

FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANISATIONS

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- A non profit organization is a legal and accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. Financial Statements of such organizations consists of:
 - Receipts and Payments Account
 - Income and Expenditure Account
 - Balance Sheet
- The income and expenditure account is equivalent to the Profit and Loss Account of a business enterprise. It is an account which is widely adopted by non-profit making concerns and is prepared by following accrual principle. Only items of revenue nature pertaining to the period of account are included therein.
- Educational institutions are different from non-trading organizations both in terms of their sources of income as well as the freedom to choose their accounting years.

Question 1

Receipts and Expenditure Account.

Answer

In the case of professionals, Receipts and Payments Account, Income and Expenditure Account and Balance Sheet are generally prepared to show the results of their activities and their financial position. However, some professionals also prepare Receipts and Expenditure Account to show final result of their professional activities.

Such an account includes all expenses on the basis of mercantile system, i.e. accrual basis but for recording income, cash system is followed. In other words, to find out the profit, all outstanding expenses are taken into account but the fees and charges that are outstanding or the work-in progress are not considered. The reason for this treatment is that professionals consider it imprudent and risky to recognize the outstanding fees. Therefore, the difference between the profit

as shown by Income and Expenditure Account and Receipts and Expenditure Account arises on account of non-recognition of outstanding fees and charges and work-in-progress in Receipts and Expenditure Account.

Question 2

Receipts and Payments Account.

Answer

Receipts and Payments Account is an elementary form of account commonly adopted by non-profit making concerns such as hospitals, clubs, societies etc. for recording cash and bank transactions. It starts with the opening cash or bank balance (or an overdraft) and is debited with all sums received and credited with amounts paid out whether or not such receipts and payments relate to that period. All the receipts and payments whether of a revenue or capital nature are included in the account. The balance of this account at the end of year represents the difference between the amount received and paid out i.e. the balance of cash in hand and at the bank or bank overdraft.

Question 3

Receipt and Payment and Income and Expenditure account.

Answer

Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. The distinguishing features of both the accounts can be summarized as:

Receipt and Payment Account is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period. The receipts are entered on the left hand side and payments on the right hand side i.e. same sides as those on which they appear in cash book. All the receipts and payments whether of a revenue or capital nature are included in this account. The balance of the account at the end of a period represents the difference between the amount of cash received and paid up. It is always in debit since it is made up of cash in hand and at bank.

Income and Expenditure Account resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern as the last mentioned account does for a firm, carrying on business or trade. Income and Expenditure Account is drawn up in the same form as the Profit and Loss Account. Expenditure of revenue nature only is shown on the debit side, and income and gains of revenue nature are shown on the credit side. Income and Expenditure Account contains all the items of income and expenditure relevant to the period of account, whether received or paid out as well as that which have fallen due for recovery or payment. Capital receipts, prepayments of income and capital expenditures, prepaid expenses are excluded. It does not start with any opening balance. The closing balance represents the amount by which the income exceeds the expenditure only or vice-versa.

Question 4

State with reasons, whether the following statement is true or false:

Receipts and Payments Account highlights total income and expenditure.

Answer

False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

Question 5

Mahaveer Sports club gives the following receipts and payments account for the year ended March 31, 2011:

Receipts and Payment Account

<i>Receipts</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>
<i>To Opening cash and bank balances</i>	5,200	<i>By Salaries</i>	15,000
<i>To Subscription</i>	34,800	<i>By Rent and taxes</i>	5,400
<i>To Donations</i>	10,000	<i>By Electricity charges</i>	600
<i>To Interest on investments</i>	1,200	<i>By Sports goods</i>	2,000
<i>To Sundry receipts</i>	300	<i>By Library books</i>	10,000
		<i>By Newspapers and periodicals</i>	1,080
		<i>By Miscellaneous expenses</i>	5,400
		<i>By Closing cash and bank balances</i>	<u>12,020</u>
	<u>51,500</u>		<u>51,500</u>

<i>Liabilities</i>	<i>As on 31.3.2010</i>	<i>As on 31.3.2011</i>
	<i>Rs.</i>	<i>Rs.</i>
<i>Outstanding expenses:</i>		
<i>Salaries</i>	1,000	2,000
<i>Newspapers and periodicals</i>	400	500
<i>Rent and taxes</i>	600	600
<i>Electricity charges</i>	800	1,000
<i>Library books</i>	10,000	-
<i>Sports goods</i>	8,000	-
<i>Furniture and fixtures</i>	10,000	-

Subscription receivable	5,000	12,000
Investment-government securities	50,000	-
Accrued interest	600	600

Provide depreciation on:

Furniture and fixtures @ 10% p.a.

Sports goods @ 20% p.a.

Library books @ 10% p.a

You are required to prepare Club's opening balance sheet as on 1.4.2010, income and expenditure account for the year ended on 31.3.2011 and balance sheet as on that date. **(November, 1999)**

Answer**Balance Sheet of Mahaveer Sports Club**

as on 1st April, 2010

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund (bal.fig.)		86,000	Library books	10,000
Outstanding expenses:			Sports goods	8,000
Salaries	1,000		Furniture and fixtures	10,000
Newspapers and periodicals	400		Subscriptions receivable	5,000
Electricity charges	800		Investment-Govt. securities	50,000
Rent and taxes	<u>600</u>		Accrued interest	600
		<u>2,800</u>	Cash and bank balances	<u>5,200</u>
		<u>88,800</u>		<u>88,800</u>

Income and Expenditure Account
for the year ended on 31st March, 2011

<i>Dr.</i>			<i>Cr.</i>
<i>Expenditure</i>	<i>Rs.</i>	<i>Income</i>	<i>Rs.</i>
To Salaries	16,000	By Subscription (W.N.1)	41,800
To Electricity charges	800	By Interest on investments (W.N.2)	1,200
To Rent and taxes	5,400	By Sundry receipts	300
To Newspapers and periodicals	1,180		
To Misc expenses	5,400		
To Depreciation on fixed assets (W N 4)	5,000		

To Excess of income over expenditure (transferred to capital fund) 9,520

43,300

43,300

**Balance Sheet of Mahaveer Sports Club
as on 31st March, 2011**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital fund			Fixed assets (W.N. 4)		
Opening balance	86,000		Furniture and fixtures	9,000	
Add: Surplus	9,520		Sports goods	8,000	
Add: Donations	<u>10,000</u>	1,05,520	Library books	<u>18,000</u>	35,000
Outstanding expenses: (W.N.3)			Investment-Govt. securities		50,000
Salaries	2,000		Accrued interest		600
Newspapers and periodicals	500		Subscriptions receivable		12,000
Electricity charges	1,000		Cash and bank balances		12,020
Rent and taxes	<u>600</u>	<u>4,100</u>			
		<u>1,09,620</u>			<u>1,09,620</u>

Working Notes:

(1) Subscriptions for the year ended 31st March, 2011:

	Rs.
Subscription received during the year	34,800
Add: Subscriptions receivable on 31.3.2011	<u>12,000</u>
	46,800
Less: Subscriptions receivable on 31.3.2010	<u>5,000</u>
	<u>41,800</u>

(2) Interest on investments for the year ended 31st March, 2011:

	Rs.
Interest received during the year	1,200
Add: Accrued interest on 31.3.2011	<u>600</u>
	1,800
Less: Accrued interest on 31.3.2010	<u>600</u>
	<u>1,200</u>

(3) Expenses for the year ended 31st March, 2011:

Expenses	Salaries	Electricity charges	Rent and taxes	Newspapers and periodicals
	Rs.	Rs.	Rs.	Rs.
Paid during the year	15,000	600	5,400	1,080
<i>Add:</i> Outstanding (as on 31.3.2011)	<u>2,000</u>	<u>1,000</u>	<u>600</u>	<u>500</u>
	17,000	1,600	6,000	1,580
<i>Less:</i> Outstanding (as on 31.3.2010)	1,000	800	600	400
	<u>16,000</u>	<u>800</u>	<u>5400</u>	<u>1,180</u>

(4) Depreciation on Fixed assets

Assets	Book value (31.3.2010)	Additions during the year	Total	Rate of depreciation	Depreciation	W.D.V as on 31.3.2011
Furniture and fixtures	10,000	-	10,000	10%	1,000	9,000
Sports goods	8,000	2,000	10,000	20%	2,000	8,000
Library books	10,000	10,000	20,000	10%	2,000	18,000
Total					<u>5,000</u>	<u>35,000</u>

Note: In the given solution, donations have been capitalized. Alternatively, donations may be credited to the income and expenditure account assuming that the donations have been raised for meeting some revenue expenditure.

Question 6

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2011 are as follows:

Opening cash balance in hand Rs. 8,000, subscription Rs. 50,000, donation Rs. 15,000, interest on investments @ 9% p.a. Rs. 9000, payments for medicine supply Rs. 30,000 Honorarium to doctor Rs. 10,000, salaries Rs, 28,000, sundry expenses Rs. 1,000, equipment purchase Rs. 15,000, charity show expenses Rs, 1,500, charity show collections Rs. 12,500.

Additional information:

	<u>1.1.2011</u>	<u>31.12.2011</u>
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2011 and balance sheet as on 31.12.2011. **(November, 2001)**

Answer

**Receipts and Payments Account of Bombay Medical Aid Society
for the year ended 31st December, 2011**

<i>Receipts</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>
To Cash in hand (opening)	8,000	By Medicine supply	30,000
To Subscription	50,000	By Honorarium to doctors	10,000
To Donation	15,000	By Salaries	28,000
To Interest on investment	9,000	By Sundry expenses	1,000
To Charity show collections	12,500	By Purchase of equipment	15,000
		By Charity show expenses	1,500
		By Cash in hand (closing)	<u>9,000</u>
	<u>94,500</u>		<u>94,500</u>

**Income and Expenditure Account of Bombay Medical Aid Society
for the year ended 31st December, 2011**

<i>Expenditure</i>	<i>Rs.</i>	<i>Income</i>	<i>Rs.</i>
To Medicine consumed	29,000	By Subscription	51,200
To Honorarium to doctors	10,000	By Donation	15,000
To Salaries	28,000	By Interest on investments	9,000
To Sundry expenses	1,000	By Profit on charity show:	
To Depreciation on		Show collections	12,500
Equipment	6,000	Less: Show expenses	<u>1,500</u>
Building	<u>2,000</u>		11,000
To Surplus-excess of income over expenditure	<u>10,200</u>		
	<u>86,200</u>		<u>86,200</u>

**Balance Sheet of Bombay Medical Aid Society
as on 31st December, 2011**

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Capital fund:			Building	50,000	
Opening balance	1,80,300		Less: Depreciation	<u>2,000</u>	48,000
Add: Surplus	<u>10,200</u>	1,90,500	Equipment	21,000	
Subscription received in advance		700	Add: Purchase	<u>15,000</u>	
Amount due for medicine supply		13,000		36,000	
			Less: Depreciation	<u>6,000</u>	30,000
			Stock of medicine		15,000
			Investments		1,00,000
			Subscription receivable		2,200
			Cash in hand		<u>9,000</u>
		<u>2,04,200</u>			<u>2,04,200</u>

Working Notes:

Subscription for the year ended 31st December, 2011:	<i>Rs.</i>
Subscription received during the year	50,000
Less: Subscription receivable on 1.1.2011	1,500
Less: Subscription received in advance on 31.12.2011	<u>700</u>
	47,800
Add: Subscription receivable on 31.12.2011	2,200
Add: Subscription received in advance on 1.1.2011	<u>1,200</u>
	<u>51,200</u>

Purchase of medicine:

Payment for medicine supply	30,000
Less: Amounts due for medicine supply on 1.1.2011	<u>9,000</u>
	21,000
Add: Amounts due for medicine supply on 31.12.2011	<u>13,000</u>
	<u>34,000</u>

Medicine consumed:

Stock of medicine on 1.1.2011	10,000
<i>Add:</i> Purchase of medicine during the year	<u>34,000</u>
	44,000
<i>Less:</i> Stock of medicine on 31.12.2011	<u>15,000</u>
	<u>29,000</u>

Depreciation on equipment:

Value of equipment on 1.1.2011	21,000
<i>Add:</i> Purchase of equipment during the year	<u>15,000</u>
	36,000
<i>Less:</i> Value of equipment on 31.12.2011	<u>30,000</u>
Depreciation on equipment for the year	<u>6,000</u>

**Balance Sheet of Medical Aid Society
as on 1st January, 2011**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund (balancing figure)	1,80,000	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments (Rs. 9,000 x 100/9)	1,00,000
		Subscription receivable	1,500
	<u> </u>	Cash in hand	<u>8,000</u>
	<u>1,90,500</u>		<u>1,90,500</u>

Note: Donation has been credited directly to the income and expenditure account assuming that this has been raised for meeting revenue expenditure. Alternatively, donation may be taken to have been raised for meeting some capital expenditure and thus, be credited to capital fund.

Question 7

Smith Library Society showed the following position on 31st March, 2010:

Balance Sheet as on 31st March, 2010

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000

	Cash at bank	25,000
	Cash in hand	<u>25,000</u>
	<u>8,00,000</u>	<u>8,00,000</u>

The receipts and payment account for the year ended on 31st March, 2011 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank	25,000	By Postage and stationary	5,000
Cash in hand	<u>25,000</u>	By Telephone charges	5,000
To Entrance fees	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	<u>11,300</u>
	<u>3,09,500</u>		<u>3,09,500</u>

You are required to prepare income and expenditure account for the year ended 31st March, 2011 and a balance sheet as at 31^s, March, 2011 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ Rs. 5% p.a. including purchases made on 1.10.2010 for Rs. 40,000. (May, 2002)

Answer

Smith Library Society
Income and Expenditure Account
for the year ended 31st March, 2011

Dr.		Cr.	
Expenditure	Rs.	Income	Rs.
To Electric charges	7,200	Entrance fees (25% of	7,500
To Postage and stationary	5,000	Rs. 30,000)	
To Telephone charges	5,000	Membership subscription	2,00,000

To Rent	88,000		Less: Received in advance	<u>10,000</u>	1,90,000
Add: Outstanding	<u>4,000</u>	92,000	By Sale proceeds of old papers		1,500
To Salaries	66,000		By Hire of lecture hall		20,000
Add: Outstanding	<u>3,000</u>	69,000	Interest on securities	8,000	
To Depreciation (W.N.1)			(W.N.2)		
Electrical fittings	15,000		Add: Receivable	<u>500</u>	8,500
Furniture	5,000		Deficit- excess of expenditure over income		16,700
Books	<u>46,000</u>	<u>66,000</u>			
		<u>2,44,200</u>			<u>2,44,200</u>

**Balance Sheet of Smith Library Society
as on 31st March, 2011**

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Asset</i>	<i>Rs.</i>	<i>Rs.</i>
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	<u>22,500</u>		Less: Depreciation	<u>15,000</u>	1,35,000
	8,15,500		Furniture	50,000	
s: Excess of expenditure over income	<u>16,700</u>	7,98,800	Less: Depreciation	<u>5,000</u>	45,000
Outstanding expenses:			Books	4,60,000	
Rent	4,000		Less Depreciation	<u>46,000</u>	4,14,000
Salaries	<u>3,000</u>	7,000	Investment:		
Membership subscription in advance		10,000	Securities	1,90,000	
			Accrued interest	<u>500</u>	1,90,500
			Cash at bank		20,000
			Cash in hand		<u>11,300</u>
		<u>8,15,800</u>			<u>8,15,800</u>

Working Notes:

1. Depreciation

Rs.

Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	<u>1,000</u>	8,500
Less: Received		<u>8,000</u>
Receivable		<u>500</u>

Question 8

A doctor, after retiring from govt. service, started private practice on 1st April, 2010 with Rs. 20,000 of his own and Rs. 30,000 borrowed at an interest of 15% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

	Rs.		Rs.
Own capital	20,000	Medicines purchased	24,500
Loan	30,000	Surgical equipments	25,000
Prescription fees	52,500	Motor car	32,000
Gifts from patients	13,500	Motor car expenses	12,000
Visiting fees	25,000	Wages and salaries	10,500
Fees from lectures	2,400	Rent of clinic	6,000
Pension received	30,000	General charges	4,900
		Household expenses	18,000
		Household Furniture	2,500
		Expenses on daughter's marriage	21,500
		Interest on loan	4,500
		Balance at bank	11,000
		Cash in hand	<u>1,000</u>
	<u>1,73,400</u>		<u>1,73,400</u>

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2011 and balance sheet as on that date. One-third of the motorcar expense may be treated as applicable to the private use of car and Rs. 3,000 of the wages and salaries are in respect of domestic servants.

The stock of machines in hand on 31st March, 2011 was valued at Rs. 9,500. **(November, 2002)**

Answer

**Capital Account
for the year ended 31st March, 2011**

	Rs.		Rs.
To Drawings:		By Cash/bank	20,000
Motor car expenses	4,000	By Cash bank (pension)	30,000
(one-third of Rs. 12,000)		Net income from practice	47,500
Household expenses	18,000	(derived from income and	

Daughter's marriage exp.	21,500	expenditure a/c)	
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	<u>48,500</u>		<u> </u>
	<u>97,500</u>		<u>97,500</u>

**Income and Expenditure Account
for the year ended 31st March, 2011**

	Rs.		Rs.
To Medicines consumed		By Prescription fees	52,500
Purchases	24,500	By Gift from patients	13,500
Less: Stock on 31.3.11	9,500	By Visiting fees	25,000
To Motor car expense	8,000	By Fees from lectures	2,400
To Wages and salaries(Rs.10,500-Rs.3000)	7,500		
To Rent for clinic	6,000		
To General charges	4,900		
To Interest on loan	4,500		
To Net Income	<u>47,500</u>		<u> </u>
	<u>93,400</u>		<u>93,400</u>

**Balance Sheet
as on 31st March, 2011**

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500
		Cash at bank	11,000
		Cash in hand	<u>1,000</u>
	<u>78,500</u>		<u>78,500</u>

Question 9

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2011 is as follows.

Receipts and Payments Account

<i>Dr.</i>			<i>Cr.</i>
<i>Receipts</i>	<i>Amount</i>	<i>Payments</i>	<i>Amount</i>
	Rs.		Rs.
To Balance b/d	450	Expenses (including	

Accounting

To Annual income from subscription	4,590		payment for sports material Rs. 2,700)	
Add: Outstanding of last year received this year	<u>180</u>			
	4,770			
Less: Prepaid of last year	<u>90</u>	4,680		6,300
To Other fees		1,800		
			Loss on sale of furniture (cost price Rs. 450)	180
			By Balance c/d	90,450
To Donation for building	<u>90,000</u>			
	<u>96,930</u>			<u>96,930</u>

Additional information:

Trustwell club had balances as on 1.4.2010:

Furniture Rs. 1,800; investment at 5% Rs. 27,000;

Sports material Rs. 6,660;

Balance as on 31.3.2011; subscription receivable Rs. 270;

Subscription received in advance Rs. 90;

Stock of sports material Rs. 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2011 and balance sheet as on that date. **(May, 2003)**

Answer

Corrected Receipts and Payments Account of Trustwell Club for the year ended 31st March, 2011

Receipts	Amount	Payments	Amount
	Rs.		Rs.
To Balance b/d	450	By Expenses (Rs. 6,300-Rs. 2,700)	3,600
To Subscription	Rs.	By Sports material	2,700
Annual income	4,590	By Balance c/d (cash in hand and at bank)	90,720
Less: receivable as on 31.3.2011	270		
Add: Advance received for the year 2011-2012	90		
Add: Receivable as on 31.3.2010	180		
Less: Advance received as on 31.3.2010	<u>90</u>		
	4,500		
To Other fees	1,800		

To Donation for building	90,000	
To Sale of furniture	<u>270</u>	<u> </u>
	<u>97,020</u>	<u>97,020</u>

**Income and Expenditure Account of Trustwell club
for the year ended 31st March, 2011**

<i>Expenditure</i>	<i>Amount</i>	<i>Income</i>	<i>Amount</i>
To Sundry expenses	3,600	By Subscription	4,590
To Sports material		By Other fees	1,800
Balance as on 1.4.2010	6,660	By Interest on investment	1,350
<i>Add:</i> Purchases	2,700	(5% on Rs. 27,000)	
<i>Less:</i> Balance as on 31.3.2011	<u>1,800</u>	By Deficit: Excess of	3,600
To Loss on sale of furniture	<u>180</u>	expenditure over income	<u> </u>
	<u>11,340</u>		<u>11,340</u>

**Balance sheet of Trustwell club
as on 31st March, 2011**

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	<i>(Rs.)</i>		<i>(Rs.)</i>
Capital fund	36,000	Furniture	1,800
Less: Excess of expenditure over income	<u>3,600</u>	Less: Sold	<u>450</u>
	32,400	5% Investment	27,000
		Interest accrued on investment	1,350
Building fund	90,000	Sports material	1,800
Subscription	90	Subscription receivable	270
received in advance	<u> </u>	Cash in hand and at bank	<u>90,720</u>
	<u>1,22,490</u>		<u>1,22,490</u>

**Balance Sheet of Trustwell Club
as on 1st April, 2010**

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	<i>Rs.</i>		<i>Rs.</i>
Subscription received in advance	90	Furniture	1,800
Capital Fund (balancing figure)	36,000	Investment	27,000
		Sports material	6,660
		Subscription receivable	180
	<u> </u>	Cash in hand and at bank	<u>450</u>
	<u>36,090</u>		<u>36,090</u>

Question 10

The Accountant of Diana Club furnishes you the following receipts and payments account for the year ending 30th September, 2011:

Receipts	Amount Rs.	Payments	Amount Rs.
Opening balance:		Honoraria to secretary	9,600
Cash and bank	16,760	Misc. expenses	3,060
Subscription	21,420	Rates and taxes	2,520
Sale of old newspapers	4,800	Ground man's wages	1,680
Entertainment fees	8,540	Printing and stationary	940
Bank interest	460	Telephone expenses	4,780
Bar receipts	14,900	Payment for bar purchases	11,540
		Repairs	640
		New car (Less sale proceeds of old car)	25,200
		Closing balance:	
	_____	Cash and bank	<u>6,920</u>
	<u>66,880</u>		<u>66,880</u>

Additional informations:

	1.10.2010 Rs.	30.9.2011 Rs.
Subscription due (not received)	2,400	1,960
Cheques issued, but not presented for payment of printing	180	60
Club premises at cost	58,000	-
Depreciation on club premises provided so far	37,600	-
Car at cost	24,380	-
Depredation on car	20,580	-
Value of Bar stock	1,420	1,740
Amount unpaid for bar purchases	1,180	860

Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an income and expenditure account of Diana Club for the year ending 30th September, 2011 and balance sheet as on that date. **(November, 2004)**

Answer

**Income and Expenditure Account of Diana Club
for the year ended 30th September, 2011**

<i>Expenditure</i>	<i>Amount</i>	<i>Income</i>	<i>Amount</i>
	<i>Rs.</i>		<i>Rs.</i>
To Honoraria to secretary	9,600	By Subscriptions (W.N.3)	20,980
To Misc. expenses	3,060	By Sale of old newspapers	4,800
To Rates and taxes	2,520	By Entertainment fees	8,540
To Groundman's wages	1,680	By Bank interest	460
To Printing and stationary	940	By Bar receipts	14,900
To Telephone expenses	4,780	By Profit on sale of car (W.N.5)	2,200
To Bar expenses			
Opening bar stock	1,420		
Add. Purchases (W.N.2)	<u>11,220</u>		
	12,640		
Less: Closing bar stock	<u>1,740</u>	10,900	
To Repairs	640		
To Depreciation			
Club premises (W.N. 4)	1,020		
Car (W.N. 6)	<u>4,680</u>	5,700	
Excess of income over expenditure transferred to capital fund	<u>12,060</u>		
	<u>51,880</u>		<u>51,880</u>

**Balance Sheet of Diana Club
as on 30th September, 2011**

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	<i>Rs.</i>		<i>Rs.</i>
Capital fund (W.N. 1)	43,600	Club Premises	19,380
Add: Excess of income over expenditure	<u>12,060</u>	Car	26,520
	55,660	Bar stock	1,740

Outstanding liabilities for bar purchases	860	Outstanding subscription	1,960
	<u> </u>	Cash and bank	<u>6,920</u>
	<u>56,520</u>		<u>56,520</u>

Working Notes:

**1. Balance Sheet of Diana Club
as on 1st October, 2010**

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	<i>Rs.</i>		<i>Rs.</i>
Amount due for bar purchases	1,180	Club premises	58,000
Capital fund on 1.10.2010 (balancing figure)	43,600	Less: Depreciation	<u>37,600</u>
		Car	24,380
		Less: Depreciation	<u>20,580</u>
		Bar stock	1,420
		Outstanding subscription	2,400
	<u> </u>	Cash at bank	<u>16,760</u>
	<u>44,780</u>		<u>44,780</u>

2. Calculation of bar purchases for the year:

	<i>Rs.</i>
Bar payments as per receipts and payments account	11,540
<i>Add:</i> Amount due on 30.9.2011	<u>860</u>
	12,400
<i>Less:</i> Amount due on 1.10.2010	<u>1,180</u>
	<u>11,220</u>

3. Calculation of subscriptions accrued during the year:

	<i>Rs.</i>
Subscriptions received as per receipts and payments account	21,420
<i>Add:</i> Outstanding on 30.9.2011	<u>1,960</u>
	23,380
<i>Less:</i> Outstanding on 1.10.2010	<u>2,400</u>
	<u>20,980</u>

4. Depreciation on club premises and written down value on 30th September, 2011:

	Rs.
Written down value on 1.10.2010 (58,000-37,600)	20,400
Less: Depreciation for the year 2010-2011 @ 5% p.a.	<u>1,020</u>
	<u>19,380</u>

5. Calculation of profit on sale of car:

	Rs.
Sale proceeds of old car	6,000
Less: Written down value of old car:	
Cost of car on 1.10.2010	24,380
Less: Depreciation upto 1.10.2010	<u>20,580</u> <u>3,800</u>
	<u>2,200</u>

6. Depreciation on car and written down values on 30th September, 2011:

	Rs.
Cost of new car purchased (25,200 + 6,000)	31,200
Less: Depreciation for the year @ 15% p.a.	<u>4,680</u>
Written down value on 30.9.2011	<u>26,520</u>

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

Question 11

A company lodged a claim to insurance company for Rs. 5,00,000 in September, 2010. The claim was settled in February, 2011 for Rs. 3,50,000. How will you record the short fall in claim settlement in the books of the company? **(November, 2007)**

Answer

Journal Entry

		Rs.	Rs.
Profit and Loss A/c	Dr.	1,50,000	
To Insurance Company A/c			1,50,000

[Being the shortfall in insurance claim is the loss, transferred to Profit and Loss A/c]

Question 12

Income and Expenditure Account for the year ended 31st March, 2010 of South Asia Club is given below:

Expenditure	₹	Income	₹
To Salaries & wages	47,500	By Subscription	75,000
To Miscellaneous expenses	5,000	By Entrance fee	2,500
To Audit fee	2,500	By Contribution for annual	7,500
To Executive's honorarium	10,000	day (After deducting	
To Sports day expenses	5,000	expenses ₹7,500)	
To Printing & stationery	4,500		
To Interest on bank loan	1,500		
To Depreciation on sports equipment	3,000		
To Excess of income over expenditure	<u>6,000</u>		
	<u>85,000</u>		<u>85,000</u>

Following additional information are also available:

		31.3.2009	31.3.2010
		₹	₹
(1)	Subscription received in advance	4,500	2,700
(2)	Subscription outstanding	6,000	7,500
(3)	Salaries outstanding	4,000	4,500
(4)	Sports equipment (After deducting depreciation)	26,000	27,000

(5) Cash in hand on 31-3-10 was ₹ 16,000.

(6) The club took a 5% loan of ₹ 30,000 from a bank during 2008-09 for which interest was not paid in the financial year 2009-10.

Prepare Receipts and Payments account of South Asia Club for the year ending 31st March 2010. **(November, 2010)**

Answer

In the books of South Asia Club
Receipt and Payment Account
for the year ended 31st March, 2010

Receipt	Amount ₹	Payment	Amount ₹
To Balance b/d (Bal.fig.)	12,300	By Salaries & Wages (W.N.2)	47,000
To Subscription (W.N.1)	71,700	By Miscellaneous Expenses	5,000
To Entrance fee	2,500	By Audit fee	2,500
To Contribution for annual day (₹ 7,500 + ₹ 7,500)	15,000	By Executive's honorarium	10,000
		By Sports Day Expenses	5,000
		By Printing & Stationary	4,500
		By Expenses of Annual Day	7,500
		By Sports Equipment (W.N.3)	4,000
		By Balance c/d	<u>16,000</u>
	<u>1,01,500</u>		<u>1,01,500</u>

Working Notes:

(1) Subscription received during the year

		₹
Subscription credited to Income and Expenditure A/c		75,000
<i>Add:</i> Outstanding subscription at the beginning of the year		6,000
Advance subscription received at the end of the year		<u>2,700</u>
		83,700
<i>Less:</i> Outstanding subscription at the end of the year	(7,500)	
Advance subscription received at the beginning of the year	<u>(4,500)</u>	<u>(12,000)</u>
Subscription received during the year		<u>71,700</u>

(2) Salaries & wages paid during the year

		₹
Salaries debited to Income and Expenditure Account		47,500
<i>Add:</i> Outstanding salaries at the beginning of the year		4,000
<i>Less:</i> Outstanding salaries at the end of the year		<u>(4,500)</u>
Salaries paid during the year		<u>47,000</u>

(3) Sports equipment purchased during the year

Sports Equipment A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	26,000	By Depreciation A/c	3,000
To Cash (Bal.fig.)	<u>4,000</u>	By Balance c/d	<u>27,000</u>
	<u>30,000</u>		<u>30,000</u>

EXERCISES

1. The following is the Receipts and Payments Account of Sydney Club for the year ended 31st March, 2011.

Receipts	Rs.	Payments	Rs.
Opening balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Wines and spirits	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance	
		Cash	8,000
		Bank	2,24,600
	<u>21,53,600</u>		<u>21,53,600</u>

The assets and liabilities as on 1.4.2010 were as follows:

	Rs.
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

- (i) Subscription received in advance as on 31st March, 2011 was Rs. 18,000.
- (ii) Outstanding subscription as on 31st March, 2011 was Rs. 7,000.
- (iii) Outstanding expenses are salaries Rs. 8,000 and electricity Rs. 15,000.
- (iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2011.
- (v) The cost of assets sold net as on 1.4.2010 was Rs. 10,000.
- (vi) Depreciation is to be provided at the rate of 10% on assets.
- (vii) A sum of Rs. 20,000 received in October 2010 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2011.
- (viii) Purchases made during the year amounted Rs. 15,00,000.
- (ix) The value of closing stock was Rs. 2,10,000.
- (x) The club as a matter of policy charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2011 and the Balance Sheet as on 31st March, 2011 along with necessary workings.

(Hints: Deficit Rs. 30,250; Total of Balance Sheet Rs. 13,92,600)

2. The accountant of City Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2011:

Receipts:	Rs.
Subscriptions	62,130
Fair receipts	7,200
Variety show receipts (net)	12,810
Interest	690
Bar collections	22,350
Payments:	
Premises	30,000
Rent	2,400
Rates and taxes	3,780
Printing and stationary	1,410
Sundry expenses	5,350
Wages	2,520
Fair expenses	7,170
Honorarium to secretary	11,000
Bar purchases (payments)	17,310
Repairs	960
New car (less proceeds of old car Rs. 9,000)	37,800

The following additional information could be obtained:-

	1.4.2010	31.3.2011
Cash in hand	450	Nil
Bank balance as per cash-book	24,420	10,350
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	270	90
Subscriptions due	3,600	2,940
Premises (at cost)	87,000	1,17,000
Provision for depreciation on premises	56,400	-
Car (at cost)	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for bar purchases	1,770	1,290

Annual honorarium to secretary is Rs. 12,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.2011.

(Hints: Total of Receipts and Payments Account =Rs. 1,39,050; and Surplus = Rs. 43,490)

3. From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.2011 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2011 and Balance sheet as on 31.3.2011:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Secretary's salary	12,000
Cash in Hand and at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old newspapers	2,500	Printing and stationary	600
Legacies	4,000	Postage expenses	120
Interest on investments	2,000	Rates and taxes	1,500
Endowment fund receipts	20,000	Upkeep of the land	2,000
Proceeds of sport and concerts	4,020	Purchase of sports materials	10,000
Advertisement in the year book	5,000	Telephone expenses	3,480
		Closing balance:	
		Cash in hand and at bank	<u>3,000</u>
	<u>58,700</u>		<u>58,700</u>

Assets and liabilities as on 31.3.2010 and 31.3.2011 were as follows:-

	31.3.2010	31.3.2011
	Rs.	Rs.
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalized. Investments were made in securities, the rate of interest being 12% p.a., the date of investment was 1.6.2009 and the amount of investments was Rs. 20,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.2011 were useless and valued at NIL price.

(Hints: Deficit = Rs.24,880; and Total of Balance Sheet = Rs. 36,200)

4. A and B are in partnership practicing as Chartered Accountants under the name and style AB & Co. sharing profits and losses in the matter stated below. They close their accounts on 31st March every year. The following was their Balance Sheet as at 31st March, 2011:

Balance Sheet as at 31st March, 2011

	Rs.			Rs.
Partners' capitals:			Furniture	20,000
A	65,000		Office machinery	15,000
B	<u>40,000</u>	1,05,000	Library books	8,000
Audit fees collected in advance (A's client)		10,000	Car	60,000
Liability for salary		5,000	Outstanding audit fees:	
Provision against outstanding audit fees		50,000	A's client	30,000
			B's client	<u>20,000</u>
			Cash at bank	15,000
			Cash in hand	<u>2,000</u>
		<u>1,70,000</u>		<u>1,70,000</u>

The following is the summary of their cash/bank transactions for the year ended 31st March. 2012.

Receipts	Rs.		Payments	Rs.
Opening:			Salary charges	2,60,000
Bank balance	15,000		Car expenses	35,000
Cash balance	2,000		Tavelling expenses	21,000
Audit fees:			Printing and stationary	18,000
A's client	2,80,000		Postage expenses	3,000
B's client	<u>1,80,000</u>	4,60,000	Telephones	15,000
Fees for other services:			Subscription for journals	7,000
A's client	50,000		Library books	12,000
B's client	<u>40,000</u>	90,000	Fax machine	16,000
Miscellaneous income		4,000	Membership fees	2,000
			Drawings:	
			A	72,000
			B	<u>60,000</u>
			Cash at bank	48,000
			Cash in hand	<u>2,000</u>
		<u>5,71,000</u>		<u>5,71,000</u>

The following further information is available:

1. *Audit fees receivable*

A's client	Rs. 30,000
B's client	Rs. 50,000
2. *Audit fees collected in advance*

B's client	Rs. 20,000
------------	------------
3. *Outstanding liability for salary on 31st March, 2012* Rs. 20,000
4. *Depreciation to be provided on:*

Furniture	10%
Office machinery	20%
Library books	10%
Car	20%
5. *It has been agreed that 80% of the audit fees and 40% of fees for other services should be transferred to income and expenditure account in respect of each partner's account, the balance being credited directly to the capital accounts. Profits/losses to be divided between A and B in the ratio of 2:1 respectively.*
You are required to prepare Income and Expenditure account for the year ended 31st March, 2012 and a Balance Sheet as at 31st March, 2012.

(Hints: Surplus of A Rs. 1,200 and of B Rs.600; Total of Balance Sheet = Rs.2,38,800)

5. *From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2010 and its balance sheet as on that date:*

<i>Receipts</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	<u>7,200</u>
	<u>33,700</u>		<u>33,700</u>

Information:

1. *Subscriptions in arrear for 2010* Rs. 900 and *subscriptions in advance for 2011* Rs. 350.
2. *Insurance premium outstanding* Rs. 40.
3. *Misc. expenses prepaid* Rs. 90.

4. 50% of donation is to be capitalized.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

(Hints: Surplus Rs. 14,150; and Total of Balance Sheet = Rs. 53,040)

6. The following informations were obtained from the books of Delhi Club as on 31.3.2011, at the end of the first year of the club. You are required to prepare receipts and payments account, income and expenditure account for the year ended 31.3.2011 and a balance sheet as at 31.3.2011 on mercantile basis.

- (i) Donations received for building and library room Rs. 2,00,000
- (ii) Other revenue income and actual receipts:

	Revenue income	Actual income
	Rs.	Rs.
Entrance fees	17,000	17,000
Subscription	20,000	19,000
Locker rents	600	600
Sundry income	1,600	1,060
Refreshment account	-	16,000

- (iii) Other revenue expenditure and actual payments

	Revenue expenditure	Actual payments
	Rs.	Rs.
Land (cost Rs. 10,000)	-	10,000
Furniture (cost Rs. 1,46,000)	-	1,30,000
Salaries	5,000	4,8000
Maintenance of playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment account	-	8,000

Donations to the extent of Rs. 25,000 were utilized for the purchase of library books, balance was still unutilized. In order to keep it safe, 9% Govt. bonds of Rs. 1,60,000 were purchased on 31.3.2011. Remaining amount was put in the bank on 31.3.2011 under the term deposit. Depreciation at 10% p.a. was to be provided for the whole year on furniture and library books.

(Hints: Total of Receipt and Payment Account = Rs. 3,61,800; Surplus Rs. 15,100; and total of Balance Sheet Rs. 3,40,440)