure account of Red Cross Society.

### Solution.

**Red Cross Society**  
**Income and Expenditure Account**  
**For the year ended Dec. 31, 2019**

Expenditure	Amount	Income	Amount
To Utilities Expense	₹ 5,000	By Subscription*	₹ 20,000
To Salaries Expense 45,000		By Donation	25,000
Add: O/S salary <u>5,000</u>	50,000	By interest received 1,000	
To Honorarium	15,000	Add: Accrued Interest 200	1,200
To Rent Expense	7,500	By Deficit (Excess of	
To Supply Expense	6,000	Expense over Income)	54,850
To Depreciation Expense			
Other F Assets 15,000			
Furniture 300			
Computer <u>2,250</u>	<u>17,550</u>		
	<b>₹1,01,050</b>		<b>₹1,01,050</b>

### Working Notes.

#### Computation of Subscription:

Subscription received in 2019:	₹ 20,000
Less: advance subscription received for 2020	- (3,000)
Less: Arrears of subscription received for 2018.	- (2,000)
Add: Subscription received in advance in 2018	+ 1,000
Add: Outstanding subscription at end for 2019	<u>+ 4,000</u>
Subscription to be shown for the year 2019	<u>₹20,000</u>

#### Computation of Depreciation:

Depreciation on other Fixed Assets = ₹150,000 × 10% × 1 = ₹15,000  
 Depreciation on Furniture = ₹4,000 × 10% × 9/12 = ₹300  
 Depreciation on Computer = ₹30,000 × 15% × 6/12 = ₹2,250  
 Total Depreciation = ₹15,000 + 300 + 2,250 = ₹17,550

### Example 6

The following Receipts and Payment account of recreation club for the year ended Mar. 31, 2018.

#### Recreation Club Receipts and Payment Account For the year ended Mar. 31, 2018

Receipts	Amount	Payment	Amount
To Balance b/d	₹ 31,000	By Charity Expense	₹ 10,000
To Subscription	1,80,000	By Salaries Expense	2,20,000
To Legacy	40,000	By Printing & stationery	6,000
To Endowment Fund	2,00,000	By Postage	1,000
To Locker Rent	50,000	By Rent Expense	15,000
To Interest on Investment	15,000	By Upkeep of ground	20,000
To Proceed from Sports	45,000	By Sports Materials	100,000
To Sale of newspapers	5,000	By Internet & telephone	34,000
		By Investment in security	150,000
		By Balance c/d:	10,000
	<b>5,66,000</b>		<b>5,66,000</b>

### Additional Information:

(i) The assets and liabilities were as follows:

Items	Mar.31, 2017	Mar.31, 2018
Land & Building	₹ 5,00,000	₹ 5,00,000
Furniture and Fittings	₹ 50,000	₹ 40,000
Outstanding Subscriptions	20,000	₹ 14,000
Advance Subscriptions	₹ 5,000	₹ 14,000
Stock of Sport Materials		₹10,000

(ii) Legacies received is to be capitalised.

(iii) Investment in securities was made on May 1, 2018 at 12 % interest per year.

(iv) Stock of sport material is used during the year is ₹90,000.

(v) Depreciation is charged on Furniture on Straight line method @ 20% per year.

Prepare Income and Expenditure account and Balance sheet for the year ended March 31, 2018.

### Solution

#### Recreation Club Income & Expenditure Account For the year ended Mar. 31, 2018

Expenditure	Amount	Income	Amount
To Salaries Expense	₹2,20,000	By Subscriptions (W.N1)	₹1,65,000
To Charity Expense	10,000	By Locker Rent	50,000
To printing & stationary	6,000	By Proceeds from sports	45,000
To Postage Expense	1,000	By Sale of newspapers	5,000
To Ren Expense	15,000	By Int. on Invest. 15,000	
To Upkeep of ground	20,000	Add: Accrued	
To Sports material used	90,000	Interest-(W. N2) <u>1,500</u>	16,500
To Internet & telephone	34,000	By Deficit	124,500
To Depreciation on Furniture	<u>10,000</u>		
	<u>₹4,06,000</u>		<u>₹4,06,000</u>

#### Recreation Club Balance Sheet For the year ended Mar. 31, 2018

Liabilities	Amount	Assets	Amount
Capital Fund (W.N3) <b>₹ 5,96,000</b>		Land & Building	₹5,00,000
Add: Legacy <b>₹ 40,000</b>		Furniture & Fit. 50,000	
Less: Deficit <b>₹ 124,500</b>	₹ 5,11,500	Less: Dep. Exp. <u>10,000</u>	40,000
Endowment Fund	2,00,000	Investment in security	150,000
Advance Subscriptions	14,000	Stock of Sport Materials	10,000
		Accrued Interest	1,500
		Accrued subscription	14,000
		Cash	10,000
	<u>₹7,25,500</u>		<u>₹7,25,500</u>

### Working Notes

#### W.N 1. Subscriptions to be shown in income and expenditure account

Subscription received in 2018:	₹ 1,80,000
Less: Advance subscription at the end of 2018	(14,000)
Less: Outstanding subscription at the end of 2017	(20,000)
Add: Advance Subscription at the end of 2017	5,000
Add: Outstanding subscription at end for 2018	<u>14,000</u>
Subscription to be shown for the year 2019	₹1,65,000

#### W.N 2. Accrued Interest on Investment in securities:

Interest earned on Investment = ₹ 150,000 × 12/100 × 11/12 = **₹16,500**

Interest received on security = ₹15,000 (Given in receipts & payments account)

Accrued/outstanding Interest = ₹16,500 – ₹15,000 = **₹1,500**

#### W.N 3. Computation of Capital Fund

##### **Recreation Club**

##### **Balance Sheet**

**For the year ended Mar. 31, 2017**

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
Capital Fund (Bal. Fig.)	<b>₹5,96,000</b>	Land & Building	₹5,00,000
Advance Subscription	5,000	Furniture & Fittings	50,000
		Outstanding subscription	20,000
		Cash in Hand	<u>31,000</u>
	<u><b>₹6,01,000</b></u>		<u><b>₹6,01,000</b></u>

Depreciation on Furniture = ₹50,000 × 20% = **₹10,000**

**Sport Material Consumed** = Opening Stock + Purchase – Closing Stock  
= ₹ 0 + ₹1,00,000 - ₹10,000 = **₹ 90,000**

**References:**

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