

Accounting for Not-for-Profit Organisations

Introduction and Distinction with Profit Making Organisations

Objectives

After going through this lesson, you shall be able to understand the following concepts.

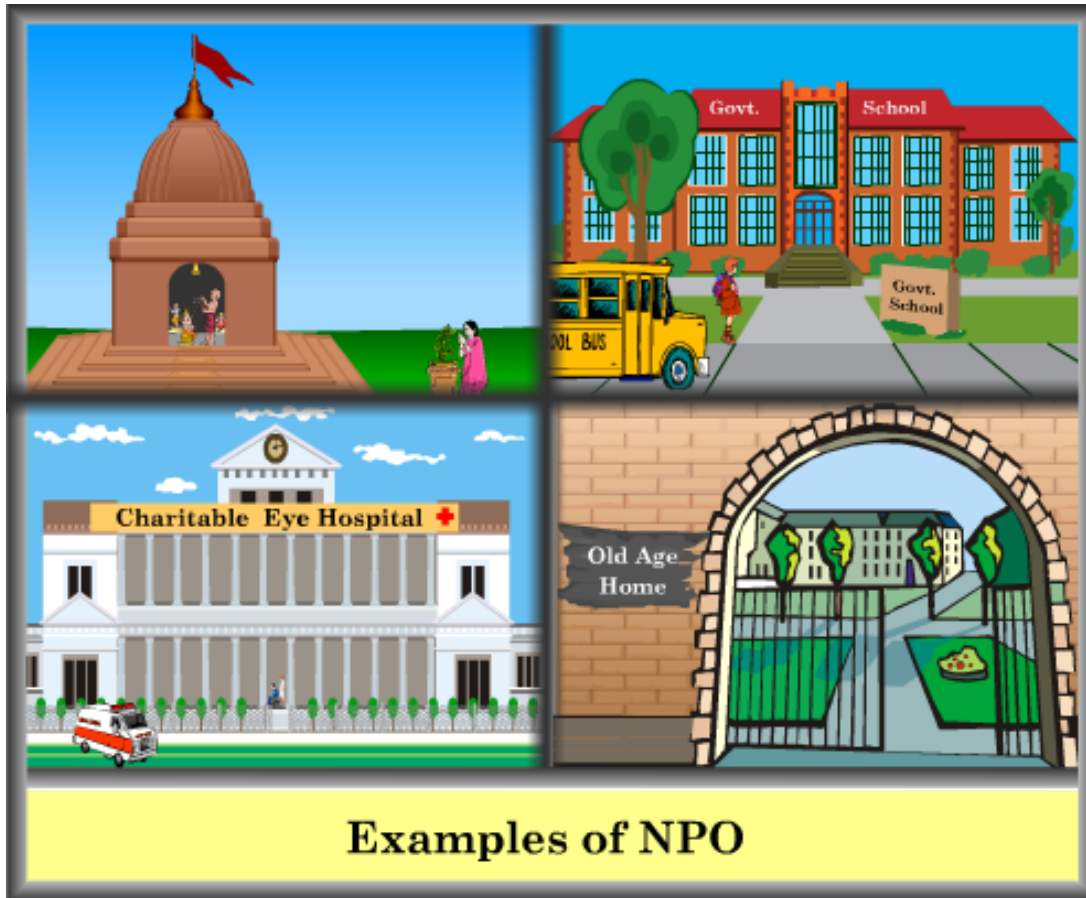
- Meaning of Non-Profit Organisations
- Features of Non-Profit Organisations
- Distinction between Profit-Making Organisations and Non-Profit Organisations

Introduction

In this chapter, our main focus will be on Not-for-Profit Organisations or Non-Profit Organisations (NPOs hereafter). These are the organisations, which unlike a sole proprietor do not operate with the prime motive of earning profits. These organisations run with the basic motive of serving the society. In this way, these organisations render services to enhance the society's welfare. In this lesson and the subsequent lessons, we will learn more about these organisations and how they maintain their books of accounts.

Meaning of NPOs

As learnt in the above section, NPOs are formed with the basic motive of rendering services and with the welfare-motive. A few examples of NPOs are charitable trusts, hospitals, schools, temples, social clubs and sports clubs. These organisations are managed and governed by the person(s) who are known as *trustees*.



How do NPOs sustain?

At this stage, you might think how NPOs can survive, as they do not earn profit. Well, this should not be misunderstood as NPOs operate for the welfare motive, so they do not earn profit. Infact, such organisations do have earnings in form of subscriptions and donations that they get from their members and other public. For all NPOs, subscriptions and donations constitute the basic source of income. For instance, think of a temple or a gurudwara, which gets donations and subscriptions from its devotees. These amounts are then used by the temple to meet its various expenses. Similarly, there are many other NPOs such as, sports clubs, social clubs, schools, etc. providing various services.

It should be noted that besides rendering services to the society, sometimes, *NPOs also carry-out trading activities*. For example, a cricket club may have a canteen being run in its premises. In this way, the club will be earning profit by selling confectioneries in the canteen. The profit so earned cannot be taken-up by the trustees. In fact, this profit will only be utilised for achieving the goals and the betterment of the organisation.

Features of NPOs

The given below are the various features of NPOs.

- i. **Welfare-Motive Objective-** The prime motive to set-up a NPO is to render services to its members and to the society. In this way, a NPO aims at enhancing the social welfare.
- ii. **Separate Legal Entity-** NPOs have a separate legal entity. This entity means that a NPO is different from its members or trustees. This implies that NPO remains unaffected by the death of existing members and/or admission of new members. In different words, a NPO is treated as an artificial person.
- iii. **Income Sources-** The main sources of income of NPOs are subscription from its members, entrance and admission fees, donations and grants.
- iv. **Books of Accounts-** These organisations maintain their books of accounts in form of Receipts and Payments Account, Income and Expenditure Account and Balance Sheet.
- v. **Form-** These organisations are established in the form of trusts, charitable institutes or clubs that aims at promoting the welfare of the society.



Profit making Organisations *versus* Not-for-Profit Organisations

We are now in a position to distinguish between both the types of organisations- Profit making and Not-for-profit. The differences are tabulated below.

Basis of Distinction	Profit-making Organisations	Not-for-Profit Organisations
Prime Objective	To earn profits	To render services to its members and the society
Source of Income	Main source of income is sale and purchase of produced goods and services	Main source of income is donations, subscriptions, entrance fees, grants, etc.
Funds	Funds consist of capital contributed by the owners, accumulated profits and reserves	Funds consist of capital/general funds (donations, grants, subscriptions, etc.)
Profit or Loss v/s Surplus or Deficit	The final net result of these organisations is expressed as profit or loss.	The final net result of NPOs is expressed as surplus or deficit.
Performance	Performance of these organisations is assessed by profit or loss that is revealed by Profit and Loss Account	Performance of these organisations is assessed by surplus or deficit revealed by Income and Expenditure Account
Financial Statements	Financial statements of these organisations comprise of: • Trading Account • Profit and Loss Account • Balance Sheet	Financial statements of these organisations comprise of: • Receipts and Payments Account • Income and Expenditure Account • Balance Sheet
Distribution of Profit or Bearing of Loss	Profit (or loss) is distributed (or borne by) among the owners of the	Surplus (or deficit) is not distributed among the members of the

Receipts and Payments Account

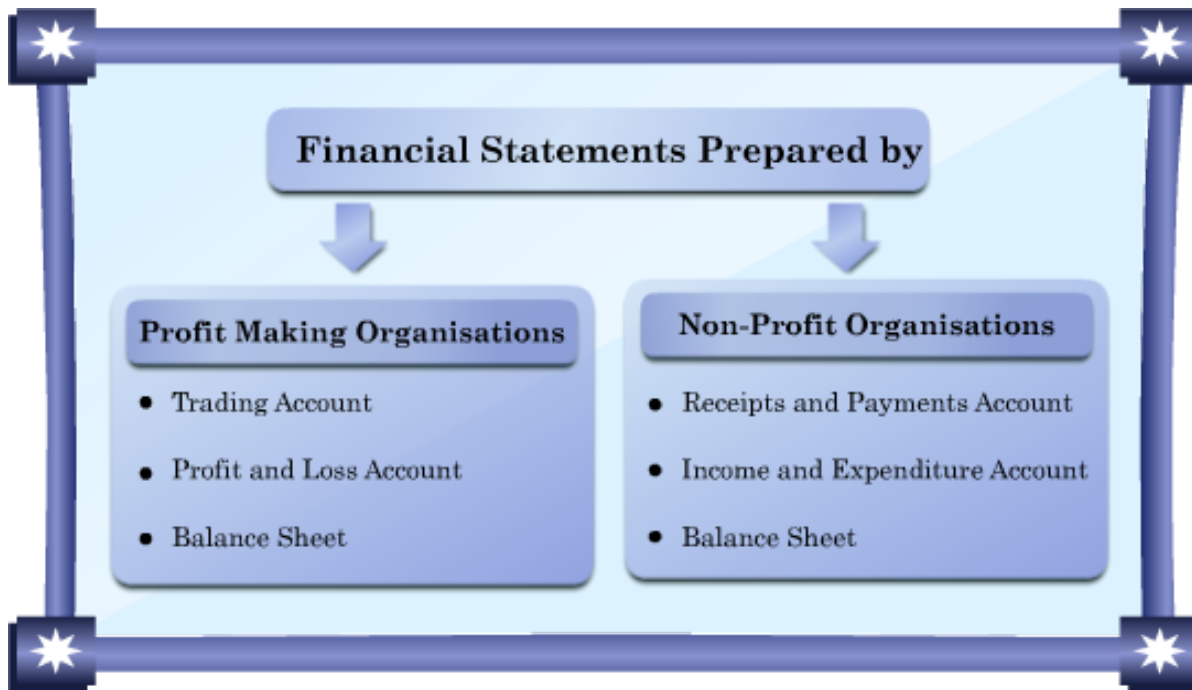
Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Receipts and Payments Account
- Features of Receipts and Payments Account
- Format of Receipts and Payments Account
- Difference between Receipts and Payments Account and Cash Book

Introduction

Till now, we know that Profit-making organisations run with the basic motive of profit earning and NPOs run with the prime motive to render services. Thus, as there exists differences in the objectives of the two, so obviously there exists a difference in the manner each of these two maintain their financial books. This difference has been diagrammatically presented below.



In this lesson, we will be focusing primarily on the concept and format of Receipts and Payments Account.

Receipts and Payments Account

Basically, this account records all the cash and bank transactions of a NPO during a particular accounting period. It is prepared with the help of cash book; therefore, often this account is regarded as a *summarised version of a Cash Book*. It starts with the opening cash/bank balance and ends with the closing balance of cash/bank. All the cash receipts are recorded on the Receipts side (i.e. on the debit side) and all the cash payments are recorded on the Payments side (i.e. on the credit side) of this account. It is prepared on the cash basis and records all the cash and bank transactions of both capital and of revenue nature. In addition, this account not only records the cash and bank transactions related to the current (or the present) accounting period, but also records the cash and bank transactions related to the previous year and that of the next year as well.

Receipt and Payments Account as defined in the words of William Pickles, "*Receipts and Payments Account is nothing more than a summary of the Cash Book (Cash and Bank transactions) over a certain period, analysed and classified under suitable headings. It is the form of account most commonly adopted by the treasures of societies, clubs, associations, etc. when preparing the results of the year's working.*"

Features of Receipts and Payments Account

The given below are the various features of Receipts and Payments Account.

- i. **Nature-** It is a real account. As per the rule of real account "*Debit what comes in and Credit what goes out*" all the cash receipts are debited and all the cash payments are credited to this account.
- ii. **Nature of Transactions-** This account records only cash and bank transactions (i.e. monetary transactions). The non-monetary transactions such as depreciation, profit/loss on sale, etc. are not recorded in this account.
- iii. **Capital and Revenue Items-** It records all the cash/bank transactions irrespective of their nature. That is, both capital as well as revenue nature transactions are recorded in this account.
- iv. **Period-** It records all the cash/bank transactions irrespective of the time period. That is, whether the particular transaction is related to previous, current or next year, all are recorded in this account.
- v. **Opening and Closing Balance-** It begins with the balance of cash and bank in the beginning of an accounting year (i.e. opening balance) and ends with the balance of cash and bank at the end of an accounting year (i.e. closing balance).
- vi. **Adjustments-** It records only actual cash receipts and payments during an accounting period. This means, any adjustments of expenses or income that is still to be paid or received is not recorded in this account. Similarly, any expenses or incomes that are paid or received in advance are also not considered while preparing this account.
- vii. **Aim-** It reveals the cash position of an NPO. This helps in ascertaining the closing balance of cash/bank at the end of an accounting period.

What are the Capital and Revenue Nature Transactions?

We all our quite familiar with the types of transactions. In the chapter of financial statements, we have already learnt about the capital and revenue transactions. Let's have a quick review of these terms once again.

Capital Transactions can either be Capital Expenditure or Capital Receipts	
Capital Expenditure	Capital Receipts
The benefits of this expenditure can be derived for a longer period of time, <i>say</i>, for a period more than a year.	These receipts are generally not frequently received.
Such expenditure is incurred to acquire fixed assets and to enhance the value of existing	These are very specific in nature and are always prefixed by the purpose of the receipts. <i>For example</i>, donation

fixed assets. <i>For example</i> , Building purchased, Investment made, etc.	for building, school development grant, etc.
• This expenditure is not incurred frequently.	• These receipts cannot be utilised for any purposes other than what they are meant for.
<i>Revenue Transactions can either be Revenue Expenditure or Revenue Receipts</i>	
Revenue Expenditure	Revenue Receipts
• The benefits of such expenditure can be derived for a shorter period of time, <i>precisely</i> , within one year.	• These receipts are frequently received.
• Such expenditure is incurred on regular basis to carry out the normal business activities. <i>For example</i> , electricity charges, rent and taxes, etc.	• These receipts are received in conduct of the ordinary and day-to-day business activities. <i>For example</i> , subscriptions, entrance fees, dividend received, etc.

Format of Receipts and Payments Account

The given below is the format of Receipts and Payments Account.

Receipts and Payments Account <i>for the year ending...</i>			
Dr.			Cr.
Receipts	Amount Rs	Payments	Amount Rs
Balance b/d: (<i>Balance in the Beginning</i>)		Balance b/d (<i>Balance in the Beginning</i>)	
Cash in Hand		(Bank Overdraft)	
Cash at Bank		Capital Payments:	
Capital Receipts:		Purchase of Fixed Assets	

Life Membership Fees		Purchase of Equipment	
Specific Donation		Purchase of Investments	
Sale of Investments		Government Bonds	
Sale of Fixed Assets		Government Securities	
Legacies		Fixed Deposits	
Endowment Fund		Repayment of Loan	
Entrance Fees (<i>Capital Nature</i>)		Revenue Payments:	
Revenue Receipts:		Salaries	
Subscriptions (Previous, Current and Next Years')		Rent, Rates and Taxes	
Sale of Old Newspapers/ Periodicals/Waste Papers		Wages and Salaries	
Locker Rent		Insurance	
Sale of Old Sports Material		Audit Fees	
Interest on Fixed Deposit		Advertisement Expenses	
Interest/Dividends on Investment		Postage and Courier	
Sale of Scraps		Printing and Stationery	
Sundry Incomes		Sundry Expenses	
Tuition Fees		Telephone Expenses	
General Donation		Conveyance	
Proceeds from Charity Show		Repair and Renewals	
Grant (Grant-in-aid)		Entertainment expenses	
Miscellaneous Receipts		Honorarium	
Collection from Annual Function		Electric Charges	
Entrance Fees (<i>Revenue Nature</i>)		Upkeep of Ground	
		Maintenance Expenses	
		Petty Cash Payment	
**Balance c/d (<i>Balance at the end</i>)		Expenses on Annual Function	
(Bank Overdraft)		Newspaper and Periodicals	
		*Balance c/d: (<i>Balance at the end</i>)	
		Cash in Hand	
		Cash at Bank	

* If the Receipts Side is more than the Payments Side then, Closing balance of cash and bank will appear on the **Credit Side** of this account.

**** If the Payments Side is more than the Receipts Side then, Closing balance of bank (*as Bank overdraft*) will appear on the *Debit Side* of this account.**

Example 1: From the following information of Manya Club prepare Receipts and Payments Account for the year ending December 31, 2013.

Subscription Rs 42,540, Donation received Rs 12,540, Printing and Stationery expenses Rs 4,120, Rates and taxes Rs 2,400, Honorarium to secretary Rs 6,500, Telephone expenses Rs 1,860, General expenses Rs 410, cash as on January 01, 2013 Rs 2,100, Investment @10% Rs 40,000, Interest received on investments Rs 3,200.

Solution

Receipts and Payments Account for the year ending December 31, 2013			
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Printing and Stationery Expenses	4,120
Cash	2,100	Rates and Taxes	2,400
Subscription Received	42,540	Honorarium to Secretary	6,500
Donation Received	12,540	Telephone Expenses	1,860
Interest received on Investments	3,200	General Expenses	410
		Investment @10%	40,000
		Balance c/d	
		Cash (<i>Balancing Figure</i>)	5,090
	60,380		60,380

Example 2: From the following particulars of Jazz Club, prepare Receipts and Payments Account for the year ending March 31, 2013:

Particulars	Amount (Rs)
Entrance Fees Received	12,000
Rent Paid	6,800
General Donation Received	8,200
Donation Received for Building Fund	10,000
Cash in Hand as on April 01, 2012	5,200

Cash at Bank as on April 01, 2012	12,650
12% Investment purchased on Oct.01, 2012	20,000
Interest on Investment Received	600
Salaries and Wages	2,320
Insurance Premium paid (including prepaid insurance of Rs 200)	970
Books Purchased	5,480
Electricity Expense paid (including outstanding expenses of Rs 540)	2,880
Furniture Purchased	12,000
Profit on Sale of Scooter (Book Value 5,000)	1,200
Subscription Received	
2011-12	4,100
2012-13	7,000
2013-14	4,450
Depreciation on Motor Car @10%	5,600
Travelling Expenses	550
Cash in Hand as on March 31, 2013	4,860

Solution

Receipts and Payments Account <i>for the year ending March 31, 2013</i>			
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Rent Paid	6,800
Cash	5,200	12% Investment	20,000
Bank	12,650	Salaries and Wages	2,320
Subscription Received		Insurance Premium paid	970
For 2012	4,100	Books Purchased	5,480
For 2013	7,000	Furniture Purchased	12,000
For 2014	4,450	Electricity Expense	2,880
	15,550	Travelling Expenses	550
Donation Received for Building Fund	10,000	Balance c/d	
General Donations Received	8,200	Cash	4,320
Interest on Investment Received	600	Bank (<i>Balancing Figure</i>)	15,080
Sale of Scooter (5,000 + 1,200)	6,200		
Entrance Fees Received	12,000		

	70,400		70,400

Difference between Receipts and Payments Account and Cash Book

Although both Receipts and Payments Account and Cash Book records the cash transactions but there also exists certain differences between the two. These differences are given below.

Basis of Distinction	Receipts and Payments Account	Cash Book
Basis of Preparation	Cash book is the main basis of its preparation.	Each cash receipt and cash payment is the basis of its preparation.
Statement or Account	It can be regarded as 'statement' rather than an 'account'. Unlike ordinary accounts, it does not have Date and Ledger Folio columns.	It can be regarded as an 'account' as it can be used both as journal as well as ledger and its balances are directly shown in the Balance Sheet.
Period	It is a summary of Cash Book and is prepared at the end of an accounting period.	It is prepared or maintained on daily basis.
Date Column	Date column is not present because it shows the summary of receipts and payments.	Date column is present as it shows detailed records of cash receipts and payments date-wise.
Two Sides	The two sides of this account are Receipts Side and Payments Side.	The two sides of this account are debit side and credit side.
Objective	Its main objective is to provide summary of all the cash transactions.	Its main objective is to provide a detailed date-wise record of each and every cash transactions.
Organisations	It is prepared by NPOs.	It is prepared by both NPOs as well as profit-making organisations.

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Income and Expenditure Account

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Income and Expenditure Account
- Features of Income and Expenditure Account
- Distinction between Receipts and Payments Account and Income and Expenditure Account
- Similarity between Income and Expenditure Account and Profit and Loss Account
- Distinction between Income and Expenditure Account and Profit and Loss Account
- Format of Income and Expenditure Account

Introduction

We know that it is very important for any type of organisation to ascertain its financial performance and vitality at the end of an accounting period. Obviously, this does hold for a NPO too, but with a slight difference. The financial results of a NPO are expressed in terms of surplus or deficit. These two terms are quite exclusive particularly for the NPOs (as these terms are not used in the context of the profit-making organisations). Therefore, in order to ascertain '**surplus**' or '**deficit**', we need to prepare a separate account named as *Income and Expenditure Account*. In this lesson, we will tackle different aspects of this account.

Income and Expenditure Account

Income and Expenditure Account (I&E A/c, hereafter) is prepared with the help of the Receipts and Payments Account that is given to us in a question. It is prepared by following the rule of Nominal Account i.e. *debit all the expenses and losses; credit all the incomes and gains*. In order to prepare I&E A/c from a given R&P A/c, we transfer all the expenses (only of revenue nature) from the '**Payments**' side of the R&P A/c to the '**Expenditure**' side (or the Debit side). On the other hand, we transfer all the incomes (only of revenue nature) from the '**Receipts**' side of the R&P A/c to the '**Income**' side (or the Credit side) of I&E A/c. This is shown in the figure below:

Receipts and Payments A/c			
Dr.			Cr.
Receipts	Amount	Payments	Amount
Capital Receipts		Capital Payments	
Revenue Receipts		Revenue Payments	

Income and Expenditure A/c			
Dr.			Cr.
Expenditure	Amount	Income	Amount
Revenue Payments		Revenue Receipts	

Note

- Capital Receipts and Capital Payments are not transferred to the I & E A/c from R & P A/c.

In the above figure, we can observe that in the I&E A/c, we transfer only the items of revenue nature, which are ***related to the current year only***. This automatically means that we do not transfer the items of the capital nature to this account. The final result of this account is expressed in terms of ***surplus*** or ***deficit***.

A word of Caution

Words of Caution!!

In the I&E A/c only those transactions are recorded

- + *Which are of Revenue Nature and*
- + *Which are related to the Current Year only*

Thus, on the basis of our discussion till here, we can summarise our understanding on I&E A/c in the following points.

- i. I&E A/c records only revenue nature transactions.
- ii. It is prepared on accrual basis of accounting. That means, all the transactions related to current year are recorded in this account.
- iii. All the revenue expenses of the current year *whether paid or not* are recorded on the Expenditure side of this account.
- iv. All the revenue incomes of the current year *whether received or not* are recorded on the Income side of this account.
- v. Revenue expenses that are *paid in advance* and revenue incomes that are *received in advance* during the year are not recorded in this account.
- vi. Lastly, non-cash transactions such as depreciation, profit or loss on sale of fixed assets, etc. are also recorded in this account.

Features of Income and Expenditure Account

The following are the various features of Income and Expenditure Account.

- i. **Nature of Account-** It is a Nominal Account in nature. The debit side (i.e. expenditure side) of this account records all expenses and losses and credit side (i.e. income side) records all incomes and gains.
- ii. **Basis of Preparation-** It is prepared with the help of Receipts and Payments Account. All the revenue incomes and expenses are transferred from R&P A/c to this account.

- iii. Records Only Current Year's Items-** It records only those transactions that are related to current accounting period. In other words, transactions related to the previous or next year are excluded even if these transactions took place in the current accounting period.
- iv. Ignores Capital Nature Transaction-** It does not record the transactions which are capital in nature such as purchase of fixed assets. Only revenue nature transactions are recorded in this account. For example, if an asset is sold, then only profit or loss on such sale (*if any*) will be recorded in I&E A/c and not the total amount of sale as it's a capital receipt.
- v. Adjustments-** The various cash and non-cash transactions such as outstanding expenses, accrued income, prepaid expenses, income received in advance, depreciation, etc. are considered while preparing this account.
- vi. Akin to Profit and Loss Account-** It is similar to Profit and Loss Account in the sense that while the former is prepared to ascertain surplus or deficit during an accounting period the latter is prepared to ascertain net profit or loss during an accounting period.
- vii. Balancing Figure-** The balancing figure of this account is expressed in terms of either surplus (i.e. excess of income over expenditure) or deficit (i.e. excess of expenditure over income).

Distinction between Receipts and Payments Account and Income and Expenditure Account

The following are the main points of difference between Receipts and Payments Account and Income and Expenditure Account.

Basis of Distinction	Receipts and Payments Account	Income and Expenditure Account
Meaning	It shows summary of all cash transactions along with opening and closing balances of cash and bank during an accounting period.	It shows revenue income earned and revenue expenses incurred during an accounting period.
Nature of Account	Real Account	Nominal Account
Objective	Prepared with the objective to summarise all cash receipts and cash payments of a particular accounting period.	Prepared with the objective to ascertain surplus or deficit arising from revenue incomes and revenue expenses during an accounting period.
Basis	Prepared on the Cash basis.	Prepared on Accrual basis.

Two Sides	Receipts are recorded on the debit side and Payments are recorded on the credit side.	Expenditure is recorded on the debit side and incomes are recorded on the credit side.
Opening Balance	It has an opening balance of cash and bank.	It does not have any opening balance.
Closing Balance	The closing balance reveals the balance of cash and bank at the end of an accounting period.	The closing balance either reveals surplus or deficit.
Nature of Transactions	Records transactions of both nature-revenue as well as capital.	Records transactions of only revenue nature.
Period	Records all the cash transactions whether related to the previous, current or the next year.	Records only those transactions that are related to the current year.
Non-Cash Transactions	Does not record any non-cash transactions.	Records both cash as well as non-cash transactions.

“Income and Expenditure Account is akin to Profit and Loss Account” Why?

Income and Expenditure Account (I&E A/c) is similar to the Profit and Loss Account (P&L A/c) in the sense that the former is prepared by the Not-for-Profit-Organisations and the latter is prepared by the Profit-making Organisations. Both the accounts are prepared on the accrual basis of accounting.

Similar to the P&L A/c, all the expenses and losses pertaining to the current accounting period are recorded on the Expenditure side (debit side) and all the gains and income of the current accounting period are recorded on the Income side (credit side) of the I&E A/c. The balancing figure of the I&E A/c is surplus or deficit and that of the P&L A/c is net profit or net loss. Both the accounts record only revenue items which are related to the current accounting period.

Similarities between Income and Expenditure Account and Profit and Loss Account

Income and Expenditure Account of a NPO is akin to the Profit and Loss Account of a profit earning business in the following manners.

- i. Nature of Account:** Both the concerned accounts are nominal in nature.
- ii. Basis of Recording:** Both the accounts record only revenue expenses and revenue incomes related to the current accounting period. The items of capital nature are ignored while preparing these accounts.

- iii. Period:** Transactions related to current year are recorded in Income and Expenditure account in the same manner in which the Profit and Loss Account is prepared. Transactions related to previous year or next year are excluded.
- iv. Adjustments:** The treatment of adjustments such as outstanding expenses, prepaid expenses, income received in advance, income due but not received, depreciation, bad debts etc. is same as that in case of Profit and Loss Account. Thus, both the accounts are prepared on the accrual basis.

Distinction between Income and Expenditure Account and Profit and Loss Account

The following are the main points of difference between Income and Expenditure Account and Profit and Loss Account.

Basis of Distinction	Income and Expenditure Account	Profit and Loss Account
Summary	Depicts a summarised version of all revenue incomes and revenue expenses of a NPO	Depicts a summary of all revenue incomes and revenue expenses of a profit-making organisation
Motive	To ascertain surplus or deficit	To ascertain net profit or net loss
Basis of Preparation	Prepared on the basis of Receipts and Payments Account	Prepared on the basis of Trial Balance
Net Result	Net result is expressed as surplus or deficit	Net result is expressed as net profit or net loss

Format of Income and Expenditure Account

The given below is the format of Income and Expenditure Account

Income and Expenditure Account <i>for the year ending ...</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Salaries Paid		Subscription Received	
<i>Add:</i> Outstanding for Current year		<i>Add:</i> Received in Last Year for the Current Year	

Less: Payment made for Previous Year	Add: Outstanding for the Current Year	
Less: Payment made for Next Year	Less: Received for the Previous Year	
	Less: Received for the Next Year	
Sports Material/Stationery Consumed	Rent Received	
Opening Stock	Interest on Investments	
Add: Purchases during the year	Dividend Received	
	Government Grant (<i>General</i>)	
Less: Closing Stock	Ground Rent Received	
Wages	Sundry Receipts	
Printing and Stationery	Entrance Fees	
Rent Paid	Admission Fees	
Travelling Expenses	Donation Received (<i>Revenue</i>)	
Conveyance	Restaurant Receipt	
Rates and Taxes	Tennis Receipts	
Insurance Premium	Sale of Old Newspapers	
Audit Fees	Rent from the Use of Hall	
Office Expenses	Sundry Receipts	
Telephone Expenses	Drama Receipts	
Tennis Expenses	Collection from Annual Functions	
Restaurant Expenses	Profit on Sale of Fixed Assets	
Drama Expenses	Deficit** (<i>or Excess of Expenditure over Income</i>)	
Expenses on Annual Function		
Refreshment Expenses		
Medicines Purchased		
Advertisements		
Meeting Expenses		
Honorarium		
Entertainment Expenses		
Gardening Expenses		
Power and Fuel		
Ground Up-keeping Expenses		
Charity Show Expenses		
Repairs and Maintenance		
Electricity Expenses		
Newspaper and Periodicals		
Sundry Expenses		
Canteen Expenses		

Depreciation on Fixed Assets		
Loss on sale of Assets		
Surplus* (<i>or Excess of Income over Expenditure</i>)		

* If Income Side > Expenditure Side, then the Balancing Figure is shown on the Debit side as '**Surplus**'.

** If Income Side < Expenditure Side, then the Balancing Figure is shown on the Credit side as '**Deficit**'.

Steps to Prepare Income and Expenditure Account

The given below are various steps to prepare Income and Expenditure Account (I&E A/c).

Step 1: Firstly, transfer all the revenue expenses of the current year from the Payments Side of R&P A/c to the Expenditure Side (i.e. Debit side) of I&E A/c.

Step 2: Similarly, transfer all the revenue incomes of the current year from the Receipts Side of R&P A/c to the Income Side (i.e. Credit side) of I&E A/c.

Step 3: Then, we adjust the outstanding and the prepaid expenses for the current year to the concerned expenses (that we have recorded in the **Step 1**).

Step 4: Similarly, adjust the accrued income and the income received in advance of the current year to the concerned income (that we have recorded in the **Step 3**).

Step 5: Now, we show the non-cash payments such as depreciation, loss on sale of asset, etc. on the Expenditure Side (i.e. Debit side) of I&E A/c.

Step 6: Next, all the non-cash receipts for example, profit on sale of asset are recorded on the Income Side (i.e. Credit side) of I&E A/c.

Step 7: Lastly, we tally both the sides. If the total of the Income Side (or the Credit side) is **more than** the total of the Expenditure side (or the Debit side), then the balancing figure is regarded as **Surplus**. On the other hand, if the total of the Income Side (or the Credit side) is **less than** that of Expenditure side (or Debit side), then the balancing figure is considered as **Deficit**.

Income side (Credit side)	>	Expenditure side (Debit side)	⇒	Surplus
Or				
Income side (Credit side)	<	Expenditure side (Debit side)	⇒	Deficit

Example 1: From the particulars given below, prepare Income and Expenditure Account of Rajesh Play Club.

Particulars	Amount (Rs)
Subscription Received (<i>for the Current Year</i>)	15,000
Lighting	800
Salary paid	3,200
Entrance Fees	2,600
Interest on Investments	1,560
Donations Received	5,100
Rent paid	2,800
Rates and Taxes	1,050
Drama Expenses	1,220
Collection from Annual Function	2,060
Profit on Sale of Assets	1,040
Ground up-keeping Expenses	850
Newspaper and Periodicals	710
Electricity Expenses	2,350
Conveyance	1,180
Insurance Premium	1,000
Repairs and Maintenance	1,820
Sundry Expenses	990
Drama Receipts	1,940
Locker Rent	2,850

Solution:

Income and Expenditure Account <i>for the year ending ...</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Lighting	800	Subscription Received	15,000
Salary paid	3,200	Entrance Fees	2,600
Rent paid	2,800	Interest on Investments	1,560
Rates and Taxes	1,050	Donations Received	5,100
Drama Expenses	1,220	Collection from Annual Function	2,060
Ground up-keeping Expenses	850	Profit on Sale of Assets	1,040
News paper and Periodicals	710	Drama Receipts	1,940
Electricity Expenses	2,350	Locker Rent	2,850
Conveyance	1,180		
Insurance Premium	1,000		
Repairs and Maintenance	1,820		
Sundry Expenses	990		
Surplus (<i>Excess of Income over Expenditure</i>)	14,180		
	32,150		32,150

Note: Profit on sale of assets is a non-cash income, therefore, it is recorded on the Income side of I&E A/c.

Example 2: From the following information of Maya Club, prepare Income and Expenditure Account for the year ending December 31, 2013.

Subscription received Rs 17,450, Donation received for general purpose Rs 8,060, Rent paid Rs 3,450, Repair Charges Rs 1,250, Honorarium to Polo Coach Rs 7,200, Electricity Expenses Rs 1,080, Wages paid 1,520, Purchased a Horse for Club Rs 15,800, Investment @12% Rs 50,000, Interest received on Investments Rs 4,800, Wages Outstanding Rs 480

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)

Wages paid	1,520		Subscription Received	17,450
Add: Wages Outstanding	480	2,000	Donation Received	8,060
Rent paid		3,450	Interest on Investments	4,800
Repair Charges		1,250	Add: Accrued Interest	1,200
Honorarium to Polo Coach		7,200		6,000
Electricity Expenses		1,080		
Excess of Income over Expenditure (Surplus)		16,530		
		31,510		31,510

Working Note: Calculation of Interest Due on Investment

$$\text{Interest on the Investments} = 50,000 \times \frac{12}{100} = 6,000$$

Note: Interest on investments @ 12% comes to Rs 6,000. During the year interest received is only of Rs 4,800. Therefore, difference of Rs 1,200 (6,000 – 4,800) is yet to be received, so, it is added to the interest on investment as accrued interest on the Income side of the I&E A/c.

Example 3: From the following Receipts and Payments Account of Ra-one Drama Club, prepare Income and Expenditure Account for the year ending December 31, 2013.

Receipts and Payments Account for the year ending December 31, 2013			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Audit Fees	4,850
Cash in Hand	12,000	Office Expense	5,070
Cash at Bank	10,800	Salaries	9,720
Subscription Received	32,460	Expenses of Annual Function	9,210
Restaurant Receipt	8,050	Gardening Expenses	1,270
Collection from Annual Functions	9,460	Ground up-keeping Expenses	2,590
		Newspaper and Periodicals	860
		Restaurant Expenses	9,210
		Electricity Expenses	5,750

		Miscellaneous Expenses	1,820
		Balance c/d	
		Cash in Hand	12,800
		Cash at Bank	10,410
	72,770		72,770

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Restaurant Expenses	9,210	Subscription Received	32,460
<i>Less: Restaurant Receipts</i>	<i>(8,050)</i>	Collection from annual functions	9,460
Audit Fees	4,850	<i>Less: Expenses of annual function</i>	<i>(9,210)</i>
Office Expense	5,070	Excess of Expenditure over Income(Deficit)	380
Salaries	9,720		
Gardening Expenses	1,270		
Ground up-keeping expenses	2,590		
News paper and Periodicals	860		
Electricity Expenses	5,750		
Miscellaneous Expenses	1,820		
	33,090		33,090

Note: Opening and closing balances of cash and bank are not recorded in the I&E A/c.

Example 4: From the following Receipts and Payments Account, prepare Income and Expenditure Account of Kapoor Bros. Welfare Club.

Receipts and Payments Account

for the year ending December 31, 2013

Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Printing and Stationery Expenses	3,250
Cash	4,820	Advertisement Expenses	1,090
Bank	5,760	Salary paid	5,280
Subscription Received	12,050	Electricity Charges	1,120
Entrance Fees (Revenue)	4,060	Medicines Expenses	850
Donation for Building	5,920	Honorarium	4,020
Donation (<i>General</i>)	3,450	Sundry Expenses	1,290
Hire Charges	2,800	Purchase of Furniture	6,450
		Balance c/d	
		Cash	7,210
		Bank	8,300
	38,860		38,860

Solution

Income and Expenditure Account *for the year ending December 31, 2013*

Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Printing and Stationery Expenses	3,250	Subscription Received	12,050
Advertisement Expenses	1,090	Entrance Fees (<i>Revenue</i>)	4,060
Salary paid	5,280	Donation (<i>General</i>)	3,450
Electricity Charges	1,120	Hire Charges	2,800
Medicines Expenses	850		
Honorarium	4,020		
Sundry Expenses	1,290		
Surplus (<i>Excess of Income over Expenditure</i>)	5,460		
	22,360		22,360

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Note 1: Donation for building is a capital receipt, therefore, it is not recorded in the I&E A/c.

Note 2: Similarly, purchase of furniture is capital expenditure, therefore, it is not recorded in the I&E A/c.

Example 5: From the following Receipts and Payments Account, prepare Income and Expenditure Account of Minku Cricket Club.

Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salary paid (<i>for 11 months</i>)	4,400
Cash	2,050	Telephone Expenses	1,620
Bank	3,150	Entertainment Expenses	850
Subscription Received	9,200	Purchase of Investments @ 15%	10,000
Entrance Fees	2,030	Purchase of Books	4,500
Interest on Investments	1,200	Postage and Courier Charges	560
Donation for Tournament Fund	10,230	Repairs and Maintenance	720
		Travelling Expenses	1,070
		Balance c/d	
		Cash	1,080
		Bank	3,060
	27,860		27,860

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)

Salary paid	4,400		Subscription Received		9,200
<i>Add: Salary Outstanding</i>	400	4,800	Entrance Fees		2,030
Telephone Expenses		1,620	Interest on Investments	1,200	
Entertainment Expenses		850	<i>Add: Accrued Interest</i>	300	1,500
Postage and Courier Charges		560			
Repairs and Maintenance		720			
Travelling Expenses		1,070			
Excess of Income over Expenditure (Surplus)		3,110			
		12,730			12,730

Note 1: Donation for Tournament Fund is a capital receipt, therefore, it is not recorded in the I&E A/c.

Note 2: Similarly, purchase of investments and purchase of books are capital expenditure, therefore, these are also not recorded in the I&E A/c.

Balance Sheet- Opening and Closing

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Balance Sheet of a NPO
- Capital Fund in the Balance Sheet

Introduction

In the previous lessons, we learnt the first two financial statements i.e. Receipts and Payments Account and Income and Expenditure Account. In this lesson, we will be focusing on the last financial statement in sequence i.e. Balance Sheet. This statement is the last step of preparing the financial statements of a NPO.

We know that all the revenue nature transactions from R&P A/c are transferred to I&E A/c. But, have you ever thought of what we do with the capital nature transactions? Well!!! In this lesson, we will be basically exploring the answer to this question.

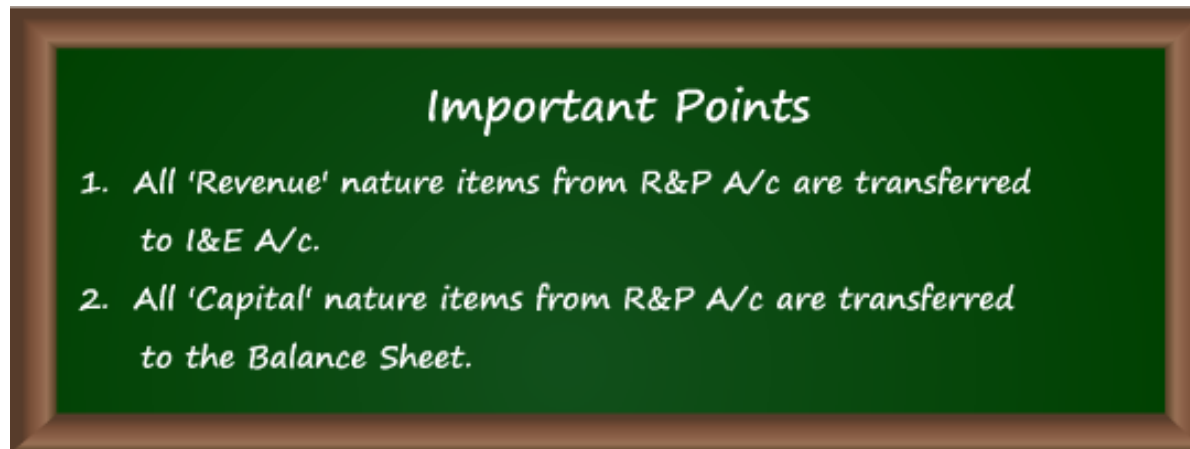
Meaning

The term Balance Sheet is not unheard by all of us. In the chapter of sole proprietorship, we learnt the procedure to prepare Balance Sheet. It reflects the financial position of an organisation in terms of assets and liabilities on any particular date. It also enables us to assess the financial performance and soundness of the organisation.

In case of NPOs, the procedure of preparing Balance Sheet remains the same as that of the sole proprietor. That is why, we show all the assets on the right-hand side, while all the liabilities on the left-hand side of the Balance Sheet.

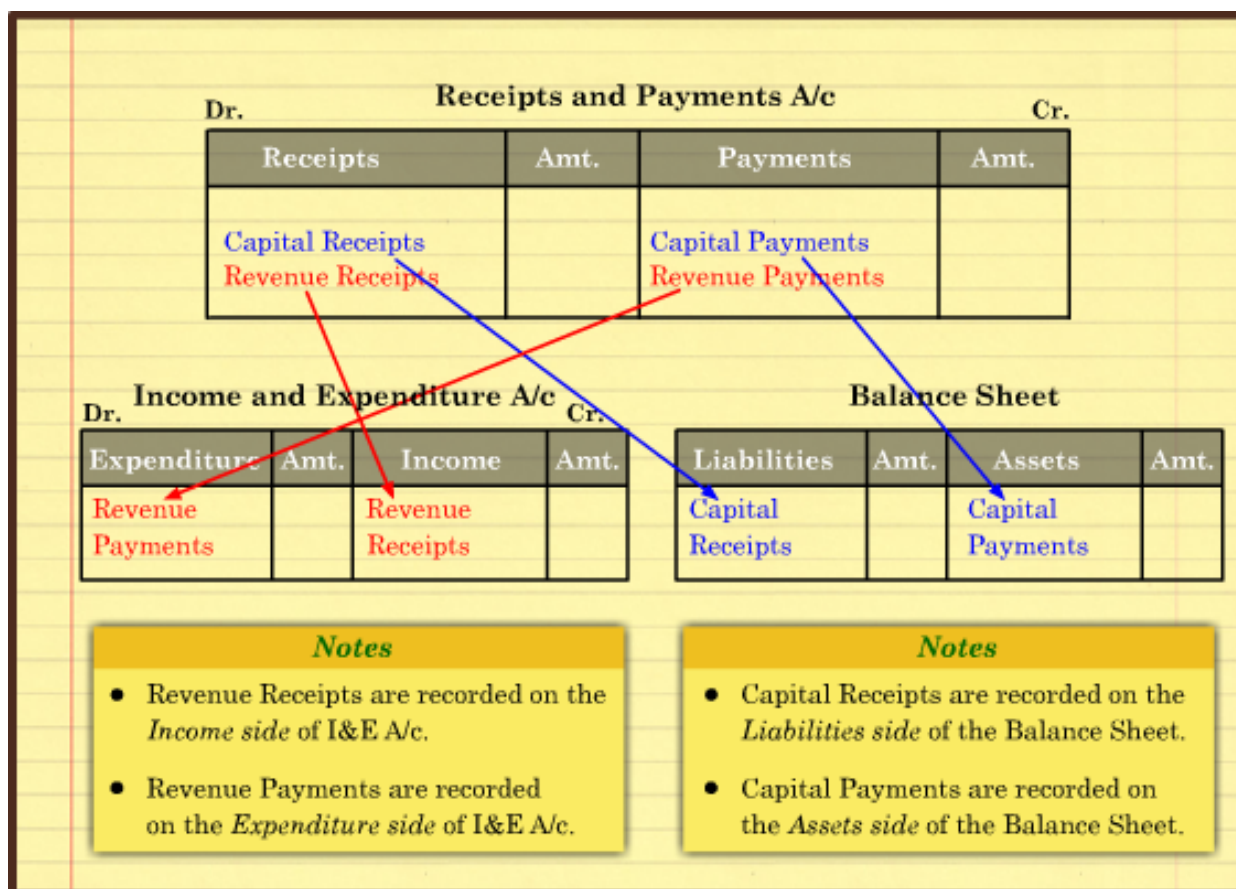
From Receipts and Payments Account to Income and Expenditure Account and Balance Sheet

As already stated above, we know that Balance Sheet is prepared after we have prepared the I&E A/c. Here, in the below figure, we have presented the two main points that should be considered while solving the numerical question of NPO.



From the above figure, the following two points can be concluded.

- All revenue nature transactions from R&P A/c are transferred to I&E A/c and
- All Capital nature transactions from R&P A/c are transferred to the Balance Sheet.



Format of Balance Sheet

The given below is the format of a Balance Sheet of a NPO.

Balance Sheet as on...			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Opening Balance</i>) Add: Surplus Less: Deficit Add: Entrance Fees (<i>Capitalised</i>)		Plant and Machinery Land and Building Books Furniture	

<i>Add: Donation (not specific)</i>		Motor Vehicles	
<i>Add: Life Membership Fees, etc.</i>		Equipment	
Sundry Creditors		Cash in Hand	
Bank Overdraft		Cash at Bank	
Loans		Sundry Debtors	
Specific Donation		Accrued Interest	
<i>Add: Further Donation (during the year)</i>		Prepaid Expenses (<i>Insurance, Salary, etc.</i>)	
Specific Fund (Building Fund, Tournament Fund, etc.)		Income Outstanding (<i>Rent, Subscription, etc.</i>)	
<i>Add: Donation for fund</i>		Loans Granted	
<i>Add: Income/Interest from such Fund</i>		Stock of Sports Materials	
<i>Less: Amount Utilised (during the year)</i>		Stock of Stationery	
Outstanding Expenses (<i>Salary, Rent, etc.</i>)		Government Securities	
Income received in Advance (<i>Rent, Subscription, etc.</i>)		Government Bonds	
		Fixed Deposits	

Example 1: From the following information of Sushant Cricket Club, prepare the Balance Sheet for the year ending March 31, 2013.

Particulars	Amount (Rs)
Land and Building	83,000
Cash in hand	27,000
Stock of Sports Material	20,000
Salaries Outstanding	4,500
Prepaid Insurance	1,500
Subscription Received in Advance for 2013-14	2,000
General Donations Received	10,500
Tournament Fund	25,000
Investments	50,000
Capital Fund	1,50,000

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Solution

Balance Sheet <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund	1,50,000	Land and Building	83,000
Subscription Received in Advance	2,000	Cash in Hand	27,000
Tournament Fund	25,000	Stock of Sports Material	20,000
Salaries Outstanding	4,500	Prepaid Insurance	1,500
		Investments	50,000
	1,81,500		1,81,500

Steps to Prepare Balance Sheet

The following are the various steps to prepare Balance Sheet.

- Step 1:** First of all, we show all the assets of a NPO on the right-hand side (or Assets side) of the Balance Sheet.
- Step 2:** Then, all the liabilities are shown on the left-hand side (or Liabilities side) of the Balance Sheet.
- Step 3:** Thereafter, all the capital payments from the Payments side of the R&P A/c are transferred to the Assets side.
- Step 4:** After this, all the capital receipts from the Receipts side of the R&P A/c are transferred to the Liabilities side.
- Step 5:** Next, we show the outstanding incomes and the prepaid expenses of the current year on the Assets Side.
- Step 6:** In the same way, we show the outstanding expenses and the incomes received in advance on the Liabilities side.
- Step 7:** After this, the balancing figure of the I&E A/c is adjusted to the Capital Fund on the Liabilities side of the Balance Sheet.

- **Surplus is added to the Capital Fund and,**
- **Deficit is deducted from the Capital Fund**

Step 8: Finally, both the sides are totalled. Ideally, both the sides should match. The equality between the two sides ensures the arithmetical accuracy of the solution.

Example 2: The given below is the Receipts and Payments Account of Sachidanand Cricket Club for the year ending December 31, 2013. Prepare Income and Expenditure Account of the Club for the year ending December 31, 2013. Also prepare Balance Sheet as on that date.

Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Balance b/d	
Cash in Hand	4,320	Bank Overdraft	6,400
Subscription Received	15,200	Interest on Bank Loan	6,200
Donation Received	25,000	General Expenses	8,910
Interest on Investments	800	Investments in Govt. Bonds @ 10% (on July 01, 2013)	20,000
Locker Rent	10,450	Furniture Purchased (on April 01, 2013)	8,500
Balance c/d		Sports Equipment Purchased (on Jan. 01, 2013)	7,500
Bank Overdraft	11,600	Advertisement	4,160
		Up-keeping of Ground	3,110
		Balance c/d	
		Cash in Hand	2,590
	67,370		67,370

Other Information:

a. Position of various Assets as on Jan. 01, 2013 was as follows:

Particulars	Amount
--------------------	---------------

	(Rs)
Furniture	20,000
Sports Equipment	15,000
Land	50,000

b. Position of Liabilities and Capital Fund as on Jan. 01, 2013 is as follows:

Particulars	Amount (Rs)
Bank Loan @15%	44,000
Capital Fund	38,920

c. Provide Depreciation on Furniture @ 12% p.a. and on Sports Equipment @10% p.a.

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Advertisement	4,160	Subscription Received	15,200
Up-keeping of Ground	3,110	Donation Received	25,000
Interest on Bank Loan 6,200		Interest on Investments 800	
<i>Add: Outstanding Interest</i> 400	6,600	<i>Add: Accrued Interest</i> 200	1,000
Depreciation on:		Locker Rent	10,450
Furniture (<i>WNI</i>) 3,165			
Sports Equipment (1,500 + 750) 2,250	5,415		
General Expenses	8,910		
Surplus (<i>Excess of Income over Expenditure</i>)	23,455		
	51,650		51,650

Balance Sheet					
as on December 31, 2013					
Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital Fund	38,920	62,375 44,000 400 11,600 <			

Working Note:

WN1: Calculation of Depreciation on the Furniture

$$\text{On Rs 20,000 @12\% for the 12 months} = 20,000 \times \frac{12}{100} = 2,400$$

$$\text{On Rs 8,500 @ 12\% for the 9 months} = 8,500 \times \frac{12}{100} \times \frac{9}{12} = 765$$

$$\text{Total Depreciation on Furniture (2,400 + 765) = 3,165}$$

Example 3: From the given below Receipts and Payments Account of Satyajit Club, prepare Income and Expenditure Account for the year ending March 31, 2013 and the Balance Sheet as on that date.

Satyajit Club
Receipts and Payments Account
for the year ending March 31, 2013

Dr.			Cr.
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salary Paid	8,600
Cash in Hand	4,500	Books Purchased (on July 01, 2012)	12,000
Cash at Bank	8,200	Fixed Deposits @ 8% (On Jan. 01, 2013)	30,000
Subscription Received (2012-13)	58,800	Newspapers Purchased	1,740
Interest Received on deposits	450	Furniture Purchased (on Oct. 01, 2012)	15,000
Rent Received (<i>for 11 months</i>)	7,700	Electricity Expenses	4,860
Tuition Income	1,820	Repairs and Renewals	3,750
General Donations	17,500	Telephone Charges	4,510
		Stationery, Postage, etc.	3,660
		General Expenses	5,890
		Balance b/d	
		Cash in Hand	4,560
		Cash at Bank	4,400
	98,970		98,970

- a. Salary outstanding as on March 31, 2013 amounts to Rs 2,800, which includes Rs 800 for the year ending March 31, 2012. Salary paid includes Rs 1,800 for the previous year i.e. for 2011-12.
- b. Depreciation is to be charged on Books @ 10% p.a. and on Furniture @ 12% p.a.
- c. Value of Assets and Capital Fund as on April 01, 2012:

Particulars	Amount (Rs)
Furniture	10,000
Land	45,000
Capital Fund	65,100

Solution

Satyajit Club Income and Expenditure Account <i>for the year ending March 31, 2013</i>				
Dr.			Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)	
Salaries paid 8,600		Subscription Received (2012-13)	58,800	
<i>Add:</i> Salaries Outstanding for the year 2012-13 (2,800 – 800) 2,000		Interest received on Fixed Deposits (<i>WN2</i>) 450		
<i>Less:</i> Salaries Outstanding for the year 2011-12 (1,800)	8,800	<i>Add:</i> Accrued Interest 150	600	
Newspapers Purchased	1,740	Rent Received 7,700		
Electricity Expenses 4,860		<i>Add:</i> Rent Receivable 700	8,400	
Repairs and Renewals 3,750		Tuition Income	1,820	
Telephone Charges 4,510		General Donations	17,500	
Stationery, Postage, etc. 3,660				
General Expenses 5,890				
Depreciation on:				
Books (<i>WN3</i>) 900				
Furniture (<i>WN4</i>) 2,100	3,000			
Surplus (<i>Excess of Income over Expenditure</i>) 50,910	50,910			
	87,120		87,120	

Balance Sheet <i>as on March 31, 2013</i>				
Liabilities	Amount (Rs)	Assets	Amount (Rs)	
Capital Fund (<i>Opening Balance</i>) 65,100		Cash in Hand	4,560	
<i>Add:</i> Surplus 50,910	1,16,010	Cash at Bank	4,400	
		Fixed Deposits 30,000		
Salaries Outstanding		<i>Add:</i> Accrued Interest 150	30,150	
For 2011-12 800		Rent Receivable	700	

For 2012-13	2,000	2,800	Land		45,000
			Furniture	10,000	
			Add: Purchases	15,000	
				25,000	
			Less: Depreciation (WN4)	(2,100)	22,900
			Books Purchased	12,000	
			Less: Depreciation (WN3)	(900)	11,100
		1,18,810			1,18,810

Working Notes:

WN1: Out of total salary of Rs 2,800 outstanding for the year ending 2012-13, Rs 800 belongs to previous year 2011-12. Therefore, actual salary outstanding for the year ending 2012-13 amounts to Rs 2,000 (2,800 – 800).

WN2: Calculation of Interest on Fixed Deposits

$$\text{Interest on Fixed Deposits} = 30,000 \times \frac{8}{100} \times \frac{3}{12} = 600$$

$$\text{Interest received} = 450$$

$$\therefore \text{Accrued Interest} = 600 - 450 = 150$$

WN3: Calculation of Depreciation on Books

$$\text{Depreciation (for 9 months)} = 12,000 \times \frac{10}{100} \times \frac{9}{12} = 900$$

WN4: Calculation of Depreciation on the Furniture

$$\text{Depreciation for full year} = 10,000 \times \frac{12}{100} = 1,200$$

$$\text{Depreciation for 6 months} = 15,000 \times \frac{12}{100} \times \frac{6}{12} = 900$$

$$\text{Total Depreciation on Furniture (1,200 + 900)} = 2,100$$

Example 4: From the following Receipts and Payments Account of K.K. Challengers Club, prepare Income and Expenditure Account for the year ending December 31, 2013 and the Balance Sheet as on that date.

K.K. Challengers Club
Receipts and Payments Account
for the year ending December 31, 2013

Dr.		Cr.
Receipts	Amount (Rs)	Payments Amount (Rs)
Balance b/d		Salary and Wages 4,450
Cash at Bank	11,460	Telephone Expenses 2,420
Cash in Hand	8,920	Investment in Government Securities @8% 25,000
Subscription Received	22,610	Insurance Premium 6,240
Entrance Fees	43,500	General Expenses 3,100
Bank Interest	4,150	Printing and Stationery 4,230
Interest on Investments	1,800	New Car 28,900
Rent Received	4,500	Honorarium to Secretary 3,500
		Rates and Taxes 1,520
		Entertainment Expenses 2,120
		Balance c/d
		Cash at Bank 8,460
		Cash in Hand 7,000
	96,940	96,940

Additional Information:

a. Following are the various outstanding expenses and incomes for the year ending December 31, 2013:

Particulars	Amount (Rs)
Salary and Wages Outstanding	550
General Expenses Outstanding	500
Entertainment Expenses Outstanding	300
Bank Interest Receivable	150

b. Insurance Premium paid on Oct. 01, 2013 for 12 months.

c. Depreciation is to be charged on Furniture @ 8% p.a., on Books @ 5% p.a. and on Car @10% p.a.

d. Position of Assets and Capital Fund as on January 01, 2013:

Particulars	Amount (Rs)
Land	60,000
Furniture	25,000
Books	12,000
Old Car	8,400
Billiards Table	3,000
Capital Fund	1,28,780

Solution

Income and Expenditure Account for the year ending December 31, 2013

Dr.			Cr.		
Expenditure		Amount (Rs)	Income		Amount (Rs)
Salary and Wages	4,450		Subscription Received		22,610
Add: Salary and Wages Outstanding	550	5,000	Entrance Fees		43,500
Insurance Premium	6,240		Bank Interest	4,150	
Less: Prepaid Insurance (WN1)	(4,680)	1,560	Add: Bank Interest Receivable	150	4,300
General Expenses	3,100		Interest on Investments	1,800	
Add: General Expenses Outstanding	500	3,600	Add: Accrued Interest	200	2,000
Entertainment Expenses	2,120		Rent Received		4,500
Add: Entertainment Expenses Outstanding	300	2,420			
Printing and Stationery		4,230			
Telephone Expenses		2,420			
Honorarium to Secretary		3,500			
Rates and Taxes		1,520			
Depreciation on:					
Furniture	2,000				
Books	600				
Car (WN2)	3,730	6,330			
Surplus (Excess of Income over Expenditure)		46,330			

76,910

76,910

Balance Sheet*as on December 31, 2013*

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund		Furniture	25,000
Opening Balance	1,28,780	Less: Depreciation @ 8%	(2,000)
Add: Surplus	46,330	Books	12,000
Salaries and Wages	550	Less: Depreciation @ 6%	(600)
Outstanding			
General Expenses Outstanding	500	Land	60,000
Entertainment Expenses	300	Car	8,400
Outstanding		Add: Purchases	28,900
		Less: Depreciation @10%	(3,730)
		Billiards Table	3,000
		Bank Interest Receivable	150
		Prepaid Insurance	4,680
		Investment in Government	25,000
		Securities @ 8%	
		Add: Accrued Interest	200
		Cash	8,460
		Bank	7,000
	1,76,460		1,76,460

Working Notes:**WN1:** *Calculation of Prepaid Insurance*

$$\text{Prepaid Insurance} = 6,240 \times \frac{9}{12} = 4,680$$

WN2: *Calculation of Depreciation on Car*

$$\text{Depreciation on 8,400} = 8,400 \times \frac{10}{100} = 840$$

$$\text{Depreciation on 28,900} = 28,900 \times \frac{10}{100} = 2,890$$

$$\text{Total Depreciation on Car (840 + 2,890)} = 3,730$$

In case Capital Fund is not Given in the Question

Till now, while preparing the financial statements of a NPO, we can see that Capital Fund is explicitly given to us in each of the question. But, it is not necessary that the balance of Capital Fund is always provided to us. There may be situation when its balance is not given and we need to ascertain it. Basically, the figure of Capital Fund is required to prepare the Balance Sheet of a NPO at the end of a particular accounting period. Before proceeding further with calculation procedure of Capital Fund, let us first discuss the basic difference between the Capital and Capital Fund.

Capital v/s Capital Fund

<i>Capital</i>	<i>Capital Fund</i>
It is contributed by the Owners or Proprietor of a business	It is contributed by the Members of a NPO

Ascertainment of Capital Fund

We know that, Capital Fund is the amount that is initially contributed by the members of a NPO. In case, the capital fund is not given in the question, it can be computed by taking the difference of Total Assets and Total Liabilities of a NPO. That is,

$$\text{Capital Fund} = \text{Total Assets} - \text{Total Liabilities}$$

The balance of Capital Fund is basically required to prepare the Balance Sheet of a NPO at the end of a particular accounting period. Therefore, the balance of Capital Fund at the beginning of the accounting period needs to be ascertained. This is calculated by preparing the Opening Balance Sheet (i.e. Balance Sheet at the beginning of an accounting period).

Preparation of Opening Balance Sheet

Reading this term, you might be thinking that one more financial statement is to be prepared. But you will be relieved to know that it is not at all difficult to prepare the Opening Balance Sheet. The procedure of preparing this Balance Sheet is exactly the same as we learnt in above section. All the assets are recorded on the Assets side and all the liabilities are

recorded on the Liabilities side of the Balance Sheet. The given below are the steps that are followed to prepare Opening Balance Sheet.

Step 1: First of all, the value of all the assets in the beginning of the year is recorded on the Assets side of the Opening Balance Sheet.

Step 2: Then, the value of all the liabilities in the beginning of the year is recorded on the Liabilities side of the Opening Balance Sheet.

Step 3: Next, we show the outstanding incomes and prepaid expenses in the beginning of the year on the Assets side.

Step 4: In the same way, we show the outstanding incomes and the incomes received in advance on the Liabilities side.

Step 5: Finally, both the sides are totalled. The difference of the total of the assets side and total of liabilities side represents the amount of Capital Fund in the beginning of the year.

Format of Opening Balance Sheet

The given below is the format of Opening Balance Sheet of a NPO.

Opening Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Opening Balance</i>) <i>Add:</i> Surplus <i>Less:</i> Deficit <i>Add:</i> Entrance Fees (<i>Capitalised</i>) <i>Add:</i> Donation (<i>not specific</i>) <i>Add:</i> Life Membership Fees, etc.		Plant and Machinery Land and Building Books Furniture Motor Vehicles Equipment	
Sundry Creditors Bank Overdraft Loans Specific Donation <i>Add:</i> Further Donation (<i>during the year</i>)		Cash in Hand Cash at Bank Sundry Debtors Accrued Interest Prepaid Expenses (<i>Insurance, Salary, etc. in the beginning</i>) Income Outstanding (<i>Rent,</i>	

Specific Fund (Building Fund, Tournament Fund, etc.)		<i>Subscription, etc. in the beginning)</i>	
<i>Add: Donation for fund</i>		Loans Granted	
<i>Add: Income/Interest from such Fund</i>		Stock of Sports Materials	
<i>Less: Amount Utilised (during the year)</i>		Stock of Stationery	
		Government Securities	
Outstanding Expenses (<i>Salary, Rent, etc. in the beginning</i>)		Government Bonds	
Income received in Advance (<i>Rent, Subscription, etc. in the beginning</i>)		Fixed Deposits	

Example 5: From the given below information, calculate the amount of Capital Fund.

Particulars	01.01.2013	31.12.2013
Plant and Machinery	1,20,000	96,000
Furniture	65,000	72,000
Building	2,50,500	2,78,000
Investment in 9% Government Bonds	–	45,000
Stock of Sports Materials	17,200	19,500
Bank Overdraft	25,500	27,050
Creditors for Stationery	9,200	7,900
Subscription Outstanding	13,500	16,600
Subscription received in Advance	7,100	5,000
Prepaid Insurance	3,000	3,200
Entertainment Expenses Outstanding	1,300	1,950

Solution

Opening Balance Sheet			

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bank Overdraft	25,500	Plant and Machinery	1,20,000
Creditors for Stationery	9,200	Furniture	65,000
Subscription received in Advance	7,100	Building	2,50,500
Entertainment Expenses Outstanding	1,300	Stock of Sports Materials	17,200
Capital Fund (<i>Balancing Figure</i>)	4,26,100	Subscription Outstanding	13,500
		Prepaid Insurance	3,000
	4,69,200		4,69,200

Note: Capital Fund is calculated by preparing the Opening Balance Sheet in which the only the opening balances of various assets and liabilities are recorded.

Example 6: The given below is the Receipts and Payments Account for the year ending December 31, 2013 of Teddy Club.

Receipts and Payments Account for the year ending December 31, 2013			
Dr.			Cr.
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d-		Salary Paid	3,24,000
Cash at Bank	95,000	Rent	57,600
Cash in Hand	1,01,800	Rates and Taxes	1,00,600
Sale of Magazines	4,800	Insurance Premium	37,000
Locker Rent	9,02,400	General Expenses	12,000
Bank Interest	96,000	Printing and Stationery	53,000
Subscriptions	4,00,000	Newspapers	21,800
Tuition Income	6,880	Sports Equipment (purchased on Oct. 01, 2013)	3,62,000
Miscellaneous Receipts	1,600	Investment Purchased	3,80,000
		Balance c/d-	
		Cash at Bank	1,25,000
		Cash in Hand	1,35,480

	16,08,480		16,08,480

Additional Information-

i. The position of the various assets and liabilities of the club was follows:

Particulars	January 01, 2013	December 31, 2013
Furniture	1,60,000	?
Investment	1,92,000	?
Sports Equipment	3,20,000	?
Locker Rent Outstanding	64,000	96,000
Salary Outstanding	32,000	40,000

ii. Provide depreciation on furniture @ 20% p.a. and on sports equipment @ 25% p.a.

Prepare Income and Expenditure Account for the year ended December 31, 2013 and the Balance Sheet as on that date.

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>				
Dr.			Cr.	
Expenditure	Amount (Rs)		Income	Amount (Rs)
Salary paid	3,24,000		Sale of Magazines	4,800
Add: Outstanding at the end	40,000		Locker Rent	9,02,400
Less: Outstanding in the beginning	(32,000)	3,32,000	Add: Outstanding at the end	96,000
Rent		57,600	Less: Outstanding in the beginning	(64,000)
Rates and Taxes		1,00,600	Bank Interest	96,000
Insurance Premium		37,000	Subscriptions	4,00,000
General Expenses		12,000	Tuition Income	6,880
Printing and Stationery		53,000	Miscellaneous Receipts	1,600
Newspapers		21,800		
Depreciation on:				

Furniture	32,000		
Sports Equipment (<i>WNI</i>)	1,02,625	1,34,625	
Surplus (<i>Excess of Income over Expenditure</i>)		6,95,055	
		14,43,680	14,43,680

Balance Sheet <i>as on Jan. 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Salary Outstanding	32,000	Cash at Bank	95,000
Capital Fund (<i>Balancing Figure</i>)	9,00,800	Cash in Hand	1,01,800
		Furniture	1,60,000
		Investment	1,92,000
		Sports Equipment	3,20,000
		Locker Rent	64,000
		Outstanding	
	9,32,800		9,32,800

Balance Sheet <i>as on Dec. 31, 2013</i>				
Liabilities	Amount (Rs)	Assets		Amount (Rs)
Salary Outstanding	40,000	Cash at Bank		1,25,000
Capital Fund 9,00,800		Cash in Hand		1,35,480
<i>Add: Surplus</i> 6,95,055	15,95,855	Furniture	1,60,000	
		<i>Less: Depreciation</i>	(32,000)	1,28,000
		Investment	1,92,000	
		<i>Add: Purchases</i>	3,80,000	5,72,000
		Sports Equipment	3,20,000	
		<i>Add: Purchases</i>	3,62,000	

		Less: Depreciation	(1,02,625)	5,79,375
		Locker Rent Outstanding		96,000
	16,35,855			16,35,855

Working Notes:

WN1: Calculation of Depreciation on Sports Equipment

$$\text{Depreciation for full year} = 3,20,000 \times \frac{25}{100} = 80,000$$

$$\text{Depreciation for 3 months} = 3,62,000 \times \frac{25}{100} \times \frac{3}{12} = 22,625$$

$$\text{Total Depreciation on Furniture} (80,000 + 22,625) = 1,02,625$$

Example 7: The given below is the Receipts and Payments Account for the year ending December 31, 2013 of Jinni Social Club.

Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d-		Electricity Charges	1,38,500
Cash in Hand	83,000	Advertisement	97,250
Current A/c with Bank	7,38,500	Insurance Premium	2,25,000
Entrance Fees	1,32,475	Stationery and Postage	21,000
Interest on Fixed Deposits	35,000	General Expenses	83,750
Sale of Old Newspapers	5,000	Printing and Stationery	42,000
Rent Received	1,15,000	Newspapers	13,500
		Telephone Expenses	15,000
		10% Fixed Deposits	4,00,000
		Balance c/d-	
		Cash in Hand	39,500
		Current A/c with Bank	33,475
	11,08,975		11,08,975

Additional Information-

- i. On Jan. 01, 2013, the club had Building of Rs 9,62,500 and Machinery of Rs 3,50,000.
- ii. Rent received outstanding at the end of 2012 was Rs 1,06,750 and at the end of the year 2013 was Rs 1,20,750.
- iii. Insurance premium paid was for 15 months.
- iv. 2 months electricity charges Rs 43,750 was due at the beginning and end of the year.
- v. Provide depreciation on building @ 15% p.a. and on machinery @ 10% p.a.

Prepare Income and Expenditure Account for the year ended December 31, 2013 and the Balance Sheet as on that date.

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>				
Dr.				Cr.
Expenditure	Amount (Rs)		Income	Amount (Rs)
Electricity Charges	1,38,500		Entrance Fees	1,32,475
<i>Add: Outstanding at the end</i>	43,750		Interest on Fixed Deposits	35,000
<i>Less: Outstanding in the beginning</i>	(43,750)	1,38,500	<i>Add: Accrued Interest</i>	5,000
Advertisement		97,250	Sale of Old Newspapers	5,000
Insurance Premium	2,25,000		Rent Received	1,15,000
<i>Less: Paid in Advance for 3 months</i>			<i>Add: Outstanding at the end</i>	1,20,750
<i>(2,25,000 × 3/15)</i>	(45,000)	1,80,000	<i>Less: Outstanding in the beginning</i>	(1,06,750)
Stationery and Postage		21,000		
General Expenses		83,750		
Printing and Stationery		42,000		
Newspapers		13,500		
Telephone Expenses		15,000		
Depreciation on:				
Building @ 15%	1,44,375		Deficit (<i>Excess of Expenditure over Income</i>)	4,63,900

Machinery @ 10%	35,000	1,79,375	
		7,70,375	7,70,375

Balance Sheet <i>as on Jan. 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Electricity Charges Outstanding	43,750	Cash in Hand	83,000
Capital Fund (<i>Balancing Figure</i>)	21,97,000	Current A/c with Bank	7,38,500
		Building	9,62,500
		Machinery	3,50,000
		Rent Received Outstanding	1,06,750
	22,40,750		22,40,750

Balance Sheet <i>as on Dec. 31, 2013</i>				
Liabilities	Amount (Rs)	Assets		Amount (Rs)
Electricity Charges Outstanding	43,750	Cash in Hand		39,500
Capital Fund 21,97,000	17,33,100	Current A/c with Bank		33,475
Less: Deficit (4,63,900)		Building	9,62,500	8,18,125
		Less: Depreciation	(1,44,375)	
		Machinery	3,50,000	3,15,000
		Less: Depreciation	(35,000)	
		Rent Received Outstanding		1,20,750
		Fixed Deposits	4,00,000	4,05,000
		Add: Accrued Interest	5,000	

		Prepaid Insurance	45,000
	17,76,850		17,76,850

Working Notes:

WN1: Calculation of Interest on Fixed Deposits

$$\text{Interest on Fixed Deposits} = 4,00,000 \times \frac{10}{100} = 40,000$$

$$\text{Interest actually received} = 35,000$$

$$\therefore \text{Accrued Interest} = 40,000 - 35,000 = 5,000$$

Subscription Account

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Subscriptions- Meaning and Concept
- Accounting Treatment of Subscriptions

Meaning and Concept of Subscriptions

We know that subscription is the main source of income for a NPO. It is basically the amount that is paid by the members of a NPO for continuing their membership with the organisation. This payment is made periodically (generally yearly) by the members. In order to understand the meaning of subscription, let us take a real life scenario. Suppose Rahul is a school-going boy, who after appearing in his class-Xth board exams decided to take membership of a non-profit Rotary Club in his town. The Club offered Rahul his Gym membership by paying Rs 15,000 for 6 months. Offer was accepted by Rahul and he duly paid the entire amount, this amount is the *Subscription* received by the Gym Owner and by receiving this amount he is bound to give all facilities of his Gym to Rahul. Thus, it can be said that subscription is a periodical receipt contributed by members of the organisation.

Accounting Treatment of Subscriptions

Subscription being an income of a NPO is shown on the Receipts side of the R&P A/c. Further, as it is revenue item in

nature, so subscription is also shown on the Income side of the I&E A/c. However, at this point, two points are of worth noting.

- a. In R&P A/c, the amount of subscriptions that appears is actually the total amount of subscriptions that have been received during the current accounting period. That is, in other words, the subscriptions in R&P A/c can be related to the previous year, or to the current year and as well as to the next year.
- b. On the other hand, subscriptions shown in the I&E A/c is that amount which is related exclusively to the current year only.
 - i. Subscriptions received for the previous year and/or for the next year are never recorded in the I&E A/c
 - ii. Even though the current year's subscriptions remains outstanding or has been received in advance (in the previous year), then also subscription is shown with the full amount for the current year in the I&E A/c.

In order to understand the above two points, let us consider the below examples.

Receipts and Payments A/c				Income and Expenditure A/c			
Dr.			Cr.	Dr.			Cr.
Receipts	Amount	Payments	Amount	Expenditure	Amount	Income	Amount
Subscription							
2012	13,000						
2013	5,000					Subscription	5,000
2014	27,000						
	45,000						

Related to the previous year, that is why it is not considered
 Only this amount is received for the current year
 Relates to the next year, that is why it is not considered

In the above figure, we can see that Rs 45,000 has been received for subscription during 2013. Out of this amount, Rs 27,000 is the subscription belonging to the next year (i.e. 2014) and Rs 13,000 belongs to the previous year (i.e. 2012). However, in the I&E A/c, the subscription is shown with only Rs 5,000 and not with Rs 45,000. This is because only Rs 5,000 belongs exclusively to the current year.

Formula to Ascertain Subscriptions Amount for I&E A/c

In order to ascertain the subscription amount that is to be shown in the I&E A/c, we have the following formula.

Statement showing Calculation of Subscription Income	
Particulars	Amount (Rs)
Subscriptions received during the Current Year (as shown in the R&P A/c)* <i>Add:</i> Subscriptions outstanding at the end of Current Year <i>Add:</i> Subscriptions received in Advance at the beginning of Current Year <i>Less:</i> Subscriptions outstanding at the beginning of Current Year <i>Less:</i> Subscriptions received in Advance at the end of Current Year	
<i>Subscriptions Amount to be shown on the Income side of I&E A/c</i>	–

* This amount indicates the total amount of subscription that has been received during the current accounting period. That is, subscription of previous year, current year and next year that are received in the current year.

Example 1: Subscriptions of Rs 50,000 was received for the year ending March 31, 2013. From the given below information compute the amount of subscriptions to be shown in the Income and Expenditure Account.

Particulars	01.04.2012	31.03.2013
Subscriptions Outstanding	10,000	15,000
Advance Subscriptions	8,200	7,500

Solution

Statement showing Calculation of Subscription Income	
Particulars	Amount (Rs)
Subscriptions received during the Current Year	50,000
<i>Add:</i> Subscriptions outstanding at the end (as on 31.03.2013)	15,000
<i>Add:</i> Subscriptions received in Advance in the beginning (as on 01.04.2012)	8,200
<i>Less:</i> Subscriptions outstanding in the beginning (as on 01.04.2012)	(10,000)
<i>Less:</i> Subscriptions received in Advance at the end (as on 31.03.2013)	(7,500)
<i>Subscriptions Amount to be shown on the Income side of I&E A/c</i>	55,700

Alternative Method

Students who are facing problem in memorising the above formula to ascertain the amount of subscriptions for I&E A/c, may opt for alternative method by preparing Subscriptions Account.

Subscriptions Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Subscriptions Outstanding (in the beginning of Current Year)		Advance Subscriptions (in the beginning of Current Year)	
Income and Expenditure A/c (<i>Balancing Figure</i>)*		Receipts and Payments A/c (with the total amount of subscriptions received during the current year)	
Advance Subscriptions (at the end of Current Year)		Subscriptions Outstanding (at end of Current Year)	

*This amount is shown on the Income side of the I&E A/c as subscriptions for the current year.

Example 2: Ascertain the subscriptions amount for I&E A/c using the Account form (Subscription Account) for the Example-1.

Solution

Subscription Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Subscriptions Outstanding (in the beginning of Current Year)	10,000	Advance Subscriptions (in the beginning of Current Year)	8,200
Income and Expenditure A/c (<i>Balancing Figure</i>)	55,700	Receipts and Payments A/c (Received during the current year)	50,000

Advance Subscriptions (at the end of Current Year)	7,500	Subscriptions Outstanding (at end of Current Year)	15,000
	73,200		73,200

Treatment of Subscriptions in Balance Sheet

The treatment of various subscription-related items is tabulated below.

<i>Related Items</i>	<i>Treatment</i>
Subscriptions Outstanding <i>in the Beginning</i>	Shown on the <i>Assets Side</i> of the <i>Opening</i> Balance Sheet
Subscriptions Outstanding <i>at the End</i>	Shown on the <i>Assets Side</i> of the <i>Closing</i> Balance Sheet
Subscriptions Received in Advance <i>in the Beginning</i>	Shown on the <i>Liabilities Side</i> of the <i>Opening</i> Balance Sheet
Subscriptions Received in Advance <i>at the End</i>	Shown on the <i>Liabilities Side</i> of the <i>Closing</i> Balance Sheet

Example 3: Subscriptions received during the year was Rs 65,500. From the given below information compute the subscription income for the current year 2013. Also show its treatment in the Income and Expenditure Account and in the Balance Sheet.

Particulars	01.01.2013	31.12.2013
Subscriptions Outstanding	5,700	9,100
Subscriptions received in Advance	6,200	11,600

Solution

Statement Showing Calculation of Subscription Income	
Particulars	Amount (Rs)
Subscriptions received during the current year	65,500
Add: Subscriptions outstanding at the end (as on 31.12.2013)	9,100

<i>Add:</i> Subscriptions received in Advance in the beginning (as on 01.01.2013)	6,200
<i>Less:</i> Subscriptions outstanding in the beginning (as on 01.01.2013)	(5,700)
<i>Less:</i> Subscriptions received in Advance at the end (as on 31.12.2013)	(11,600)
<i>Subscriptions Income to be shown on the Income side of I&E A/c</i>	63,500

Income and Expenditure Account <i>for the year ended December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Subscriptions	63,500

Opening Balance Sheet <i>as on January 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscriptions Received in Advance	6,200	Subscriptions Outstanding	5,700

Closing Balance Sheet <i>as on December 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscription Received in Advance	11,600	Subscriptions Outstanding	9,100

Example 4: Show the accounting treatment of subscriptions in the Income and Expenditure Account and in the Balance Sheet from the given below extract of Receipts and Payments Account.

Receipts and Payments Account <i>for the year ending 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Subscriptions			
2012 3,200			
2013 5,000			
2014 2,400	10,600		

Additional Information: Club has 100 members each paying Rs 60 as their annual subscription. Subscriptions outstanding as on December 31, 2012 amounted to Rs 4,000.

Solution

Income and Expenditure Account <i>for the year ending 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Subscriptions (100 members × Rs 60)	6,000

Note: In this case, Subscription Account is not prepared because subscription income for the *current year* is directly given by providing us with the no. of members and their annual subscription amount.

Opening Balance Sheet			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
		Subscriptions Outstanding	4,000

Closing Balance Sheet as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscriptions Received in Advance	2,400	Subscriptions Outstanding	
		For 2012 800*	
		For 2013 <u>1,000**</u>	1,800

*The subscriptions outstanding as on December 31, 2012 (i.e. in the beginning) amounted to Rs 4,000. But out of this, only Rs 3,200 has been received during the current year. Therefore, subscription of Rs 800 (4,000 – 3,200) is still outstanding at the end of the current year.

** Subscription amount for the current year is Rs 6,000 (100 members × Rs 60). But, during the year (i.e. 2013) only Rs 5,000 has been received. Thus, the subscription amount of Rs 1,000 (6,000 – 5,000) is still outstanding at the end of the current year.

Example 5: From the given below information show how the following items will be adjusted in the books of South Hall Club for the year ending March 31, 2013.

- (a) Subscriptions outstanding for the year ending March 31, 2012 Rs 850.
- (b) Subscriptions outstanding as on March 31, 2013 Rs 1,220.
- (c) Subscriptions received in advance as on March 31, 2012 Rs 1,160.
- (d) Subscriptions received during the year as per Receipts and Payments Account:

For the year 2011-12	700
For the year 2012-13	1,850
For the year 2013-14	2,240

Solution

Subscriptions Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Subscriptions outstanding (in the beginning)	850	Subscriptions received in advance (in the beginning)	1,160
Income and Expenditure A/c (<i>Balancing Figure</i>)	4,080	Receipts and Payments A/c (700 + 1,850 + 2,240)	4,790
Subscriptions received in advance (at the end)	2,240	Subscriptions outstanding (at the end)	1,220
	7,020		7,020

**Subscription outstanding at the end i.e. on March 31, 2013 is Rs 1,220. This also includes subscription of Rs 150 (850 – 700) still outstanding for the year 2011-2012. Thus, whenever in the question “*Subscriptions outstanding as on*” is given then subscription amount also includes outstanding for the previous year which is still not received in current year. Therefore, in this case total amount will be shown in the subscriptions account. However, when “Subscription outstanding for the year” is given then it only includes the outstanding amount of the current year.

Income and Expenditure Account <i>for the year ended December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Subscriptions	4,080

Opening Balance Sheet <i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscriptions Received in Advance	1,160	Subscriptions Outstanding	850

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Closing Balance Sheet as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscriptions Received in Advance	2,240	Subscriptions Outstanding	1,220
		For 2011-12 (850 – 700)	
		For 2012-13 (1,220 – 150)	

Note*: The subscriptions outstanding as on March 31, 2012 (i.e. in the beginning) amounted to Rs 850. But out of this, only Rs 700 has been received during the current year. Therefore, subscription of Rs 150 (800 – 750) is still outstanding at the end of the current year. Note carefully, that here only Rs 1,220 i.e. subscription outstanding as on 31st March 2013 is to be shown on the asset side of the closing Balance Sheet.

Example 6: From the given below information prepare Subscriptions Account for the year ending December 31, 2013.

- (a) Subscriptions received in advance as on December 31, 2012 Rs 1,400.
- (b) Subscriptions outstanding as on December 31, 2013 Rs 1,560.
- (c) Subscriptions outstanding as on December 31, 2012 Rs 1,080.
- (d) Total subscriptions received during the year 2013 was Rs 9,450 (including Rs 860 for the year 2012; Rs 1,025 for the year 2014 and Rs 975 for the year 2015)

Solution

Subscriptions Account			
Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Subscriptions outstanding (in the beginning)	1,080	Advance Subscriptions (in the beginning)	1,400

Income and Expenditure A/c (Balancing Figure)	9,330	Receipts and Payments A/c (received during the year)	9,450
Advance Subscriptions (at the end) (1,025 + 975)	2,000	Subscriptions Outstanding (at the end)	1,560
	12,190		12,190

****Subscription outstanding at the end i.e. on December 31, 2013 is Rs 1,560. This includes subscription of Rs 220 (1,080 – 860) still outstanding for the 2012, because, here subscription outstanding as on 31st December 2013 is given and in this case this amount also includes the outstanding amount in the beginning of the year.**

Example 7: Given below is the Receipts and Payments Account of CARE Social Club for the year ending March 31, 2013.

Receipts and Payments Account <i>for the year ending March 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salary	12,560
Cash in Hand	5,200	Printing and Stationery	3,250
Cash at Bank	6,700	Medicines Purchased	1,860
Subscriptions Received		Car Maintenance	3,540
2011-12 1,800		Investment in Shares of ABC Ltd.	10,500
2012-13 25,450		General Expenses	1,520
2013-14 2,560	29,810	Rates and Taxes	480
Interest on Investments	1,500	Rent	3,600
Dividend Received	750	Balance c/d	
Sundry Incomes	4,050	Cash in Hand	5,400
		Cash at Bank	5,300
	48,010		48,010

Additional Information:

- (a) There are 280 members each paying annual subscription of Rs 100 each. There was an outstanding subscription of Rs 2,000 as on April 01, 2012.
- (b) Rent outstanding as on April 01, 2012 Rs 600 and as on March 31, 2013 Rs 800.
- (c) On April 01, 2012 Building stood at Rs 40,000 in the books. Depreciation is to be charged @ 10% p.a.
- (d) On April 01, 2012, the club had Investment in 8% Government Securities of Rs 20,000.

Prepare Income and Expenditure Account for the year ending March 31, 2013 and the Balance Sheet as on that date.

Solution

Income and Expenditure Account <i>for the year ending March 31, 2013</i>			
Dr.		Cr.	
Income	Amount (Rs)	Expenditure	Amount (Rs)
Salary	12,560	Subscriptions (280 members × Rs 100)	28,000
Printing and Stationery	3,250	Dividend Received	750
Medicines Purchased	1,860	Interest on Investments 1,500	
Car Maintenance	3,540	<i>Add: Accrued Interest</i> 100	1,600
General Expenses	1,520	Sundry Incomes	4,050
Rates and Taxes	480		
Rent	3,600		
<i>Add: Outstanding as on March 31, 2013</i> 800			
<i>Less: Outstanding as at March 31, 2012</i> (600)	3,800		
Depreciation on Building	4,000		
Surplus (<i>Excess of Income over Expenditure</i>)	3,390		
	34,400		34,400

Balance Sheet <i>as on March 31, 2013</i>			
Liabilities	Amount	Assets	Amount

		(Rs)			(Rs)
Capital Fund (Opening Balance)	73,300		Cash in Hand		5,400
Add: Surplus	3,390	76,690	Cash at Bank		5,300
Rent Outstanding		800	Investment in Shares of ABC Ltd.		10,500
Subscription Received in Advance		2,560	Investment in 8% Government Securities	20,000	
			Add: Accrued Interest	100	20,100
			Building	40,000	
			Less: Depreciation @10%	(4,000)	36,000
			Subscription Outstanding		
			2012-13 (28,000 – 25,450)	2,550	
			2011-12 (2,000 – 1,800)	200	2,750
		80,050			80,050

Working Notes:

Calculation of Capital Fund

Balance Sheet <i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	73,300	Cash in Hand	5,200
Rent Outstanding	600	Cash at Bank	6,700
		Investment in 8% Government Securities	20,000
		Building	40,000
		Subscription Outstanding	2,000
	73,900		73,900

Example 8: From the following particulars prepare Income and Expenditure Account for the year ending December 31, 2013 and the Balance Sheet as on that date.

Receipts and Payments Account
for the year ending December 31, 2013

Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Investments in Fixed Deposits @ 6%	60,000
Cash in Hand	5,200	Honorarium to Heart Surgeon	5,500
Cash at Bank	6,700	Bank Charges	1,160
Subscription Received	63,650	Medicines Purchased	3,420
Proceeds from Charity Show	25,450	Office Expenses	4,180
Interest on Fixed Deposits @ 6%	3,200	Repairs and Maintenance	2,660
Tuition Fees	4,800	Expenses of Charity Show	12,500
Term Fees	2,050	Equipment Purchased	7,500
		Sundry Expenses	3,570
		Travelling expenses	1,490
		Balance c/d	
		Cash in Hand	5,970
		Cash at Bank	3,100
	91,050		91,050

Additional Information

Particulars	01.01.2013	31.12.2013
Subscriptions outstanding	1,060	1,920
Subscriptions received in advance	820	1,140
Equipment	12,500	18,800
Furniture	16,500	12,750

Solution

Income and Expenditure Account
for the year ending December 31, 2013

Dr.			Cr.

Expenditure	Amount (Rs)	Income	Amount (Rs)
Honorarium to Heart Surgeon	5,500	Subscription	63,650
Bank Charges	1,160	Add: Outstanding at the end	1,920
Medicines Purchased	3,420	Add: Advance in the beginning	820
Office Expenses	4,180	Less: Outstanding in the beginning	(1,060)
Repairs and Maintenance	2,660	Less: Advance at the end	(1,140)
Sundry Expenses	3,570	Proceeds from Charity Show	25,450
Travelling expenses	1,490	Less: Expenses of Charity Show	(12,500)
Depreciation on:		Interest on Fixed Deposits	3,200
Equipment (WN2) 1,200		Add: Accrued Interest	400
Furniture (WN3) 3,750	4,950	Tuition Fees	4,800
Surplus (Excess of Income over Expenditure)	60,660	Term Fees	2,050
	87,590		87,590

Balance Sheet as on December 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening Balance) 41,140	1,01,800	Cash in Hand	5,970
Add: Surplus 60,660		Cash at Bank	3,100
Subscriptions Received in Advance		Subscriptions Outstanding	1,920
		Investment in Fixed Deposits 60,000	
		Add: Accrued Interest 400	60,400
		Equipment	18,800
		Furniture	12,750
	1,02,940		1,02,940

Working Notes:

WN1: Calculation of Capital Fund

Balance Sheet

as on January 01, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	41,140	Cash in Hand	5,200
Subscription Received in Advance	820	Cash at Bank	6,700
		Equipment	12,500
		Furniture	16,500
		Subscription Outstanding	1,060
	41,960		41,960

WN2: Calculation of depreciation on Equipment

Equipment Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d	12,500	Depreciation A/c (<i>Balancing Figure</i>)	1,200
Receipt and Payment A/c	7,500	Balance c/d	18,800
	20,000		20,000

WN3: Calculation of depreciation on Furniture

Furniture Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d	16,500	Depreciation A/c (<i>Balancing Figure</i>)	3,750
		Balance c/d	12,750
	16,500		16,500

Example 9: From the given below Receipts and Payments Account of Rajkumar Senior Citizen Club, prepare Income and Expenditure Account for the year ending December 31, 2013 and the Balance Sheet as on that date.

Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salaries	15,600
Cash in Hand	5,400	Expenses on Annual Function	4,340
Cash at Bank	6,200	Insurance Premium	2,160
Subscriptions	32,450	Telephone Expense	3,150
Interest on Deposits in Bank @8%	1,400	Conveyance	2,570
Hire Charges	12,500	Audit Fees	4,050
Sundry Receipts	5,340	Electricity Charges	6,420
Bank Loan @12% (on April 01, 2013)	25,000	Interest on Bank Loan	2,000
		Office Expenses	3,250
		Repairs and Maintenance	1,850
		Purchased Furniture	30,000
		Balance c/d	
		Cash in Hand	7,900
		Cash at Bank	5,000
	88,290		88,290

Additional Information:

- (a) Depreciation to be charged on Books @ 12% p.a. and on Furniture and Fixtures @ 10% p.a.
- (b) The position various assets and liabilities of the club is given below.

Particulars	01.01.2013	31.12.2013
Liabilities		
Salary outstanding	1,050	1,220
Electricity Charges outstanding	720	950
Subscriptions received in advance	1,420	1,850
Assets		
Books	20,000	
Furniture and Fixture	25,000	

Subscriptions outstanding	2,570	2,850
Investment in Bank Deposits	20,000	
Accrued Interest	300	200

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>				
Dr.			Cr.	
Expenditure	Amount (Rs)		Income	Amount (Rs)
Salaries	15,600		Subscriptions	32,450
<i>Add: Outstanding at the end</i>	1,220		<i>Add: Outstanding at the end</i>	2,850
<i>Less: Outstanding in the beginning</i>	<u>(1,050)</u>	15,770	<i>Add: Advance in the beginning</i>	1,420
Expenses on Annual Function		4,340	<i>Less: Outstanding in the beginning</i>	<u>(2,570)</u>
Insurance Premium		2,160	<i>Less: Advance at the end</i>	<u>(1,850)</u>
Telephone Expense		3,150	Interest on Bank Deposits	1,400
Conveyance		2,570	<i>Add: Accrued Interest at the end</i>	200
Audit Fees		4,050	<i>Less: Accrued Interest in the beginning</i>	<u>(300)</u>
Electricity Charges	6,420		Hire Charges	12,500
<i>Add: Outstanding at the end</i>	950		Sundry Receipts	5,340
<i>Less: Outstanding in the beginning</i>	<u>(720)</u>	6,650	Deficit (<i>Excess of Expenditure over Income</i>)	2,500
Interest on Bank Loan	2,000			
<i>Add: Interest Outstanding</i>	<u>250</u>	2,250		
Office Expenses		3,250		
Repairs and Maintenance		1,850		
Depreciation on:				
Books	2,400			
Furniture and Fixtures	<u>5,500</u>	7,900		
		53,940		53,940

Balance Sheet <i>as on December 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening Balance) 76,280		Cash in Hand	7,900
Less: Deficit (2,500)	73,780	Cash at Bank	5,000
Salaries Outstanding	1,220	Subscriptions Outstanding	2,850
Electricity Charges Outstanding	950	Investments in Bank Deposits	20,000
Subscriptions Received in Advance	1,850	Accrued Interest on Bank Deposits	200
Bank Loan @12%	25,000	Books 20,000	
Interest Outstanding on the Bank Loan	250	Less: Depreciation @ 12% (2,400)	17,600
		Furniture and Fixture 25,000	
		Add: Purchases 30,000	
		55,000	
		Less: Depreciation @ 10% (5,500)	49,500
	1,03,050		1,03,050

Working Notes: Calculation of Capital Fund

Balance Sheet <i>as on January 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	76,280	Cash in Hand	5,400
Salaries Outstanding	1,050	Cash at Bank	6,200
Electricity Charges Outstanding	720	Books	20,000
Subscriptions Received in Advance	1,420	Furniture and Fixture	25,000
		Investment in Bank Deposits	20,000
		Accrued Interest	300
		Subscriptions Outstanding	2,570
	79,470		79,470

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Fund Based Accounting- Types and Accounting Treatment

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Fund Based Accounting
- Types of Funds

Introduction

Let us start this lesson by supposing that you maintain three different piggy banks and let's name them as A, B and C. Suppose that the first piggy bank (A) is maintained mainly to finance your exigency needs, similarly, the second one (B) is maintained to buy a bicycle and the third one (C) is to buy an X-Box. In this way, you can maintain different piggy banks in order to finance your different needs. Now, you should note an important point here. The money that you save in any one piggy bank (say A) cannot be used to meet the need other than what it is maintained for. That is, piggy bank A cannot be used to buy the bicycle or the X-box. Thus, in this way, we can say that the money that is saved is very specific in nature (as it cannot be used for any other purpose).

Similarly, NPOs also maintain such piggy banks, which are formerly termed as Specific Funds. These funds are called the Specific Funds as these funds are used only for the specific purpose. Some of the examples of Specific Funds are Building Fund, Sports Fund, Tournament Fund, Prize Funds, etc. In case of Building Fund, the fund is only used for constructing building; similarly, the Tournament Fund is used only for conducting various tournaments and so on. Thus, these funds are highly specific in nature.

Meaning of Fund Based Accounting

The Fund based accounting basically focuses on how to manage these specific funds. Over the years, NPOs maintains these funds in the bank account and earn interests on these funds. Similarly, it receives donations or incomes by using these funds. On the other hand, there are various expenses that are incurred in order to maintain these funds.

Now, as per the Fund based accounting, any donation and income that are attributable to a particular fund are added to that particular fund. On the other hand, any expenses and payments relating to the fund are subtracted from that particular fund. After making these adjustments, the final balance is calculated. If the final balance is positive, then it implies that there is excess amount in the fund over the expenses and this is shown on the Liabilities side of the Closing

Balance Sheet. On the other hand, if there exists a negative balance, then it implies that amount in the fund falls short of the expenses and this balance is shown on the debit side (or Expenditure) side of the Income and Expenditure Account.

Particulars	Amount (Rs)
Specific Fund	
Opening Balance	
<i>Add:</i> Donations for the fund or Income	
<i>Less:</i> Expenses	
Closing Balance (<i>either Positive* or Negative**</i>)	

* Positive Final Balance is shown on the Liabilities Side of the Balance Sheet

** Negative Balance is shown on the Expenditure Side of the Income and Expenditure Account.

Example 1: Satish Cricket Club, a NPO, has a Tournament Fund of Rs 20,000. Tournament expenses during the year amounted to Rs 11,000 and receipts from cricket tournament (from sponsors) were Rs 15,000. Show the treatment of Tournament Fund in I&E A/c and Balance Sheet.

Solution

Particulars	Amount (Rs)
Tournament Fund	20,000
<i>Add:</i> Receipts from Sponsors	15,000
<i>Less:</i> Tournament Expenses	(11,000)
<i>Closing Balance (to be shown on the Liabilities Side)</i>	24,000

The positive balance implies there is an excess of tournament fund over its expenses, thus the final balance of Tournament Fund of Rs 24,000 is shown on the Liabilities Side of the Balance Sheet.

Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Tournament Fund	24,000		

Note: As the final balance of Tournament Fund is positive, so it is shown on the liabilities side of the Balance Sheet. If the final balance would have been negative, then it would have been shown on the Expenditure side of the I&E A/c.

Example 2: Mohan Club has maintained Rs 10,000 in its Prize Fund. There exists a Prize Fund Investment of Rs 6,000 and interest amounted on this was Rs 800. During the year, prizes worth Rs 18,000 were distributed. Calculate the amount of Prize Fund to be shown in either I&E A/c or in the Balance Sheet.

Solution

The final balance of Prize Fund is calculated as below.

Particulars	Amount (Rs)
Prize Fund(Opening Balance)	10,000
Add: Interest on Prize Fund Investments	800
Less: Prize Distributed	(18,000)
Closing Balance(to be shown on the Expenditure Side of I&E A/c)	(7,200)

The negative balance implies that expenses are more than the amount in the fund. Thus, the balance amount of Rs 7,200 is shown on the Expenditure (or Debit) side of the Income and Expenditure A/c.

Income and Expenditure Account			
Expenditure	Amount (Rs)	Income	Amount (Rs)
Prize Distributed	7,200		

Balance Sheet			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
		Prize Fund Investment	6,000

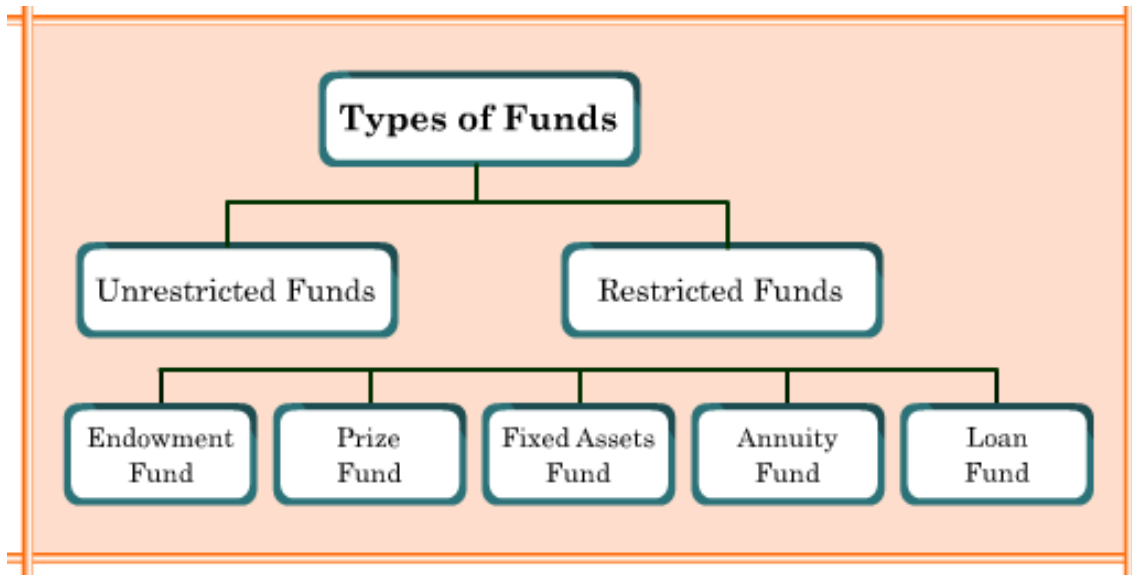
Note: As the final balance of the Prize Fund is negative, so this would not be shown in the Balance Sheet.

Types of Funds

The various funds of a NPO can be classified broadly into two major categories as: Unrestricted Fund and Restricted Fund.

- 1. Unrestricted Funds-** There exists no restrictions on the utilisation of these funds. The management can use these funds in any manner as it wants. These funds are used by NPOs for carrying out their day-to-day business operations. In short, these funds are utilised to achieve the general set of objectives of the NPO. These funds are also known as **Capital Fund** or **General Fund**. Any Surplus or deficit as per the Income and Expenditure Account is adjusted to this capital fund in the Balance Sheet.
- 2. Restricted Funds-** Unlike the unrestricted funds, restricted funds can only be used for the purposes they are meant for. Such restrictions are either imposed by the members or by the donors of the funds. Some of the examples of restricted funds are Prize Fund, Sports Fund, Building Fund, Tournament Fund, Annuity Fund, Loan Fund, etc. For instance, sports fund can be only be utilised to carry out the sports activities. Similarly, the other funds are also maintained for the specific purposes. The given below is the further classification of the restricted funds.
 - a. Endowment Funds-** These funds are basically the funds *via* gifts and bequests. These funds are maintained with the condition that only the income from the investments of such funds can be utilised for the specific purpose. That is, in different words, the principal amount of such funds remains unchanged as it is only the income amount that is used.
 - b. Loan Funds-** These funds are maintained to provide loan for specific purposes. The purpose of granting loans from such funds is not to earn profits but to assist the person who is in need. One of the examples of loan funds is education loan, which is granted to a poor and needy student.
 - c. Annuity Funds-** These funds are created to pay a fixed amount at a regular time interval (generally annually) to the specified beneficiaries. The amount is paid during the life-time of the beneficiaries or till the date as specified by the donor. After the death of the beneficiary or termination of the date, these funds become the property of the NPO.
 - d. Prize Funds-** These funds are created for the distribution of prizes.

e. Fixed Assets Funds- These funds are maintained to make investments in the fixed assets such as Building Fund, Pavilion Fund, Auditorium Fund, etc.



Example 3: How the following items will be accounted in the books of Planet Social Club for the year ending March 31, 2013.

Case i: Prize Fund Rs 25,000, Interest on Investment made from Prize Fund Rs 2,000, Prizes distributed worth Rs 8,000.

Case ii: Cricket Match Fund Rs 18,500, Cricket Match Expenses Rs 7,200, Receipts from the Sponsors of Cricket Match Rs 4,500.

Solution

Case i: Prize Fund Rs 25,000, Interest on Investment made from Prize Fund Rs 2,000, Prizes distributed worth Rs 8,000.

Balance Sheet as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Prize Fund	25,000		
Add: Interest on Investments	2,000		

	27,000		
Less: Prizes Distributed	(8,000)	19,000	

Case ii: Cricket Match Fund Rs 18,500, Cricket Match Expenses Rs 7,200, Receipts from the Sponsors of Cricket Match Rs 4,500.

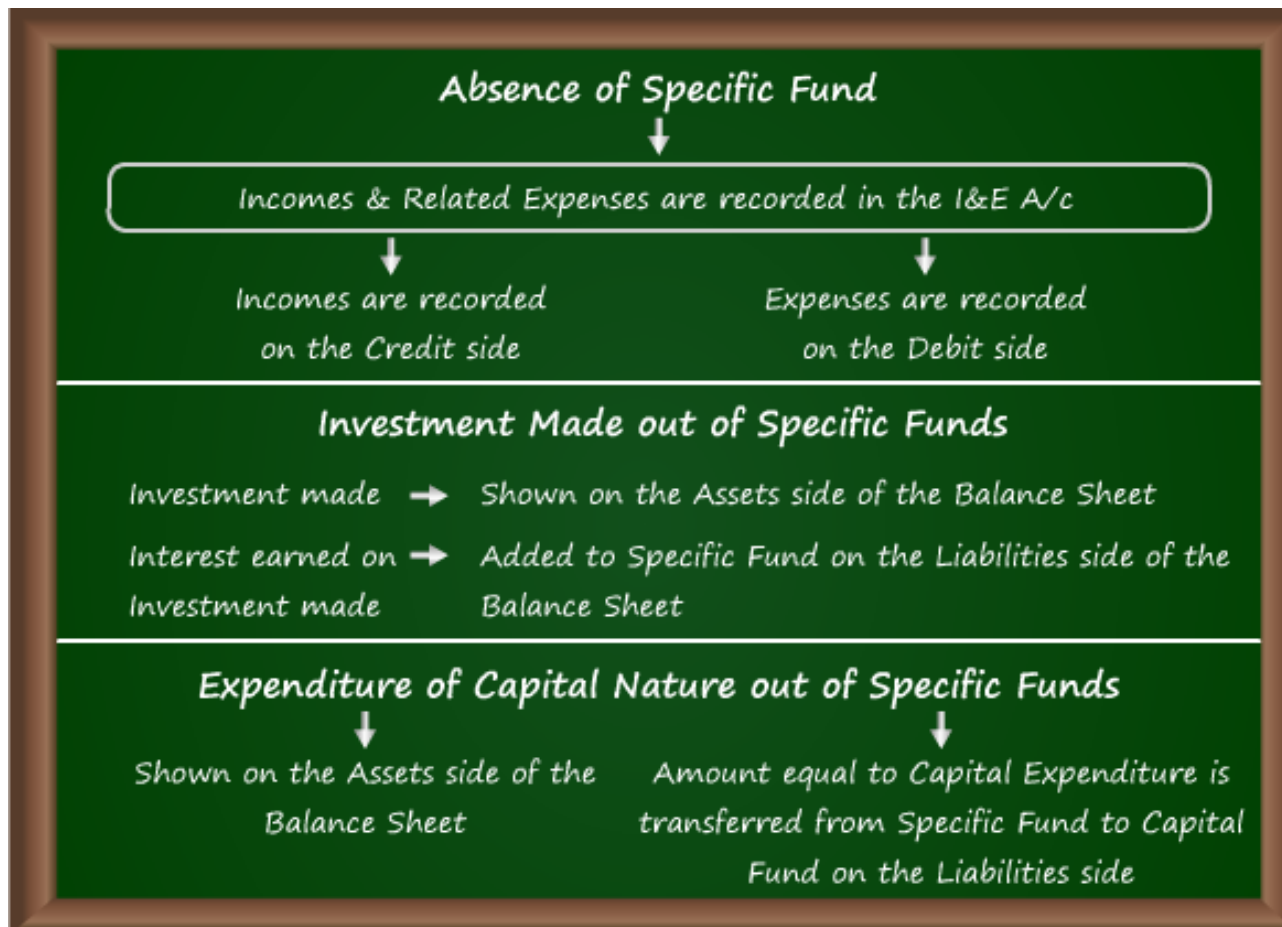
Balance Sheet <i>as on March 31, 2013</i>			
Liabilities		Amount (Rs)	Assets Amount (Rs)
Cricket Match Fund	18,500	15,800	
Add: Receipts from the Sponsors	4,500		
	23,000		
Less: Cricket Match Expenses	(7,200)		

I. Absence of Specific Funds: If in the question there is **no specific fund** for an item, then any incomes and expenses belonging to that fund are recorded in the I&E A/c. Income will be shown on the *Incomes Side* (i.e. Credit side) and the expenses will be shown on the *Expenditure Side* (i.e. Debit side) of the I&E A/c. In this case, the incomes and expenses are not shown as additions or deductions from the fund on the Liabilities side of the Balance Sheet.

II. Investment made out of Specific Funds: If any investment is made from the specific fund, then the investment so made will be shown separately on the Assets Side of the Balance Sheet. Also, if any interest is earned on such investments, then such interests will be added to the specific fund on the Liabilities side of the Balance Sheet.

III. Expenditure of Capital Nature out of Specific Funds: If any Capital Expenditure is incurred out of the specific fund, then it will have the two impacts.

- First, it will be shown on the Assets side of the Balance Sheet.
- Secondly, an equal amount of expenditure will be transferred from the specific fund to the capital fund on the Liabilities Side of the Balance Sheet. That is, the amount will be deducted from the Specific Fund and on the other hand, the same amount will also be added to the Capital Fund on the Liabilities Side.



Example 4: How the following items will be treated in the books of Sapphire Welfare Society- a NPO, for the year ending March 31, 2013.

Case i: Drama Expenses Rs 4,500 and Drama Receipts Rs 6,200

Case ii: Prizes distributed Rs 3,400

Solution

Case i: Drama Expenses Rs 4,500 and Drama Receipts Rs 6,200

Income and Expenditure Account

Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Drama Expenses	4,500	Drama Receipts	6,200

Case ii: Prizes distributed Rs 3,400

Income and Expenditure Account			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Prizes Distributed	3,400		

Note: In both the above cases, there is no specific fund given to us in the question, therefore, expenses and incomes are shown on the Expenditure and the Income side of the I&E A/c.

Example 5: Show the treatment of the following in books of Rajat Sports Club for the year ending March 31, 2013. Tournament Fund Rs 16,900; Tournament Fund Investment Rs 10,000; Interest on Tournament Fund Investments Rs 3,160; Tournament Expenses Rs 8,200, Donation received for Tournament Fund Rs 5,100.

Solution

Balance Sheet as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Tournament Fund	16,900	Tournament Fund Investments	10,000
Add: Interest on Investments	3,160		
Donations	5,100		
	25,160		
Less: Expenses	(8,200)		
	16,960		

Note: Investment made out of the Tournament Fund is shown separately on the Assets Side of the Balance Sheet. Also, interest on investments is shown as addition to the Tournament Fund on the Liabilities side of the Balance Sheet.

Example 6: Show the treatment of the following in the books Ranjeet Social Club as on March 31, 2013.
Building Fund Rs 2,50,000, Expenditure on Construction of Building Rs 1,00,000, Capital Fund in the beginning Rs 1,50,000.

Solution

Balance Sheet <i>as on March 31, 2013</i>			
Liabilities		Amount (Rs)	Assets
Capital Fund	1,50,000	2,50,000	Building in Progress
Add: Transferred from Building Fund	1,00,000		
Building Fund	2,50,000	1,50,000	
Less: Transferred to Capital Fund	(1,00,000)		

Note: Expenditure on Construction of Building is a capital expenditure which is incurred out of the Building Fund. Therefore, this expenditure is shown on the Assets Side of the Balance Sheet. Also, an amount equal to the expenditure is transferred from the Building Fund to the Capital Fund on the Liabilities Side of the Balance Sheet.

Comprehensive Examples

Example 7: From the following Receipts and Payments Account of Vikas Sports Club, prepare Income and Expenditure Account for the year ending December 31, 2013 and Balance Sheet as on that date.

Vikas Sports Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.			Cr.
Receipts	Amount	Payments	Amount

	(Rs)		(Rs)
Balance b/d		Salaries	2,500
Cash in Hand	3,420	Advertisement Expenses	1,890
Cash at Bank	5,860	Printing and Stationery	1,320
Subscription		Conveyance	970
2012	2,500	Maintenance Expenses	850
2013	12,460	Tournament Expenses	2,100
2014	1,820	Upkeep of fields	1,260
Subscription for Tournament	7,050	Furniture Purchased	5,000
Sale of Sports Equipment (Costing Rs 500)	750	Petty Cash Payment	560
Interest on Investments in Govt. Bonds	1,320	Repayment of Loan from Ramesh (on Jan.01, 2013)	12,000
Interest on Tournament Fund Investments	2,200	Balance c/d	
		Cash in Hand	2,410
		Cash at Bank	6,520
	37,380		37,380

Additional Information:

- (1) There are 130 members each paying an annual subscription of Rs 100. Rs 3,000 are still outstanding for the year 2012.
- (2) Salaries amounting Rs 850 is outstanding as at December 31, 2013.
- (3) Position of Assets and Liabilities as on January 01, 2013.

Particulars	Amount (Rs)
Furniture	15,000
Land	55,000
Tournament Fund Investments @8%	30,000
Investments in Govt. Bonds @12%	12,000
Sports Equipment	10,000
Loan from Ramesh @ 10%	12,000
Salaries Outstanding	600

Tournament Fund

20,000

(4) Charge Depreciation on Furniture @10% and Sports Equipment @5%.

Solution

Vikas Sports Club
Income and Expenditure Account
for the year ending December 31, 2013

Dr.			Cr.	
Expenditures	Amount (Rs)		Incomes	Amount (Rs)
Salaries	2,500		Subscription (130 × 100)	13,000
<i>Add: Salaries Outstanding as at Dec.31 2013</i>	850		Profit on Sale of Sports Equipment (750 – 500)	250
<i>Less: Salaries Outstanding as at Jan.01, 2013</i>	(600)	2,750	Interest on Govt. Bonds	1,320
Advertisement Expenses	1,890		<i>Add: Accrued Interest</i>	120
Printing and Stationery	1,320			1,440
Conveyance	970			
Maintenance Expenses	850			
Upkeep of fields	1,260			
Petty Cash Payment	560			
Depreciation				
Furniture	2,000			
Sports Equipment	475	2,475		
Surplus (<i>Excess of Income over the Expenditure</i>)		2,615		
	14,690			14,690

Balance Sheet
as on December 31, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund		Furniture	15,000
Opening Balance	1,04,180	<i>Add: Purchased</i>	5,000

Add: Surplus	2,615	1,06,795		20,000	
Salaries Outstanding		850	Less: Depreciation @10%	(2,000)	18,000
Tournament Funds	20,000		Sports Equipment	10,000	
Add: Subscription for Tournament	7,050		Less: Sold	(500)	
Add: Interest on Tournament	2,400			9,500	
Fund Investments					
Less: Tournament Expenses	(2,100)	27,350	Less: Depreciation @5%	(475)	9,025
Subscription Received in Advance		1,820	Land		55,000
			Subscription Outstanding		
			2013 (13,000 – 12,460)	540	
			2012	3,000	3,540
			Investments in the Government	12,000	
			Bonds@12%		
			Add: Accrued Interest	120	12,120
			Tournament Fund Investments @8%	30,000	
			Add: Accrued Interest	200	30,200
			Cash		2,410
			Bank		6,520
		1,36,815			1,36,815

Working Notes:

(1) Calculation of Capital Fund:

Balance Sheet			
as on January 01, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	1,04,180	Furniture	15,000
Loan from Ramesh @ 10%	12,000	Land	55,000
Salaries Outstanding	600	Tournament Fund Investments @8%	30,000
Tournament Funds	20,000	Investments in Govt. Bonds @12%	12,000
		Sports Equipment	10,000
		Subscription Outstanding (3,000 + 2,500)	5,500
		Cash in Hand	3,420
		Cash at Bank	5,860

	1,36,780		1,36,780

Example 8: From the following Receipt and Payment Account of Mohan Music Club, prepare Income and Expenditure Account for the year ending December 31, 2013 and Balance Sheet as on that date.

Mohan Music Club Receipts and Payment Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Balance b/d	
Cash in Hand	4,160	Bank Overdraft	5,880
		Prizes Distributed	1,320
Subscription		Rent, Rates and Taxes	2,370
2012	880	Wages and Salaries	3,450
2013	10,800	Postage and Courier	1,830
2014	1,560	Entertainment Expenses	2,180
	13,240	Telephone Expenses	2,550
Tuition Fees	4,560	Municipal Taxes	1,980
Sundry Incomes	2,080	Water and Electric Charges	2,410
Dividend Received	850	Books Purchased	5,200
Interest on Prize Funds Investments	1,800	Balance c/d	
Balance c/d		Cash in Hand	6,050
Bank Overdraft	8,530		
	35,220		35,220

Additional Information:

- (1) There are 110 members each paying an annual subscription of Rs 100.
- (2) Municipal Taxes has been paid up to March 31, 2014.
- (3) Position of Assets and Liabilities as on January 01, 2013.

Particulars	Amount
-------------	--------

	(Rs)
Furniture	15,000
Books	2,800
Prize Fund Investments @6%	40,000
Investment in Shares of KKR Ltd.	20,000
Prize Funds	55,000
Subscription Outstanding	1,100

(4) Depreciate books by 8% and Furniture by 10%

Solution

Mohan Music Club
Income and Expenditure Account
for the year ending December 31, 2013

Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
Rent, Rates and Taxes	2,370	Subscription (110 × 100)	11,000
Wages and Salaries	3,450	Tuition Fees	4,560
Postage and Courier	1,830	Sundry Incomes	2,080
Entertainment Expenses	2,180	Dividend Received	850
Telephone Expenses	2,550		
Municipal Taxes 1,980			
Less: Prepaid (1,980 × 3/12) (495)	1,485		
Water and Electric Charges	2,410		
Depreciation			
Books 640			
Furniture 1,500	2,140		
Surplus (<i>Excess of Income over the Expenditure</i>)	75		
	18,490		18,490

Balance Sheet

as on December 31, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund		Furniture	15,000
Opening Balance	22,180	<i>Less: Depreciation @10%</i>	(1,500)
<i>Add: Surplus</i>	75	Books	2,800
	22,255	<i>Add: Purchased</i>	5,200
Prize Funds	55,000		8,000
<i>Add: Interest on Prize Fund Investments</i>	2,400	<i>Less: Depreciation @8%</i>	(640)
<i>Less: Prizes Distributed</i>	(1,320)	Prepaid Municipal Taxes	495
Subscription Received in Advance	1,560	Investment in Shares of KKR Ltd	20,000
Bank Overdraft	8,530	Subscription Outstanding	
		2013 (11,000 – 10,800)	200
		2012 (1,100 – 880)	220
		Prize Fund Investments @8%	40,000
		<i>Add: Accrued Interest (2,400 – 1,800)</i>	600
		Cash	6,050
	88,425		88,425

Working Notes:

(1) Calculation of Capital Fund:

Balance Sheet			
<i>as on January 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	22,180	Furniture	15,000
Prize Funds	55,000	Books	2,800
Bank Overdraft	5,880	Prize Fund Investments @6%	40,000
		Investment in Shares of KKR Ltd.	20,000
		Cash	4,160
		Subscription Outstanding	1,100
	83,060		83,060

Example 9: From the following particulars prepare Income and Expenditure Account for the year ending March 31, 2013 and the Balance Sheet as at that date:

Rajesh Sports Club Receipts and Payment Account <i>for the year ending March 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Expenditure on Construction of Building	40,000
Cash in Hand	34,000	Sports prizes awarded	8,500
Subscription Received		Expenses on Sports Matches	7,200
2011-12 3,210		Travelling Expenses	4,600
2012-13 11,850		Restaurant Expenses	3,500
2013-14 4,650	19,710	Rent, Rates and Taxes	2,800
Donation for Building Fund	50,000	Honorarium to Secretary	6,500
Donation for Sports Fund	30,000	Postage and Telegram	4,700
Interest on Sports Funds Investments	3,600	Medicines Purchased	2,500
Restaurant Receipts	5,400	General Expenses	8,600
		Balance c/d	
		Cash in Hand	53,810
	1,42,710		1,42,710

Additional Information:

(1) There are 120 members each paying an annual subscription of Rs 100. Rs 500 were outstanding for 2011-12 as on April 01, 2012.

(2) Position of Assets and Liabilities as on April 01, 2012:

Particulars	01.04.2012
Liabilities:	
Building Fund	70,000
Sports Fund	50,000

Assets:	
Sports Fund Investments	45,000
Land	80,000
Furniture	35,000
Sports Equipment	25,000

(3) Depreciation to be charged on Furniture @10% p.a. and on Sports Equipment @12% p.a.

Solution

Income and Expenditure Account <i>for the year ending March 31, 2013</i>			
Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
Travelling Expenses	4,600	Subscription (120 × 100)	12,000
Rent, Rates and Taxes	2,800	Restaurant Receipts	5,400
Honorarium to Secretary	6,500	Less: Restaurant Expenses	(3,500)
Postage and Telegram	4,700	Deficit (Excess of expenditures over incomes)	1,900
Medicines Purchased	2,500		22,300
General Expenses	8,600		
Depreciation:			
Furniture	3,500		
Sports Equipment	3,000		
	6,500		
	36,200		36,200

Balance Sheet				
as on <i>March 31, 2013</i>				
Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening Balance)	1,02,710		Cash in Hand	53,810
<i>Less: Deficit</i>	(22,300)		Land	80,000
<i>Add: Transferred from building fund</i>	40,000			

		1,20,410			
Building Fund	70,000		Furniture	35,000	
Add: Donation	50,000		Less: Depreciation @10%	(3,500)	31,500
	1,20,000		Sports Equipment	25,000	
Less: Transferred to capital fund	(40,000)	80,000	Less: Depreciation @12%	(3,000)	22,000
Sports Fund	50,000		Subscription Outstanding		
Add: Donation	30,000		2012-13 (12,000 – 11,850)	150	
Add: Interest on Sports Fund	3,600		2011-12	500	650
Investments	83,600		Sports Fund Investments		45,000
			Building in Progress		40,000
Less: Sports prizes awarded	(8,500)	67,900			
Expenses on Sports Matches	(7,200)	4,650			
Subscription Received in Advance		2,72,960			2,72,960

Working Notes:

(1) Calculation of Capital Fund:

Balance Sheet as on <i>April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	1,02,710	Cash in Hand	34,000
Building Fund	70,000	Land	80,000
Sports Fund	50,000	Furniture	35,000
		Sports Equipment	25,000
		Sports Fund Investments	45,000
		Subscription Outstanding (500+3,210)	3,710
	2,22,710		2,22,710

Entrance Fees, Life Membership Fees and Special Receipts

Objectives

After going through this lesson, you shall be able to understand the accounting treatment of the following items.

- Life Membership Fees
- Entrance Fees
- Special Receipts

Life Membership Fees

These are the lump-sum fees that are paid only once in a lifetime by every member of a NPO. In exchange of these fees, the members can continue his/her membership with the NPO throughout his/her life.

Accounting Treatment of Life Membership Fees

As Life Membership Fee is paid only once during an entire lifetime of a member, so it is treated as capital in nature. Now, as we have learnt in the earlier lessons that the items of capital nature are shown in the Balance Sheet, so in this manner, Life Membership Fees are shown as an addition to the Capital Fund on the Liabilities side of the Balance Sheet.

Balance Sheet			
Liabilities	Amount	Assets	Amount
Capital Fund			
+ Life Membership Fee **			
+ Surplus or **			
- Deficit **	***		

Important Points!!

- + Life Membership Fees is a Capital nature item and is shown on the Liabilities side of the Balance Sheet as an addition to the Capital Fund
- + Life Membership Fees is not shown anywhere in the I & E A/c

Example-1: Capital Fund is Rs 67,000 and Life Membership Fees received during the year amounted to Rs 11,000. Show these items in the books of NPO.

Solution

Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund 67,000	78,000		
Add: Life Membership Fees 11,000			

Example-2: Following is the extract of Receipts and Payments Account of Singhanian Health Club. Show the accounting treatment of Life Membership Fees in the books of the Club.

Singhanian Health Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.			Cr.
Receipts	Amount (Rs)	Payments	Amount (Rs)

Balance b/d			
Cash in Hand	5,110		
Cash at Bank	6,820		
Life Membership Fees	8,060		

Other Information:

- i. Capital Fund as on January 01, 2013 is Rs 42,500
- ii. Deficit amounts to Rs 13,000

Solution

Balance Sheet of Singhania Health Club
as on December 31, 2013

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening)	42,500			
Less: Deficit	(13,000)			
Add: Life Membership Fees	8,060	37,560		

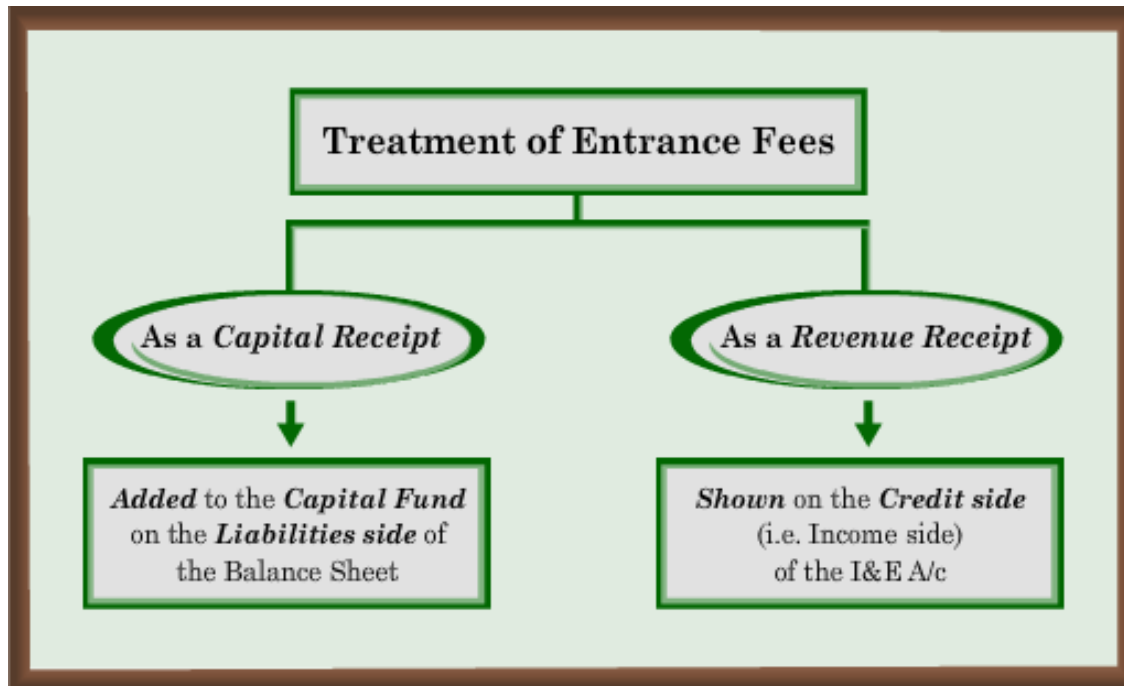
Entrance Fees

This is another important source of income for a NPO. As can be easily inferred from the name itself, such fees are paid at the time of joining a NPO. In different words, entrance fees are paid by an individual at the time of becoming a member of an organisation.

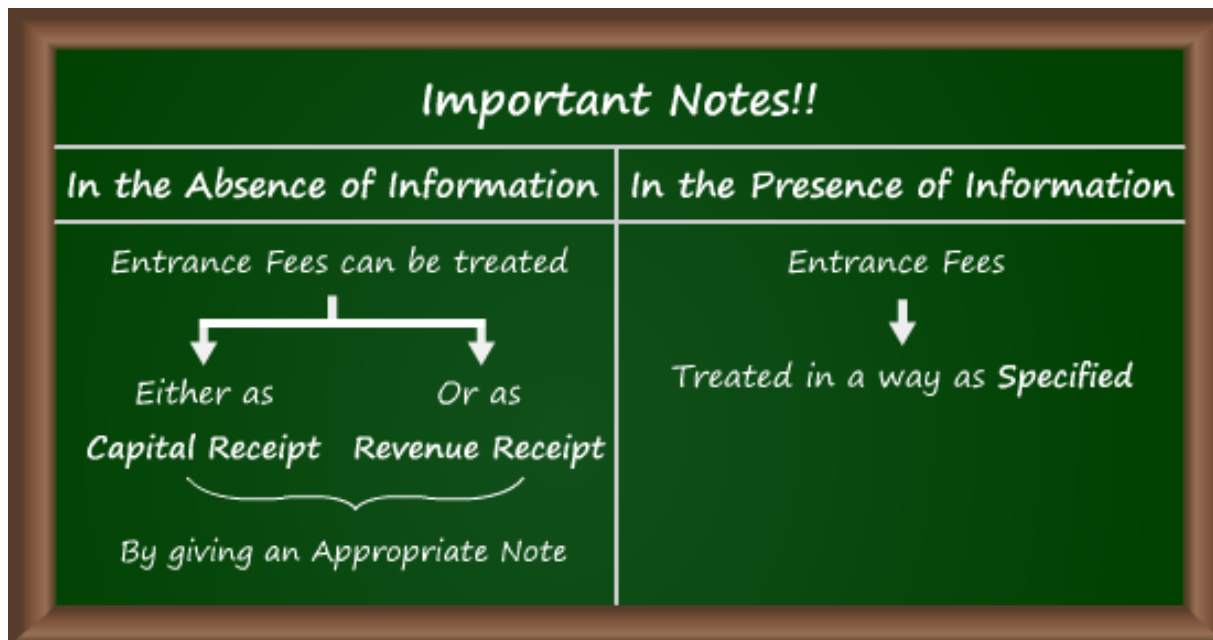
Accounting Treatment of Entrance Fees

Generally, there exists two different views regarding the accounting treatment of such fees. One set of experts argues that as entrance fees are paid only once by a member during his/her entire lifetime, so such fees should be treated as capital in nature. On the other hand, another set of experts argues that as these fees are received by a NPO every year (on the admission of new members) and hence these forms a regular source of income, so these fees should be treated as revenue in nature. Thus, on the basis of these two different views, the accounting treatment of Entrance fees can be bifurcated into two types (depending on whether such fees are treated as capital or as revenue).

- i. ***If Entrance Fees are treated as Capital Receipt-*** In this case, such fees are added to the Capital Fund on the Liabilities Side of the Balance Sheet.
- ii. ***If Entrance Fees are treated as Revenue Receipt-*** In this case, such fees are shown on the Income side (i.e. *Credit*) of the Income and Expenditure Account.



Important Note



Example 3: Show the treatment of Entrance Fees in the books of Social Planet Club under the following cases.

Case a: Entrance Fees of Rs 50,000 received and Club has a policy of treating Entrance Fees as a revenue income.

Case b: Entrance Fees of Rs 50,000 received and Club has a policy of treating Entrance Fees as a capital receipt.

Case c: Entrance Fees of Rs 50,000 received and Club has a policy of treating 75% of Entrance Fees as a capital receipt and remaining as revenue receipt.

Case d: Entrance Fees of Rs 50,000 received.

Solution

Case a: In this case, as treatment of Entrance Fees is explicitly mentioned in the question as of revenue nature, so it will be shown on the credit side of Income and Expenditure Account.

Income and Expenditure Account			
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Entrance Fees	50,000

Case b: In this case, as treatment of Entrance Fees is explicitly mentioned in the question as of capital nature, so, it will be added to the Capital Fund on the Liabilities Side of the Balance Sheet.

Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund	–		
Add: Entrance Fees	50,000		

Case c: In this case, Rs 37,500 (i.e. 75% of entrance fees) is to be treated as of capital nature, so it will be added to the Capital Fund on the Liabilities Side. On the other hand, Rs 12,500 (i.e. 25% of entrance fees) will be shown on the Credit side of the Income and Expenditure Account.

Income and Expenditure Account			
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Entrance Fees (<i>Revenue</i>)	12,500

Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund	–		
Add: Entrance Fees (<i>Capital</i>)	37,500		

Case d: In this case, as nothing has been mentioned in the question regarding the treatment of the Entrance Fees, so we can either treat the fees as of revenue nature or of capital nature. Here, we have treated the Entrance Fees as of revenue nature.

Income and Expenditure Account

Expenditure	Amount (Rs)	Income	Amount (Rs)
		Entrance Fees	50,000

Note: Entrance Fees are treated as revenue receipt.

Example 4: Using the following extract of the Receipts and Payments Account of Malhotra Dramatics Club, show the accounting treatment of relevant items in the books of the Club.

Malhotra Dramatics Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d			
Cash in Hand	4,850		
Cash at Bank	3,120		
Life Membership Fees	56,000		
Entrance Fees	20,000		

Other Information:

- i. 60% of the Entrance Fees is to be capitalised.
- ii. Capital Fund is Rs 60,000
- iii. Deficit in Income and Expenditure Account is Rs 39,000.

Solution

Malhotra Dramatics Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>	
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Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
		Entrance Fees ($40\% \times 20,000$)	8,000

Balance Sheet of Malhotra Dramatics Club
as on December 31, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening)	60,000		
Add: Life Membership Fees	56,000		
Add: Entrance Fees ($60\% \times 20,000$)	12,000		
Less: Deficit	(39,000)		
	89,000		

Special Receipts

These receipts are very occasional in nature. These are received on some certain occasions such as Annual Function, Fests, Foundation Day celebration, Silver Jubilee, Golden Jubilee, etc.

Accounting Treatment of Special Receipts

For accounting of special receipts, a separate account is created. For example, for Annual Function, Annual Function Account is created. After this, all the receipts and contributions related to this occasion are credited to Annual Function Account. Similarly, all related expenses are debited to this account. The final balance of the account is transferred to the Income and Expenditure Account (I&E A/c).

If, Credit side	>	Debit side	} → Balancing figure is shown on <u>Credit</u> side of I&E A/c
(Incom es)	>	(Expenses)	
Or, Credit side	<	Debit side	} → Balancing figure is shown on <u>Debit</u> side of I&E A/c
(Incom es)	<	(Expenses)	

Example 5: Joy Old Age Home, a not-for-profit organisation, receives Rs 65,000 as a contribution for the annual dinner. The actual dinner expenses come to Rs 59,000. Show its treatment in its books.

Solution

Particulars	Amount (Rs)
Annual Dinner Receipts	65,000
Less: Annual Dinner Expenses	(59,000)
Balancing Figure	6,000

The positive balancing figure implies there is an excess of receipts over its expenses, thus the final balance of Rs 6,000 will be shown on the Credit Side (i.e. Income Side) of the I&E A/c.

Income and Expenditure Account			
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Annual Dinner Receipts	6,000

Example 6: Little Social Club, organises a drama event. The receipts from the drama show amounted to Rs 29,000 and expenses were Rs 38,000. Also, there were some proceeds from the sale of drama-show tickets, which amounted to Rs 5,000. Show the treatment of relevant items in the books of the organisation.

Solution

Particulars	Amount (Rs)
Receipts from Drama Show	29,000

Add: Proceeds from sale of Tickets	5,000
Less: Drama Show Expenses	(38,000)
Balancing Figure	(4,000)

The negative balancing figure implies there is an excess of expenses over its receipts, thus the final balance of Rs 4,000 will be shown on the Debit Side (i.e. Expenditure Side) of the I&E A/c.

Income and Expenditure Account			
Expenditure	Amount (Rs)	Income	Amount (Rs)
Drama Show Expenses	4,000		

Example 7: From the following information of Modern Social Club, prepare Income and Expenditure Account and the Balance Sheet for the year ending December 31, 2013.

Modern Social Club Receipts and Payment Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Prizes distributed	6,200
Cash at Bank	18,200	Salaries paid	9,500
Subscription		Printing and Stationery expenses	3,150
2012	5,600	Furniture purchased	16,000
2013	12,500	Audit Fees	8,500
2014	7,200	Postage and Telegram	4,950
Life Membership Fees	15,000	Bank Charges	4,670
Donations (General)	15,000	Repairs and Maintenance	3,480
Entrance Fees	12,000	Telephone Expenses	7,490
Donation for the Prize Fund	8,000	Sundry Expenses	8,350
Interest on Investments	4,800	Balance c/d	
		Cash at Bank	26,010

	98,300		98,300

Additional Information:

- i. Club has 130 members each paying an annual subscription of Rs 100 each. Rs 6,000 were outstanding subscription at the end of the previous year.
- ii. At the end of the year 2013 Outstanding Salaries were Rs 3,600.
- iii. 50% of the entrance fees are to be capitalized.
- iv. Life Membership Fees and Donations (General) are to be capitalized..
- v. Assets as on Jan.01, 2013 are Furniture Rs 14,000, Car Rs 80,000, Building Rs 60,000 and Investments @8% Rs 70,000.
- vi. Balance of Prize Fund as on Jan.01, 2013 Rs 30,000
- vii. Provide depreciation on: Furniture @10% p.a., on Car @15% p.a. and on Building @ 5% p.a.

Solution

Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
Salaries paid 9,500		Subscription (130 × 100)	13,000
Add: Salaries Outstanding 3,600	13,100	Entrance Fees (50%)	6,000
Printing and Stationery expenses	3,150	Interest on Investments 4,800	
Audit Fees	8,500	Add: Accrued Interest 800	5,600
Postage and Telegram	4,950	Deficit (Excess of Expenditures over Incomes)	47,090
Bank Charges	4,670		
Repairs and Maintenance	3,480		
Telephone Expenses	7,490		

Sundry Expenses		8,350		
Depreciation				
Furniture	3,000			
Car	12,000			
Building	3,000	18,000		
		71,690		71,690

Balance Sheet as on <i>December 31, 2013</i>				
Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening Balance)	2,18,200	2,07,110	Cash at Bank	26,010
<i>Add: Life Membership Fees</i>	15,000		Furniture	14,000
<i>Add: Donations</i>	15,000		<i>Add: Purchased</i>	16,000
<i>Add: Entrance Fees</i>	6,000			30,000
<i>Less: Deficit</i>	(47,090)		<i>Less:</i>	(3,000)
			Depreciation@10%	
Prize Fund	30,000	31,800	Car	80,000
<i>Add: Donation</i>	8,000		<i>Less:</i>	(12,000)
			Depreciation@15%	
	38,000		Building	60,000
<i>Less: Prizes awarded</i>	(6,200)		<i>Less: Depreciation@5%</i>	(3,000)
Subscription Received in Advance		7,200	Subscription Outstanding	
Salaries Outstanding		3,600	2013 (13,000 – 12,500)	500
			2012 (6,000 – 5,600)	400
			Investments @8%	70,000
			<i>Add: Accrued Interest</i>	800
		2,49,710		2,49,710

Working Notes:

(1) Calculation of Capital Fund:

Balance Sheet

as on January 01, 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	2,18,200	Cash at Bank	18,200
Prize Fund	30,000	Subscription Outstanding	6,000
		Furniture	14,000
		Car	80,000
		Building	60,000
		Investments @ 8%	70,000
	2,48,200		2,48,200

Example 8: From the following information of Shahid Club, prepare Income and Expenditure Account for the year ending December 31, 2013 and the Balance Sheet as on that date.

Shahid Club Receipts and Payment Account <i>for the year ending December 31, 2013</i>			
Dr.			Cr.
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salaries	8,200
Cash in Hand	25,600	Printing and Stationery Expenses	6,500
Subscription		Singing Show Expenses	3,200
2012	2,800	Tournament Expenses	8,940
2013	19,200	Municipality Taxes	2,880
2014	4,500	Office Expenses	3,250
Tournament Fund	12,000	Electricity Charges	4,060
Entrance Fees	7,500	Cleaning Charges	1,590
Proceeds from Singing Show tickets	4,800	Purchase of Land	65,000
Endowment Funds	10,500	Meeting Expenses	5,500
Legacies	30,000	Balance c/d	
		Cash in Hand	7,780
	1,16,900		1,16,900

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Other Information:

- i. Club has 300 members each paying annual subscription of Rs 100. In 2012, 50 members has paid their subscription for 2013 as well.
- ii. Club has paid Municipal Taxes amounting Rs 2,880 p.a. upto March 31, 2014.
- iii. Club has Furniture of Rs 30,000 and Musical Instruments of Rs 50,000 on January 01, 2013.
- iv. Electricity Charges Outstanding for the month of December 2013 Rs 850 and office expenses of Rs 500 was due both at the beginning and at the end of the year.
- v. Entrance Fee to be treated as revenue and legacies are to be capitalized.

Solution

Income and Expenditure Account <i>for the year ending 31 December, 2013</i>				
Dr.		Cr.		
Expenditures	Amount (Rs)	Incomes	Amount (Rs)	
Salaries	8,200	Subscription Received	19,200	30,000
Printing and Stationery Expenses	6,500	Add: Subscription Received in advance as on Jan.01, 2013	5,000	
Municipality Taxes	2,880	Add: Subscription Outstanding as on Dec.31, 2013 (30,000 – 5,000 – 19,200) (WN2)	5,800	
Less: Prepaid Taxes (2,880 × 3/12)	(720)	Proceeds of Singing Show tickets	4,800	1,600
Office Expenses	3,250	Less: Singing Show Expenses	(3,200)	
Add: Office Expenses Outstanding as at Dec.31, 2013	500	Entrance Fees		
Less: Office Expenses Outstanding as at Jan.01, 2013	(500)			7,500
Electricity Charges	4,060			
Add: Electricity Charges Outstanding as at Dec.31, 2013	850			
	4,910			

Cleaning Charges	1,590	
Meeting Expenses	5,500	
Surplus (<i>Excess of Income over Expenditure</i>)	6,990	
	39,100	39,100

Balance Sheet as on <i>December 31, 2013</i>				
Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital Fund (Opening Balance)	1,02,900		Cash in Hand	7,780
<i>Add: Surplus</i>	6,990	1,09,890	Furniture	30,000
Endowment Funds		10,500	Musical Instruments	50,000
Legacies		30,000	Land	65,000
Tournament Fund	12,000		Subscription Outstanding	5,800
<i>Less: Tournament Expenses</i>	(8,940)	3,060	Prepaid Municipal Taxes	720
Electricity Expenses Outstanding		850		
Office Expenses Outstanding		500		
Subscription Received in Advance		4,500		
		1,59,300		1,59,300

Working Notes:

(1) Calculation of Capital Fund

Balance Sheet as on <i>January 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	1,02,900	Cash in Hand	25,600
Office Expenses Outstanding	500	Furniture	30,000
Subscription Received in Advance	5,000	Musical Instruments	50,000

		Subscription Outstanding	2,800
	1,08,400		1,08,400

(2) Calculation of Subscription Outstanding as on December 31, 2013

Particulars	Amount (Rs)
Total Subscription Receivable (300 members × Rs 100 each)	30,000
Less: Amount Received during the year	(19,200)
Balance	10,800
Less: Advance received during the previous year	(5,000)
Outstanding Subscription for 2013	5,800

Donation/Aids- Specific and General, Legacy

Objectives

After going through this lesson, you shall be able to understand the accounting treatment of the following items.

- Donations
- Legacies
- Government Aid

Donations

These are second most important source of income for a NPO. These are basically received in form of charity. These are the gifts, which are normally received in cash and in some cases in form of assets. Usually, donations are received from the members of a NPO, however, there are times, when donations are also received from external sources such as from top-ranked organisations like WHO, UNICEF and from elite people as well.

Types of Donations

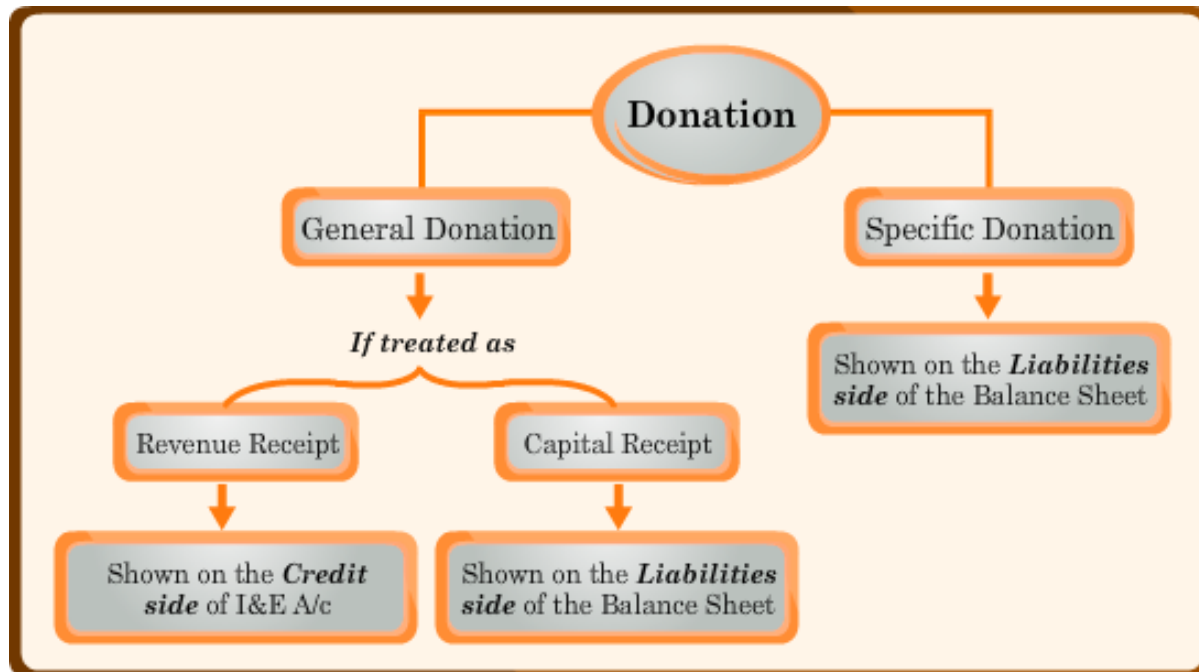
For purpose of accounting treatment, donations can be classified into two broad categories.

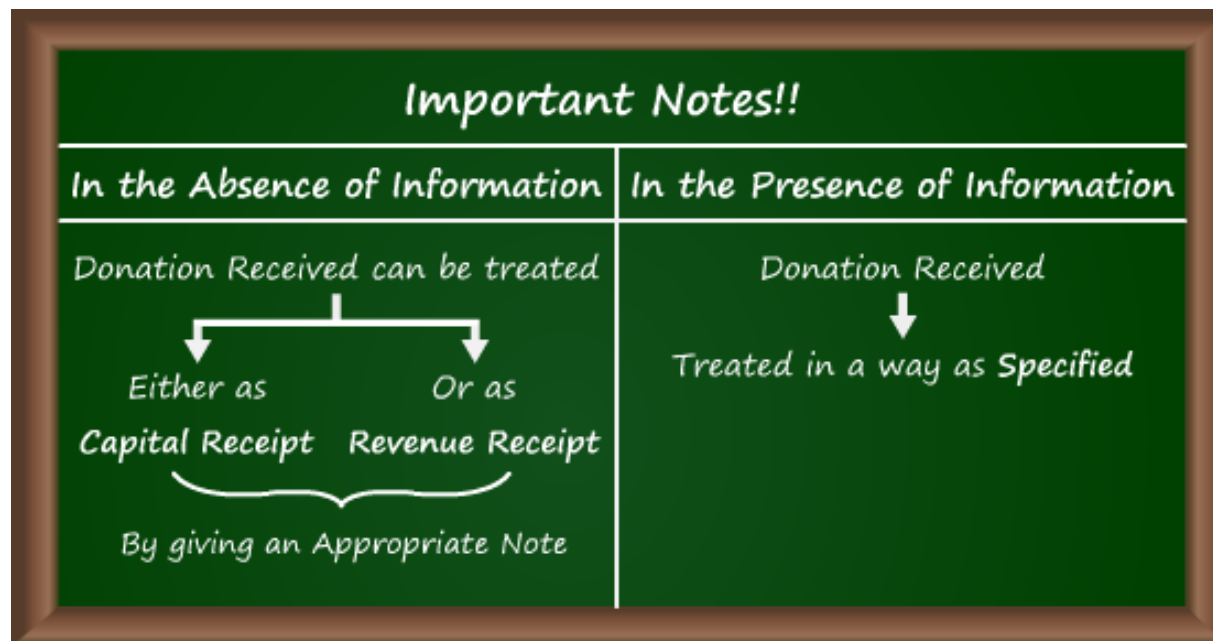
- i. **General Donations-** Such donations are received without any specific conditions of use. Thus, as these types of donations do not carry any specific conditions, so these amounts can be utilised for meeting any purposes (i.e. general purposes).
- ii. **Specific Donations-** Unlike the general donations, specific donations are received with some specific conditions attached to their use. These donations can only be used for the purpose for which these are received by the organisation. *For example*, if a NPO receives donation for extension of pavilion, then this amount can only be used for this specific purpose only (i.e. for extension of pavilion). Some other examples of Specific Donations are donation for construction of canteen, donation for building, etc.

Accounting Treatment of Donations

The given below are the accounting treatment of General Donations and Specific Donations.

- i. **General Donations-** As these donations are general in nature, so these are treated as *revenue receipts* of a NPO. Accordingly, these donations are shown on the credit side (i.e. Income side) of the Income and Expenditure Account.
- ii. **Specific Donations-** These donations are capital in nature as they are specific in nature. These donations are added to the respective funds and are shown on the Liabilities side of the Balance Sheet. In case, there is no existing fund maintained for the specific donation, then the same will be directly shown on the Liabilities Side of the Balance Sheet.





It should be noted that if the amount of General Donation is huge, then, it can be treated as a capital receipt on the assumption that such heavy funds are not likely to be received every year. In this case, these donations are shown separately on the Liabilities Side of the Balance Sheet.

Example 1: Show the treatment of Donation in the books of Vicky Sports Club in the following given cases.

Case a: Donation received Rs 30,000 for general purpose.

Case b: Donation received Rs 30,000 for Construction of Stadium and there is no specific fund for this.

Case c: Donation received Rs 30,000 for Construction of Pavilion and Pavilion Fund exists Rs 25,000.

Case d: Donation received of Rs 30,000.

Solution

Case a: As donation of Rs 30,000 is received for general purpose, so this will be shown on the credit side (i.e. Income Side) of the Income and Expenditure Account.

Income and Expenditure Account			

Expenditure	Amount (Rs)	Income	Amount (Rs)
		Donations	30,000

Case b: As here donation of Rs 30,000 is received especially for the construction of Stadium and also here no specific fund is given for this in the question, so the donation for the construction of stadium will be shown on the Liabilities Side of the Balance Sheet.

Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Donation for Construction of Stadium	30,000		

Case c: Here, donation is received especially for the construction of pavilion and also, we have been given Pavilion Fund of Rs 25,000, thus, in this case, donation so received is shown as addition to the Pavilion Fund on the Liabilities Side of the Balance Sheet.

Balance Sheet <i>as on...</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Pavilion Fund 25,000	55,000		
<i>Add:</i> Donation 30,000			

Case d: Here, as the donation so received does not carries any specific condition attached to it, so we can either treat it as of capital or of revenue nature. Here, we have assumed this to be of revenue nature and i.e. why we have shown it on the Income side of the Income and Expenditure Account. Also, in this case, we need to express our assumption by appropriate footnote (as given below the I&E A/c).

Income and Expenditure Account			
Expenditure	Amount	Income	Amount

	(Rs)		(Rs)
		Donations	30,000

Note: Donations received is treated as a general donation of revenue nature.

Example-2: Using the following extract of Receipts and Payments Account of Sudesh Sports Club, show the accounting treatment of Donations in the books of the Club.

Sudesh Sports Club Receipts and Payments Account for the year ending December 31, 2013			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
General Donation Received	40,000		
Donation Received for Construction of Building	60,000		

Other Information: It is a policy of Club to capitalise 30% of General Donations received. Capital Fund as on January 01, 2013 is Rs 52,800.

Solution

Sudesh Sports Club Income and Expenditure Account for the year ending December 31, 2013			
Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
		General Donations(70% × 40,000)	28,000

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Balance Sheet <i>as on December 31, 2013</i>			
Liabilities		Amount (Rs)	Assets Amount (Rs)
Capital Fund (Opening)	52,800		
Add: General Donations (30% × 40,000)	12,000	64,800	
Donation Received for Construction of Building		60,000	

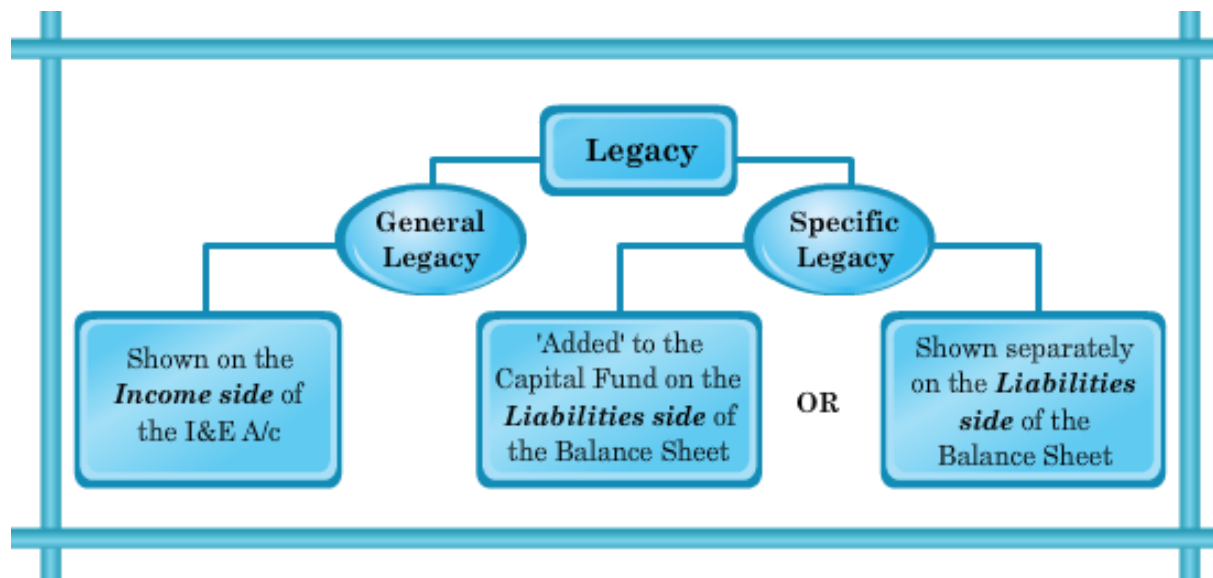
Legacy

It is a kind of donation that is received by NPOs as per the will of a deceased person. As it is a kind of donation, so the accounting treatment of legacy remains the same as that of the donations. If the donor or the deceased person has not specified any specific conditions for the use of the legacy amount, then such legacies are regarded as *General Legacies* (or *General Donations*). On the other hand, if any specific condition is attached to the legacy regarding its use, then such legacies are treated as *Specific Legacies* (or *Specific Donations*).

Accounting Treatment of Legacy

The accounting treatment of legacy depends on the type of legacy.

- i. **General Legacy-** It is considered as a *revenue receipt* for a NPO and is shown on the credit side (i.e. Income Side) of the Income and Expenditure Account.
- ii. **Specific Legacy-** It is considered as a *capital receipt*. It can be either directly shown as addition to the Capital Fund or can be shown separately on the Liabilities side of the Balance Sheet.



Example-3: Using the following extract of Receipts and Payments Account of Krushna Yoga Club, show the accounting treatment of legacy in both the cases.

Krushna Yoga Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Legacies Received	60,000		

Other Information: Capital Fund as on January 01, 2013 is Rs 45,560.

Show the accounting treatment of Legacies in the books of the Club under following two cases:

Case 1: Legacies received are general legacies.

Case 2: Legacies received are the specific legacies with the attached instruction that its amount is to be utilised for the purpose of buying land for the club.

Solution

Case 1: As the legacies received are general legacies, so these will be shown on the Income side of the Income and Expenditure Account.

Krushna Yoga Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
		Legacies Received(General)	60,000

Case 2: In this case, the legacies are received with specific condition attached regarding the use of the amount especially for the purpose of purchase of land. Thus, the legacies so received is specific in nature, hence this can be shown either as additions to the Capital Fund or can be shown separately on the Liabilities side of the Balance Sheet.

Balance Sheet of Krushna Yoga Club <i>as on December 31, 2013</i>			
Liabilities		Amount (Rs)	Assets
Capital Fund (Opening)	45,560	1,05,560 OR 60,000	
Add: Specific Legacies	60,000		
OR			
Legacies received for the purpose of purchasing Land			

Government Aid and Government Grant

Government grants and aids are basically the helps that are rendered by government to the NPOs in form of cash or non-cash items (such as government granted a piece of land to a NPO to extend the cricket ground). There are numerous NPOs for example, schools, colleges, hospitals, etc. which are dependent on such aids and grants by government.

Types and Accounting Treatment of Government Aids and Grants

The government grants can be bifurcated into two types- General Grants and Specific Grants. Depending on the type of the grants, the accounting treatment also differs.

- i. **General Grants-** These grants are non-specific in nature. That is, such grants can be utilised for fulfilling the general purposes. In this way, similar to general donations and general legacies, the general grants are considered as revenue incomes for the NPOs and are shown on the *credit side* (i.e. Income side) of the Income and Expenditure Account.
- ii. **Special Grants-** These grants are very specific in nature and can only be utilised for fulfilling the particular purposes for which the grants have been received. These grants are considered as capital receipts, thereby, can either be shown as additions to the Capital Fund or it can be shown separately in the Balance Sheet.

Note: Any subsidy received from government in cash is treated as a revenue income for the year in which it is received and shown on the Credit Side (i.e. Income Side) of the Income and Expenditure Account.

Example-4: Using the following extract of Receipts and Payments Account of Rajiv Music and Dance Club, show the accounting treatment of government grants in both the cases.

Rajiv Music and Dance Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Government Aid	30,000		

Other Information: Capital Fund as on January 01, 2013 is Rs 28,820.

Show the accounting treatment of Legacies in the books of the Club under following two cases:

Case 1: Government Aid received for general purpose.

Case 2: Government Aid received for the purpose of construction of building of Club.

Solution

Case 1: As the government aid so received does not carry any specific condition attached with it, so this aid is general government aid.

Rajiv Music and Dance Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)
		Government Aid (General)	30,000

Case 2: In this case, the government aid is received especially for the purpose of construction of building of club, so this is a specific government grant.

Balance Sheet of Rajiv Music and Dance Club <i>as on December 31, 2013</i>			
Liabilities		Amount (Rs)	Assets
Capital Fund (Opening)	28,820		
Add: Specific Government Grant	30,000	58,820	
OR		OR	
Government Aid received for the purpose of construction of Building of Club		30,000	

Comprehensive Examples

Example-5: On April 01, 2012 Sushil Music and Drama Club has started its operations with the following assets:

Particulars	Amount (Rs)
Cash in Hand	4,500
Cash at Bank	3,800
Club Land	60,000
Musical Instruments	25,000
Other Equipment	12,000

The Receipts and Payments Account of the club for the year ending March 31, 2013 is given below.

Sushil Music and Drama Club Receipts and Payment Account <i>for the year ending March 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Printing and Stationery	3,250
Cash in Hand	4,500	Postage and Courier	1,580
Cash at Bank	3,800	Rent	4,200
Subscription Received	12,450	Telephone Expenses	2,050
Collection from Annual Function	10,620	Secretary's Expenses	5,050
Competition Fees	8,760	Competition Prizes	6,120
Grant from State Govt.	15,200	Purchase of Water Cooler	8,500
Donations	12,000	Entertainment Expenses	2,560
Receipt from Sponsored Walk	5,600	General Expenses	1,320
		Rates and Taxes	2,100
		Balance c/d	
		Cash in Hand	16,200
		Cash at Bank	20,000
	72,930		72,930

Additional Information:

1. On March 31, 2013 Subscription amounting Rs 1,850 was outstanding and Rs 1,420 were paid in advance.
2. Purchased a Television Set worth Rs 15,560 in the month of January 2013, but the amount was not paid till the end of the year.
3. Rent for three months amounting Rs 1,200 was paid in advance and Rs 600 was due for Telephone bill on March 31, 2013.
4. One-fourth of the entertainment expenses relates to the next year.
5. Provide depreciation on Equipment @10%.

6. Capitalise Donation and Grant received from State Govt.

Prepare Income and Expenditure Account for the year ending March 31, 2013 and Balance Sheet as on that date.

Solution

Sushil Music and Drama Club Income and Expenditure Account <i>for the year ending March 31, 2013</i>				
Dr.			Cr.	
Expenditures	Amount (Rs)	Incomes	Amount (Rs)	
Printing and Stationery	3,250	Subscription	12,450	
Postage and Courier	1,580	Add: Subscription Outstanding as on March 31, 2013	1,850	
Rent	4,200	Less: Subscription received in advance as on March 31, 2013	(1,420)	12,880
Less: Prepaid Rent	(1,200)	Collection from Annual Function		10,620
Telephone Expenses	2,050	Receipt from Sponsored Walk		5,600
Add: Telephone Expenses Outstanding	600	Competition Fees	8,760	
Secretary's Expenses	5,050	Less: Competition Prizes	(6,120)	2,640
Entertainment Expenses	2,560			
Less: Prepaid Entertainment Expenses (2,560 × 1/4)	(640)			
General Expenses	1,320			
Rates and Taxes	2,100			
Depreciation on Equipment	1,200			
Surplus (<i>Excess of Income over the Expenditure</i>)	9,670			
	35,740			31,740

Balance Sheet <i>as on March 31, 2013</i>			
Liabilities	Amount	Assets	Amount

	(Rs)		(Rs)
Capital Fund		Cash in Hand	16,200
Opening Balance	1,05,300	Cash at Bank	20,000
Add: Surplus	9,670	Club Land	60,000
Grant from State Govt.	15,200	Musical Instruments	25,000
Donations	12,000	Other Equipment	12,000
Subscription Received in advance	1,420	Less: Depreciation @10%	(1,200)
Telephone Expenses Outstanding	600	Water Cooler	8,500
Supplier of Television Set	15,560	Television Set	15,560
		Subscription Outstanding	1,850
		Prepaid Rent	1,200
		Prepaid Entertainment Expenses	640
	1,59,750		1,59,750

Working Note: (1) Calculation of Capital Fund

Balance Sheet as on April 01, 2012			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	1,05,300	Cash in Hand	4,500
		Cash at Bank	3,800
		Club Land	60,000
		Musical Instruments	25,000
		Other Equipment	12,000
	1,05,300		1,05,300

Example- 6: From the following Receipts and Payment Account of Shahrukh Club, prepare Income and Expenditure Account for the year ending December 31, 2013 and its Balance Sheet as on that date.

Shahrukh Club Receipts and Payments Account for the year ending December 31, 2013	
Dr.	Cr.

Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Salary	8,700
Cash in Hand	12,000	Purchase of Investments @20%	25,000
Cash at Bank	15,000	Sundry Expenses	2,560
Subscription Received	10,500	Printing Expenses	1,850
Entrance Fees	15,000	Drama Expenses	6,140
Sale of Drama Tickets	8,250	Repair and Maintenance	3,050
Interest on Investments	4,500	Paper, Ink, etc	1,050
Donations	12,000	Petty Cash Payment	2,650
Interest Received from Bank	3,500	Advertisement Expenses	3,170
		Postage and Courier	2,220
		Balance c/d	
		Cash in Hand	11,900
		Cash at Bank	12,460
	80,750		80,750

Additional Information:

1. Subscriptions were outstanding for the year 2012 is Rs 1,460 and Subscription in Advance for the year 2013 is Rs 850.
2. One printing bill payment was outstanding with Rs 650.
3. Postage and Courier Charges were prepaid to the extent of Rs 920.
4. 80% of donations is to be capitalised and all entrance fees is to be treated as capital income.
5. Furniture costing Rs 30,000 was purchased last year and Rs 25,000 was paid for it.

Solution

Shahrukh Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.			Cr.
Expenditures	Amount	Incomes	Amount

		(Rs)			(Rs)
Salary		8,700	Subscription	10,500	
Sundry Expenses		2,560	Less: Subscription Outstanding as on Dec.31, 2012	(1,460)	
Printing Expenses	1,850		Less: Subscription received in advance as on Dec.31, 2013	(850)	8,190
Add: Outstanding Printing Expense	650	2,500	Donations (20%)		2,400
Postage and Courier Charges	2,220		Interest Received from Bank		3,500
Less: Prepaid Postage and Courier	(920)	1,300	Sale of Drama Tickets	8,250	
Repair and Maintenance		3,050	Less: Drama Expenses	(6,140)	2,110
Paper, Ink, etc		1,050	Interest on Investments	4,500	
Petty Cash Payment		2,650	Add: Accrued Interest	500	5,000
Advertisement Expenses		3,170	Deficit (<i>Excess of Expenditure over Income</i>)		3,780
		24,980			24,980

Balance Sheet as on December 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund		Cash in Hand	11,900
Opening Balance	53,460	Cash at Bank	12,460
Less: Deficit	(3,780)	Furniture	30,000
Entrance Fees	15,000	Prepaid Postage and Courier	920
Donations	9,600	Investments	25,000
Subscription Received in advance	850	Add: Accrued Interest	500
Outstanding Printing Expense	650		
Supplier of Furniture	5,000		
	80,780		80,780

Working Note: (1) Calculation of Capital Fund

Balance Sheet as on January 01, 2012			
Liabilities	Amount	Assets	Amount

	(Rs)		(Rs)
Capital Fund (<i>Balancing Figure</i>)	53,460	Cash in Hand	12,000
Supplier of Furniture	5,000	Cash at Bank	15,000
		Subscription Outstanding	1,460
		Furniture	30,000
	58,460		58,460

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Sale of Old Assets, Used Sports Material and Old Newspaper, Honorarium, Consumable Goods

Objectives

After going through this lesson, you shall be able to understand the accounting treatment of the following items.

- Sale of Old Assets
- Sale of Used Sports Material
- Sale of Old Newspaper and Magazines
- Payment of Honorarium
- Consumable Goods

Sale of Old Assets

When an asset is sold by a NPO, the proceeds from such sale are never shown in the Income and Expenditure Account.

This is because the sale of assets is non-recurring in nature i.e. it does not take place regularly in the business. Hence, it is treated as a capital receipt and not recorded in I&E Account. However, any profit or loss on the sale of assets is recorded in I&E Account.

<u>In case of <i>Profit</i> on Sale</u>	<u>In case of <i>Loss</i> on Sale</u>
<u>Sale Value > Book Value</u>	<u>Sale Value < Book Value</u>
⇓	⇓
Show on the <i>Income Side</i> of I&E A/c	Show on the <i>Expenditure Side</i> of I&E A/c

Note: In case the whole asset is not sold during the year, then, the book value of the part of asset so sold is deducted from the concerned asset on the Assets Side of the Balance Sheet.

Example 1: From the given below extract of Receipts and Payments Account, calculate the amount of profit or loss on sale of machinery. Also, show it in the Income and Expenditure Account.

Receipts and Payments Account			
Dr.			Cr.
Receipts	Amount (Rs)	Payments	Amount (Rs)
Sale of Machinery (Costing Rs 14,500)	18,500		

Solution

Calculation of Profit/Loss on the Sale of Machinery

Particulars	Amount (Rs)
Book Value of Machinery Sold	14,500
Less: Sale Value	(18,500)
<i>Profit on Sale of Machinery</i>	4,000

The profit on sale of machinery of Rs 4,000 will be shown on the Income side of the I&E A/c.

Income and Expenditure Account			
Dr.			Cr.
Expenditure	Amount	Income	Amount

	(Rs)		(Rs)
		Profit on Sale of Machinery	4,000

Example 2: From the given below extract of Receipts and Payments Account, calculate the amount of profit or loss on sale of motor vehicle. Also, show it in the Income and Expenditure Account.

Receipts and Payments Account			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Sale of Motor Vehicle (Costing Rs 46,000)	39,000		

Solution

Calculation of Profit/Loss on the Sale of Motor Vehicle

Particulars	Amount (Rs)
Book Value of Motor Vehicle Sold	46,000
Less: Sale Value	(39,000)
Loss on Sale of Motor Vehicle	7,000

The loss on sale of motor vehicle of Rs 7,000 will be shown on the Expenditure side of the I&E A/c.

Income and Expenditure Account			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Loss on Sale of Motor Vehicle	7,000		

Example 3: From the given below extract of Receipts and Payments Account of Shaimak Club, show the treatment of sale of furniture in the books of the Club.

Shaimak Club

Receipts and Payments Account
for the year ending December 31, 2013

Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Sale of Furniture (Costing Rs 2,500)	6,000		

Additional Information:

- a. Book value of furniture as on Jan. 01, 2013 was Rs 30,000.
- b. Depreciation on Furniture is 10% p.a.

Solution

Shaimak Club
Income and Expenditure Account
for the year ending December 31, 2013

Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Depreciation on Furniture*	2,750	Profit on Sale of Furniture (<i>WNI</i>)	3,500

Balance Sheet
as on December 31, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
		Furniture	30,000
		Less: Sold	(2,500)
			27,500
		Less: Depreciation @ 10%*	(2,750)
			24,750

Working Notes: Calculation of Profit/Loss on the Sale of Furniture

Particulars	Amount (Rs)
Book Value of Furniture Sold	2,500
Less: Sale Value	(6,000)
Profit on Sale of Furniture	3,500

Sale of Used Sports Material

Sports Materials are those items of an NPO which are consumable in nature. Any expenses incurred on purchases of sports material are recorded on the Debit Side (i.e. Expenditure Side) of the I&E Account. In a same way, after consuming or using such items, the proceeds from their sale is considered as revenue income and recorded on the Credit Side (i.e. Income Side) of the I&E A/c.

Example 4: Mohindra Sports Club purchased bats and balls for Rs 17,000. During the year, it also sold some of the old bats for Rs 7,800. Show these items in the books of the Club.

Solution

Income and Expenditure Account			
Expenditure	Amount (Rs)	Income	Amount (Rs)
Bats and Balls purchased	17,000	Sale of Bats and Balls	7,800

Sale of Old Newspaper, Magazines, etc.

The sale of items such as Old Newspapers, Magazines, etc. are recurring in nature and thus the amount received from the sale of such items is considered as revenue income. Therefore, it is shown on the *Credit Side* of the Income and Expenditure Account.

Example 5: How the following items will be treated in the books of Chanky Social Club.

Chanky Social Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>	
Dr.	Cr.

Receipts	Amount (Rs)	Payments	Amount (Rs)
Sale of Old Chairs	1,500		
Sale of Old Newspapers and Magazines	1,200		
Sale of Used Sports Materials	1,800		

Solution

Chanky Social Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
		Sale of Old Chairs	1,500
		Sale of Old Newspapers and Magazines	1,200
		Sale of used Sports Materials	1,800

Payment of Honorarium

It is a payment made to a person in respect of the work voluntarily done for an organisation. It is shown on the *Debit Side* (i.e. Expenditure Side) of the Income and Expenditure Account.

Consumable Goods

Every organisation, whether it is a profit-making organisation or a NPO, both consume various items of goods while carrying out its business activities. Such goods are known as consumable goods. Some of the examples are stationery, medicines, sports materials, etc. The consumed part of these consumable goods should be debited to the I&E A/c in order to get the true and correct figure of surplus or deficit during the year.

Suppose a NPO has a stock of stationery of Rs 2,000 in the beginning of the year. At the end of the year, it has left with the stock of only Rs 800. This implies that stock of Rs 1,200 (2,000 – 800) is used/consumed during the year. This consumed part of Rs 1,200 will be shown on the Expenditure side of the I&E A/c.

Purchases made during the year

Sometimes, a NPO may make the additional purchases of consumable goods during the year. In such a case, the amount of goods consumed during the year can be ascertained with the help of the following formula-

$$\text{Amount of Goods Consumed} = \text{Opening Stock of Consumable Goods} + \text{Purchases} - \text{Closing Stock of Consumable Goods}$$

The above formula can be presented in the statement form as follows.

Particulars	Amount (Rs)
Opening Stock of Consumable Goods	
<i>Add:</i> Purchases made during the year	
<i>Less:</i> Closing Stock of Consumable Goods	
<i>Amount of Goods Consumed during the year</i>	–

Example 6: From the given below information compute the amount of medicines consumed during the year.

Case a:

Particulars	Amount (Rs)
Stock of Medicine as on Jan. 01, 2013	25,700
Stock of Medicine as on Dec. 31, 2013	32,000
Purchases made during the year	49,500

Case b:

Particulars	Amount (Rs)
Stock of Medicine as on Dec. 31, 2013	15,000
Purchases made during the year	25,550

Solution

Case a:

Particulars	Amount (Rs)
Opening Stock of Medicines	25,700
<i>Add:</i> Purchases made during the year	49,500
<i>Less:</i> Closing Stock of Medicines	(32,000)
<i>Medicines Consumed during the year</i>	43,200

Case b:

Particulars	Amount (Rs)
Opening Stock of Medicines	–
<i>Add:</i> Purchases made during the year	25,550
<i>Less:</i> Closing Stock of Medicines	(15,000)
<i>Medicines Consumed during the year</i>	10,550

Treatment in Income and Expenditure Account and in the Balance Sheet

Items	Treatment
Opening Stock	Shown on <i>Assets Side</i> of the <i>Opening</i> Balance Sheet
Closing Stock	Shown on <i>Assets Side</i> of the <i>Closing</i> Balance Sheet
Amount of Goods Consumed during the Year	Shown on the <i>Expenditure Side</i> of the I&E A/c

Example 7: From the given below information compute the amount of stationery consumed during the year. Also, show the relevant items in the books of NPO.

Particulars	Amount (Rs)
Stock of Stationery as on April 01, 2012	21,200
Stock of Stationery as on March 31, 2013	17,950
Amount paid for purchase of Stationery during	63,800

the year	
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Solution

Particulars	Amount (Rs)
Opening Stock of Stationery	21,200
<i>Add:</i> Purchases made during the year	63,800
<i>Less:</i> Closing Stock of Stationery	(17,950)
<i>Stationery Consumed during the year</i>	67,050

Income and Expenditure Account <i>for the year ended March 31, 2013</i>			
Dr.			Cr.
Expenditure	Amount (Rs)	Income	Amount (Rs)
Medicines Consumed	67,050		

Opening Balance Sheet <i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
		Stock of Medicines	21,200

Closing Balance Sheet <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)

		Stock of Medicines	17,950
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Important Point to be Noted

Sometimes, in the question, creditors of consumable goods may also be provided. Creditors basically represent the amount that is still outstanding or which is still to be paid to the creditors. Thus, the adjustment of creditors is made to the **amount paid** for the consumable goods and not to the **purchases made** during the year. The given below is the treatment of adjusting the creditors for calculating the amount of goods consumed.

- Creditors in the beginning are deducted from the amount paid
- Creditors at the end are added to the amount paid

In addition to this, the information related to the advance paid for the consumable goods may also be given in the question. The following is the treatment of adjusting the advances made

- Advance paid in the beginning are added to the amount paid
- Advance paid at the end are deducted from the amount paid

On the basis of above explanation the statement for calculating amount of goods consumed can be prepared in the following manner.

Particulars	Amount (Rs)
Amount Paid for Consumable Goods	
<i>Add:</i> Opening Stock	
<i>Add:</i> Creditors at the end	
<i>Add:</i> Advance Paid in the Beginning	
<i>Less:</i> Closing Stock	
<i>Less:</i> Creditors in the Beginning	
<i>Less:</i> Advance Paid at the end	
<i>Amount of Goods Consumed during the year</i>	–

Note: It should be noted that the above statement is prepared only when the amount of purchases made during the year is not given. In case the purchases are given, then the amount of goods consumed is calculated directly by adding opening stock and deducting closing stock from the given purchases.

Example 8: From the given below information calculate the amount of medicines consumed during the year. Also show the relevant items in the books of NPO:

Particulars	April 01, 2012	March 31, 2013
Stock of Medicines	3,200	4,800
Creditors of Medicines	1,500	800

Payment made for medicines during the year amounted to Rs 4,500. There was no cash purchase. All purchases were made on credit.

Solution

Particulars	Amount (Rs)
Amount Paid for Medicines	4,500
<i>Add:</i> Stock in the Beginning	3,200
<i>Add:</i> Creditors at the end	800
<i>Less:</i> Stock at the End	(4,800)
<i>Less:</i> Creditors in the Beginning	(1,500)
<i>Medicines Consumed during the year</i>	2,200

Income and Expenditure Account <i>for the year ended March 31, 2013</i>			
Dr.			Cr.
Expenditure	Amount (Rs)	Income	Amount (Rs)
Medicines Consumed	2,200		

Opening Balance Sheet

<i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Stationery	1,500	Stock of Medicines	3,200

Closing Balance Sheet <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Stationery	800	Stock of Medicines	4,800

Example 9: From the given below information calculate the amount of stationery consumed during the year. Also show the relevant items in the books of NPO:

Particulars	01.01.2013	31.12.2013
Stock of Stationery	13,400	17,500
Creditors of Stationery	11,200	9,300

Stationery purchased during the year ended 31.12.2013 was Rs 29,000.

Solution

Stationery Consumed = Opening Stock of Stationery + Purchases made – Closing Stock of Stationery

$$= 13,400 + 29,000 - 17,500 = 24,900$$

Income and Expenditure Account <i>for the year ended Dec. 31, 2013</i>			
Dr.			Cr.
Expenditure	Amount (Rs)	Income	Amount (Rs)
Stationery Consumed	24,900		

Note: As the amount of purchases of stationery during the year is given, so, the amount of creditors will not be adjusted. This is because, they have already been adjusted in the given purchases. However, the creditors will be shown in the Balance Sheet.

Opening Balance Sheet <i>as on Jan. 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Stationery	11,200	Stock of Medicines	13,400

Closing Balance Sheet <i>as on Dec. 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Stationery	9,300	Stock of Medicines	17,500

Example 10: From the given below information calculate the amount of stationery consumed during the year. Also show the relevant items in the books of NPO.

Particulars	01.04.2012	31.03.2013
Stock of Stationery	3,200	4,800
Creditors of Stationery	1,500	800
Advances paid for stationery	2,200	1,850

Payment made for medicines during the year amounted to Rs 6,200. There was no cash purchase. All purchases were made on credit.

Solution

Particulars	Amount (Rs)
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Amount paid for stationery during the year	6,200
<i>Add:</i> Opening Stock	3,200
<i>Add:</i> Creditors at the end	800
<i>Add:</i> Advance Paid in the Beginning	2,200
<i>Less:</i> Closing Stock	(4,800)
<i>Less:</i> Creditors in the Beginning	(1,500)
<i>Less:</i> Advance Paid at the end	(1,850)
<i>Stationery Consumed during the year</i>	4,250

Income and Expenditure Account <i>for the year ended March 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Stationery Consumed	4,250		

Opening Balance Sheet <i>as on Apr. 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Stationery	1,500	Stock of Medicines	3,200
		Advance paid for Stationery	2,200

Closing Balance Sheet <i>as on Mar. 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Stationery	800	Stock of Medicines	4,800
		Advance paid for Stationery	1,850

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Alternative Method

The amount of goods consumed can also be calculated by preparing the Creditors for Consumable Goods Account. In this account, the opening and closing balances of creditors and advances paid are recorded. The balancing figure of this account gives us *the credit purchases* made during the year. Thus, after getting the amount of purchases, we simply add the opening stock and deduct the closing stock from the purchases so computed. The format of Creditors of Consumable Goods Account is given below.

Creditors for Consumable Goods Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d (Advance in the beginning)		Balance b/d (Creditors in the beginning)	
Bank A/c (Amount Paid during the year)		Credit Purchases A/c (Balancing Figure)	
Balance c/d (Creditors at the end)		Balance c/d (Advance at the end)	

Example 11: Ascertain the amount of stationery consumed during the year by preparing Creditors for Stationery Account for the Example-10.

Solution

Creditors for Stationery Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d (Advance in the beginning)	2,200	Balance b/d (Creditors in the beginning)	1,500
Bank A/c (Amount Paid during the year)	6,200	Credit Purchases A/c (Balancing Figure)	5,850

Balance c/d (Creditors at the end)	800	Balance c/d (Advance at the end)	1,850
	9,200		9,200

Stationery Consumed = Opening Stock of Stationery + Purchases made – Closing Stock of Stationery

$$= 3,200 + 5,850 - 4,800 = \mathbf{4,250}$$

Note: It is specifically mentioned in the question that all purchases were made on credit. Therefore, credit purchases from Creditors A/c assumed to be the total purchases.

Example 12: From the given below information calculate the amount of sports material consumed to be shown in Income and Expenditure Account for the year ending March 31, 2013:

Particulars	April 01, 2012	March 31, 2013
Stock of Sports Material	2,800	3,450
Creditors of Sports Material	1,950	2,830

Payment for sports materials made during the year was Rs 4,520. The cash purchases of sports material amounted to 40% of the total purchases made.

Solution

Creditors for Sports Material Account			
Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d (Advance in the beginning)	–	Balance b/d (Creditors in the beginning)	1,950
Bank A/c (Amount Paid during the year)	4,520	Credit Purchases A/c (Balancing Figure)	5,400
Balance c/d (Creditors at the end)	2,830	Balance c/d (Advance at the end)	–
	7,350		7,350

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Calculation of Total Purchases

Total Purchases = Credit Purchases + Cash Purchases

Cash Purchases = 40% of Total Purchases

Let Total Purchases be x

Cash Purchase = 0.40x

Credit Purchases = 5,400

$x = 0.40x + 5,400$

or, $x - 0.40x = 5,400$

or, $x = 9,000$

Total Purchases = 9,000

Sports Material Consumed = Opening Stock + Purchases made – Closing Stock

$$= 2,800 + 9,000 - 3,450 = \mathbf{8,350}$$

This sports material consumed will be shown on the Expenditure side of the I&E A/c

Income and Expenditure Account <i>for the year ended March 31, 2013</i>			
Dr.			Cr.
Expenditure	Amount (Rs)	Income	Amount (Rs)
Sports Material Consumed	8,350		

Comprehensive Examples

Objective

Uptil now, we have learnt each and every aspect and topic related to the chapter NPO. We are now in a position to tackle some comprehensive examples. The following are some examples, which will test your knowledge of each topic that we have learnt in the previous lessons.

Example 1: Show the treatment of the following items in the books of K-one Social Club.

Extract of Receipts and Payments Account

<i>for the year ending 31 Dec 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Subscription		18% Government Bonds	50,000
2012 3,500		Construction of Pavilion	70,000
2013 25,000		Payment for Stationery	36,000
2014 7,500	37,500		
Interest on Government Bonds	7,200		
Pavilion Fund	1,20,000		
Donation for Pavilion Fund	40,000		
Life Membership Fees	62,000		
Entrance Fees	50,000		
Sale of Furniture	33,000		
(Book Value Rs 42,000)			
Special Receipt for Governor's Party	21,000		

Additional Information:

- Capital fund in the beginning of the year was Rs 1,50,000
- 45% of the entrance fees to be capitalised.
- Book value of furniture as on Jan. 01, 2013 was Rs 1,05,000. Depreciation on Furniture is 20% p.a.

Particulars	01.01.2013	31.12.2013
Subscription Outstanding	4,200	5,400
Subscription received in Advance	6,000	–
Stock of Stationery	12,000	18,000
Creditors of Stationery	9,600	14,400
Advances paid for stationery	4,500	6,800

Solution

Income and Expenditure Account			
Expenditure	Amount	Income	Amount

	(Rs)		(Rs)
Loss on Sale of Furniture (<i>WN3</i>)	9,000	Subscription (<i>WN1</i>)	37,200
Depreciation on Furniture @ 20% (<i>WN4</i>)	12,600	Interest on Government Bonds	7,200
Stationery Purchased (<i>WN5</i>)	32,500	Add: Outstanding (<i>WN2</i>)	1,800
		Entrance Fees	27,500

Closing Balance Sheet as on year ended 2013					
Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital Fund	1,50,000	3,04,500	Construction of Pavilion		70,000
Add: Transferred from Pavilion Fund	70,000		Furniture	1,05,000	
Add: Entrance Fees (Capital)	22,500		Less: Sold	(42,000)	
Add: Life Membership Fees	62,000			63,000	
Creditors for Stationery		14,400	Less: Depreciation	(12,600)	50,400
Pavilion Fund	1,20,000	90,000	Stock of Stationery		18,000
Add: Donation	40,000		Subscription Outstanding		
Less: Transfer to Capital Fund	(70,000)		For 2012 (4,200 – 3,500)	700	
Special Receipt for Governor’s Party		21,000	For 2013 (5,400 – 700)	4,700	5,400
Subscription received in advance		7,500	Advance for Stationery		6,800
			18% Government Bonds		50,000

Working Notes:

WN1: Subscription Account

Subscription Account			
Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
Subscription outstanding (in the beginning)	3,500	Advance Subscription (in the beginning)	6,000
Income and Expenditure A/c (<i>Balancing Figure</i>)	37,200	Receipts and Payments A/c (received during the year)	37,500

Advance Subscription (at the end)	7,500	Subscription Outstanding (at the end) (5,400 – 700)	4,700**
	48,200		48,200

**Subscription outstanding at the end of the year is Rs 5,400. This includes subscription of Rs 700 (4,200 – 3,500) still outstanding for the year 2012.

Thus, the subscription outstanding for 2013 is Rs 4,700 (5,400 – 700).

WN2: Calculation of Interest On Government Bonds

$$\text{Interest on 18\% Government Bonds} = 50,000 \times \frac{18}{100} = 9,000$$

Interest received during the year = 7,200

∴ Interest still outstanding = 9,000 – 7,200 = 1,800

WN3: Calculation of Profit/Loss on the Sale of Furniture

Particulars	Amount (Rs)
Book Value of Furniture Sold	42,000
Less: Sale Value	(33,000)
Loss on Sale of Furniture	9,000

WN4: Calculation of Depreciation on Furniture

Particulars	Amount (Rs)
Book Value of Furniture as on 01.01.2013	1,05,000
Less: Sold during the year	(42,000)
Value of Furniture as on 31.12.2013	63,000
Depreciation @ 20% (63,000 × 20%)	12,600

WN5: Calculation of Stationery consumed

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Particulars	Amount (Rs)
Amount Paid for Consumable Goods	36,000
<i>Add:</i> Opening Stock	12,000
<i>Add:</i> Creditors at the end	14,400
<i>Add:</i> Advance Paid in the Beginning	4,500
<i>Less:</i> Closing Stock	(18,000)
<i>Less:</i> Creditors in the Beginning	(9,600)
<i>Less:</i> Advance Paid at the end	(6,800)
<i>Amount of Goods Consumed during the year</i>	32,500

Example 2: The given below is the Receipts and Payments Account of Sunny Paaji Health Club for the year ending December 31, 2013.

Sunny Paaji Health Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d	3,500	Rent paid	4,500
Subscription Received		Purchase of Books	3,600
For 2012	1,720	Postage Stamps	350
For 2013	2,250	Printing and Stationery	1,220
For 2014	1,570	Repairs and Renewals	4,360
Entrance Fees	3,260	Conveyance	1,350
Donation for Building	4,100	Electricity Charges	2,110
Sale of Old Newspapers and Periodicals	1,800	Rent, Rates and Taxes	890
Locker Rent	1,260	General Expenses	1,260
Sundry Receipts	1,920	Balance c/d	1,740
	21,380		21,380

Additional Information:

- i. There are 30 members each paying an annual subscription of Rs 100 each. Rs 300 are still in arrears for subscription of 2012. In 2012, 5 members have paid their subscription in advance for the year 2013.
- ii. Rent paid includes Rs 800 for 2012 and Rs 750 for 2014.
- iii. Rent outstanding for 2013 is Rs 1,000.
- iv. On January 01, 2013, land valued at Rs 2,00,000 and furniture valued at Rs 30,000.

Prepare Income and Expenditure Account for the year ending December 31, 2013 and the Balance Sheet as on that date.

Solution

Sunny Paaji Health Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>				
Dr.			Cr.	
Expenditure	Amount (Rs)	Income		Amount (Rs)
Rent paid	4,500	Subscription	2,250	3,000
Add: Outstanding for 2013	1,000	Add: Received in 2012 for 2013	500	
Less: Paid for 2012	(800)	Add: Outstanding for 2013 (3,000 – 2,250 – 500) (<i>WNI</i>)	250	
Less: Paid for 2014	(750)			
	3,950	Entrance Fees		3,260
Postage Stamps	350	Sale of Old Newspapers and Periodicals		1,800
Printing and Stationery	1,220	Locker Rent		1,260
Repairs and Renewals	4,360	Sundry Receipts		1,920
Conveyance	1,350	Deficit (<i>Excess of Expenditure over Income</i>)		4,250
Electricity Charges	2,110			
Rent, Rates and Taxes	890			
General Expenses	1,260			
	15,490			15,490

Balance Sheet
as on December 31, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>WN2</i>)		Cash in Hand	1,740
Opening Balance	2,34,220	Books	3,600
Less: Deficit	(4,250)	Land	2,00,000
Rent outstanding	1,000	Furniture	30,000
Donation for Building	4,100	Subscription outstanding	
Subscription received in advance	1,570	For 2012	300
		For 2013	250
		Prepaid Rent	750
	2,36,640		2,36,640

Note 1: As no information is provided regarding the nature of entrance fees, so, it is assumed to be of revenue nature and shown on the credit side of the I&E A/c.

Note 2: Donation received for Building of Rs 4,100 is a specific donation therefore, it is not shown in the I&E A/c.

Working Notes:

WN1:

Particulars	Amount (Rs)
Total Subscription Receivable (30 members × Rs 100 each)	3,000
Less: Amount Received during the year	(2,250)
Balance	750
Less: Advance received during the previous year	(500)
Outstanding Subscription for 2013	250

WN2: Calculation of Capital Fund

Balance Sheet as on January 01, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	2,34,220	Cash in Hand	3,500

Rent Outstanding	800	Subscription Outstanding (300 + 1,720)	2,020
Subscription Received in Advance	500	Land	2,00,000
		Furniture	30,000
	2,35,520		2,35,520

Example 3: From the given below Receipts and Payments Account of Mastmaula Club for the year ending December 31, 2013, prepare Income and Expenditure Account and the Balance Sheet as on that date.

Mastmaula Club Receipts and Payment Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Printing and Stationery	850
Cash	5,000	Miscellaneous Expenses	1,740
Bank	7,500	Purchase of Food Stuff	2,050
Subscription		Rent paid	1,960
For 2012	2,100	Investment in Securities	7,200
For 2013	5,400	Furniture purchased on July 01, 2012	4,800
For 2014	1,250	Conveyance	1,460
Donation for Building Fund	6,400	Upkeep of Lawn	450
General Donation	1,900	Salaries	4,400
Interest on Building Fund Investments	520	Balance c/d	
Sale of Food Stuff	1,080	Cash	4,220
Entrance Fees	1,620	Bank	3,640
	32,770		32,770

Additional Information:

- Depreciate Furniture @ 5% p.a. and Library Books @ 10% p.a.
- 50% of General Donations are to be capitalised.

- iii. Entrance Fees are to be treated as revenue.
- iv. Salaries paid @ 400 per month.
- v. The position of the various assets and liabilities of the firm was follows:

Particulars	January 01, 2013	December 31, 2013
Furniture	8,000	?
Subscription Outstanding	2,200	2,450
Advance Subscription Received	800	1,250
Library Books	5,000	?
Building Fund	4,000	?
Stock of Foodstuff	200	150
Rent Outstanding	500	650

Solution

Mastmaula Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>				
Dr.		Cr.		
Expenditure	Amount (Rs)	Income		Amount (Rs)
Printing and Stationery	850	Subscription	8,750	
Miscellaneous Expenses	1,740	Less: Outstanding as on Jan. 01, 2013	(2,100)	
Rent Paid	1,960	Less: Received in Advance as on Dec. 31, 2013	(1,250)	
Add: Rent Outstanding at Dec 31, 2013	650	Add: Outstanding at Dec. 31, 2013 (2,450 – 100)	2,350**	
Less: Rent Outstanding at Jan 01, 2013	(500)	Add: Received in Advance as on Jan. 01, 2013	800	8,550
Loss on Sale of Food Stuff (<i>WNI</i>)	1,020	Entrance Fees		1,620

Conveyance		1,460	General Donation (1,900 × 50%)	950
Upkeep of Lawn		450	Deficit (<i>Excess of Expenditure over Income</i>)	2,330
Depreciation:				
Furniture	520			
Library Books	500	1,020		
Salaries paid	4,400			
<i>Add: Salaries Outstanding</i>	400	4,800		
		13,450		13,450

**Subscription outstanding at the end i.e. on Dec. 31, 2013 is Rs 2,450. This includes subscription of Rs 100 (2,200 – 2,100) still outstanding for the year 2012. Thus, the subscription outstanding for the year 2013 i.e. on Dec. 31, 2013 is Rs 2,350 (2,450 – 100).

Balance Sheet as on December 31, 2013					
Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital Fund		21,220	Furniture	8,000	12,280
Opening Balance	22,600		Add: Purchases	4,800	
Add: Donation (50%)	950			12,800	
Less: Deficit	(2,330)		Less: Depreciation	(520)	
Building Fund	4,000	10,920			4,500
Add: Donation	6,400		Library Books	5,000	
Add: Interest on Building	520		Less: Depreciation	(500)	
Fund Investments		1,250	Subscription Outstanding		2,450
Subscription Received in Advance			For 2012 (2,200 – 2,100)	100	
Rent Outstanding			For 2013 (2,450 – 100)	2,350	
Salaries Outstanding			Investment in Securities	7,200	
			Stock of Food Stuff	150	
			Cash	4,220	
			Bank	3,640	
		34,440			34,440

Working Notes:**WN1:** Calculation of Profit/Loss on Sale of Food Stuff

Particulars	Amount (Rs)
Opening Stock of Food Stuff	200
Add: Purchases	2,050
Less: Sales	(1,080)
Less: Closing Stock of Food Stuff	(150)
<i>Loss on Sale of Food Stuff</i>	1,020

WN2: Calculation of Depreciation on Furniture

Particulars	Amount (Rs)
On 8,000 @ 5% for 12 months	400
On 4,800 @ 5% for 6 months	120
Total Depreciation on Furniture	520

WN3: Calculation of Capital Fund

Balance Sheet <i>as on January 01, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	22,600	Furniture	8,000
Building Fund	4,000	Library Books	5,000
Subscription Received in Advance	800	Subscription Outstanding	2,200
Rent Outstanding	500	Stock of Food Stuff	200
		Cash	5,000
		Bank	7,500
	27,900		27,900

Example 4: Receipts and Payments Account of Ishaan Sports Club for the year ending December 31, 2013 is given below:

Ishaan Sports Club Receipts and Payments Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d-		Balance b/d-	
Cash	2,500	Bank Overdraft	4,200
Entrance Fees	5,000	Creditors for Sports Material	8,450
Subscription Received		Cash Purchase of Sports Material	4,700
For 2012	4,800	Tournament Expenses	6,560
For 2013	7,200	Prizes Distributed	3,400
For 2014	5,400	Miscellaneous Expenses	800
Donation for Prize Fund	5,600	Honorarium to Hockey Coach	2,400
Interest on Prize Fund Investment	1,800	Rent paid	4,500
Sale of Old Sports Material	500	Balance c/d-	
Balance c/d-		Cash	3,400
Bank Overdraft	5,610		
	38,410		38,410

Additional Information:

- Depreciate furniture @ 10% p.a. Book value of sports material sold was Rs 800.
- 70% of Entrance Fees is to be capitalised.
- There are 140 members each paying annual subscription of Rs 100.
- Club has paid rent for 15 months on Jan. 01, 2013.
- The position of the various assets and liabilities of the firm was follows:

Particulars	January 01, 2013	December 31, 2013
Furniture	7,500	?
Land	30,000	30,000

Subscription Outstanding	5,200	?
Advance Subscription Received	3,200	5,400
Prize Fund	45,000	?
8% Prize Fund Investments (Face Value Rs 30,000)	28,000	?
Stock of Sports Material	4,200	5,420
Creditors of Sports Material	3,560	4,160
Miscellaneous Expenses Outstanding	300	250

Prepare Income and Expenditure Account for the year ending December 31, 2013 and the Balance Sheet as on that date.

Solution

Ishaan Sports Club Income and Expenditure Account <i>for the year ending December 31, 2013</i>			
Dr.		Cr.	
Expenditure	Amount (Rs)	Income	Amount (Rs)
Sports Material Consumed (<i>WN3</i>)	11,730	Subscription (140 members × Rs 100)	14,000
Miscellaneous Expense 800		Entrance Fees (30% of Rs 5,000)	1,500
<i>Add:</i> Outstanding as on Dec. 31, 2013 250		Deficit (<i>Excess of Expenditure over Income</i>)	10,590
<i>Less:</i> Outstanding as on Jan. 01, 2013 (300)	750		
Loss on Sale of Sports Material (800 – 500)	300		
Tournament Expenses	6,560		
Honorarium to Hockey Coach	2,400		
Rent 4,500			
<i>Less:</i> Prepaid Rent (4,500 × 3/15) (900)	3,600		
Depreciation on Furniture	750		
	26,090		26,090

Balance Sheet <i>as on December 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)

Capital Fund (<i>WN2</i>)			Furniture	7,500	
Opening Balance	21,140		Less: Depreciation @10%	(750)	6,750
Add: Entrance Fees (70%)	3,500		Land		30,000
Less: Deficit	(10,590)	14,050	Cash		3,400
			Subscription Outstanding		
Prize Fund	45,000		For 2011-12 (5,200 – 4,800)	400	
Add: Donation	5,600		For 2012-13 (4,000 – 400)	3,600	4,000
Add: Interest on Prize Fund	2,400		Prize Fund Investments (FV 30,000)		28,000
Investments			Accrued Interest on Prize Fund		600
Less: Prizes Distributed	(3,400)	49,600	Investments (2,400 – 1,800)		
			Stock of Sports Material		5,420
Subscription Received in Advance		5,400	Prepaid Rent		900
Bank Overdraft		5,610			
Creditors of Sports Material		4,160			
Miscellaneous Expenses Outstanding		250			
		79,070			79,070

Working Notes:

WN1: Subscription Account

Subscription Account			
Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Subscription Outstanding (in the beginning)	5,200	Subscription received in Advance (in year beginning)	3,200
Income and Expenditure A/c (140 × 100)	14,000	Bank A/c	17,400
Subscription received in Advance (at the end)	5,400	Subscription Outstanding (at the end) (<i>Balancing Figure</i>)	4,000
	24,600		24,600

WN2: Calculation of Capital Fund

Balance Sheet

as on January 01, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	21,140	Furniture	7,500
Prize Fund	45,000	Land	30,000
Subscription Received in Advance	3,200	Prize Fund Investments (Face Value Rs 30,000)	28,000
Creditors for Sports Material	3,560	Subscription Outstanding	5,200
Miscellaneous Expenses Outstanding	300	Stock of Sports Material	4,200
Bank Overdraft	4,200	Cash	2,500
	77,400		77,400

WN3: Calculation of Amount of Sports Material Consumed during the year

Creditors for Sports Material Account			
Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Receipts and Payments A/c	8,450	Balance b/d	3,560
Balance c/d	4,160	Purchases (<i>Balancing Figure</i>)	9,050
	12,610		12,610

Stock of Sports Material Account			
Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Balance b/d	4,200	Receipt and Payment A/c (<i>Sale</i>)	500
Creditors for Sports Material A/c (<i>Credit Purchases</i>)	9,050	Loss on Sale of Sports Material (800 – 500)	300
Receipt and Payment A/c (<i>Cash Purchases</i>)	4,700	Income and Expenditure A/c (<i>Balancing Figure</i>)	11,730
		Balance c/d	5,420
	17,950		17,950

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Example 5: From the given below Receipts and Payments Account of Rock n Cena Club for the year ending March 31, 2013, prepare Income and Expenditure Account and the Balance Sheet as on that date.

Rock n Cena Club Receipts and Payments Account <i>for the year ending March 31, 2013</i>			
Dr.		Cr.	
Receipts	Amount (Rs)	Payments	Amount (Rs)
Balance b/d		Repair Charges	2,350
Cash	5,200	Telephone Charges	4,450
Bank	5,000	Electricity Expenses	5,060
Subscription Received	5,850	Taxes	3,540
Life Membership Fees	3,000	Payment for Bar Purchases	5,240
Bar Receipts	4,800	Insurance Expenses	2,860
Sale of Old chairs	450	Bank Charges	850
Interest on Securities	1,200	Postage and Telegram	1,070
Hire of Unused Premises	11,950	Medicines Purchased	1,290
		Office Expenses	1,340
		Balance c/d	
		Cash	5,450
		Bank	3,950
	37,450		37,450

Additional Information:

- i. Depreciate premises @ 10% p.a.
- ii. Donation received of Rs 4,000 is wrongly included in the current years' subscription received.
- iii. Capitalise 50% of the donation received.
- iv. A bill of medicine purchased during the year of Rs 200 was outstanding.

v. Taxes were paid for the 12 months upto Sept. 30, 2014.

vi. The position of the various assets and liabilities of the firm was follows:

Particulars	April 01, 2012	March 31, 2013
Premises at cost	12,000	?
Depreciation on Premises till date	4,320	?
Subscription Outstanding	1,800	2,060
Investment in Securities @10%	20,000	20,000
Bar Stock	1,020	1,280
Prepaid Insurance	–	940
Amount unpaid for Bar Purchases	820	650

Solution

Rock n Cena Club Income and Expenditure Account <i>for the year ending March 31, 2013</i>			
Dr.			Cr.
Expenditure	Amount (Rs)	Income	Amount (Rs)
Repair Charges	2,350	Subscription	5,850
Telephone Charges	4,450	<i>Add: Outstanding as on March 31, 2013</i>	2,060
Electricity Expenses	5,060	<i>Less: Subscription Outstanding as at April 01, 2012</i>	(1,800)
Rates and Taxes	3,540	<i>Less: Donation wrongly included</i>	(4,000)
<i>Less: Prepaid Taxes (3,540 × 6/12)</i>	(1,770)		2,110
Bar Expenses		Interest on Securities	1,200
Opening Bar Stock	1,020	<i>Add: Accrued Interest</i>	800
<i>Add: Purchases (WN2)</i>	5,070	Hire of Unused Premises	11,950
	6,090	Donation (50%)	2,000
<i>Less: Bar Receipts</i>	(4,800)	Sale of Old Chairs	450
<i>Less: Closing Bar Stock</i>	(1,280)	Deficit (<i>Excess of Expenditure over Income</i>)	2,568
	10		

Insurance Expenses	2,860		
<i>Less: Prepaid Insurance</i>	(940)	1,920	
Bank Charges		850	
Postage and Telegram		1,070	
Medicines Purchased	1,290		
<i>Add: Outstanding Medicine Bill</i>	200	1,490	
Office Expenses		1,340	
Depreciation on Premises		768	
		21,078	21,078

Balance Sheet <i>as on March 31, 2013</i>				
Liabilities		Amount (Rs)	Assets	Amount (Rs)
Capital Fund (<i>WNI</i>)			Premises	12,000
Opening Balance	39,880		<i>Less: Depreciation till date</i>	(4,320)
<i>Add: Life Membership Fees</i>	3,000			7,680
<i>Add: Donation Received (50%)</i>	2,000		<i>Less: Depreciation for the year @ 10%</i>	(768)
<i>Less: Deficit</i>	(2,568)	42,312	Subscription Outstanding	2,060
Outstanding Bar Purchases		650	Investment in Securities	20,000
Outstanding Medicine Bill		200	Accrued Interest	800
			Prepaid Insurance	940
			Bar Stock	1,280
			Cash	5,450
			Bank	3,950
			Prepaid Taxes	1,770
		43,162		43,162

Working Notes:

WN1: *Calculation of Capital Fund*

Balance Sheet

as on April 01, 2012

Liabilities	Amount (Rs)	Assets		Amount (Rs)
Capital Fund (<i>Balancing Figure</i>)	39,880	Premises	12,000	
Outstanding Bar Purchases	820	<i>Less: Depreciation till date</i>	(4,320)	7,680
		Investments in Securities @10%		20,000
		Subscription Outstanding		1,800
		Bar Stock		1,020
		Cash		5,200
		Bank		5,000
	40,700			40,700

WN1: *Calculation of Bar Purchases made during the year*

Particulars	Amount (Rs)
Bar Payments as per Receipt and Payment A/c	5,240
<i>Add:</i> Bar Purchases Outstanding at March 31, 2013	650
<i>Less:</i> Bar Purchases Outstanding at April 01, 2012	(820)
<i>Bar Purchases made during the year</i>	5,070