

Financial Statements of Not-For-Profit Organisations

Learning Objectives

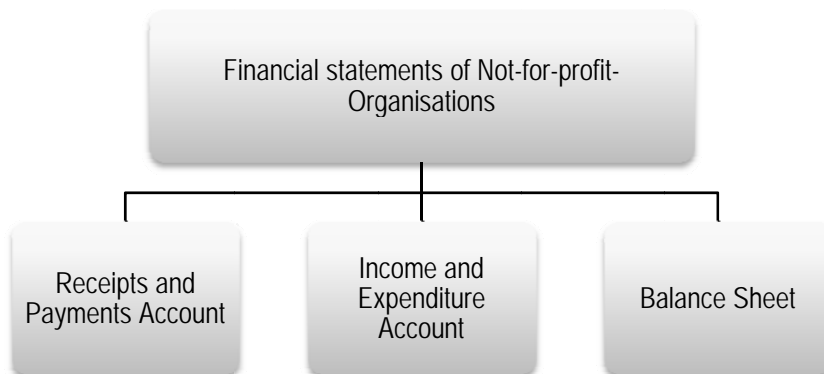
After studying this unit, you will be able to:

- ◆ Understand the meaning of Not-for-profit-Organisations and distinction between a profit making organisation and a Not-for-profit-Organisation.
- ◆ Accounting for Not-for-profit-Organisations.
- ◆ Understand the meaning of Receipts and Payments Account and Income and Expenditure Account and see the distinction between the two Accounts.
- ◆ Learn the technique of preparing Receipts and Payments Accounts.
- ◆ Identify main sources of Income and learn the technique of preparing Income and Expenditure Account from Receipts and Payments Account.
- ◆ Learn the technique of preparing Balance Sheet of a Not-for-profit-Organisations including an educational institution.
- ◆ Understand various sources of income and avenues of expenses in an educational institution.

1. Introduction

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. Non-profit making organisations such as public hospitals, public educational institutions, clubs, etc., conventionally prepare Receipts and Payments Account and Income and Expenditure Account to show periodic performance and Balance Sheet to show financial position at the end of the period. In this Unit, we shall discuss the technique of preparing Receipts and Payments Account, Income and Expenditure Accounts and Balance Sheet of not-for-profit organisations. Also we shall discuss and illustrate the technique of preparing Income and Expenditure Account from Receipts and Payments Account. It may be mentioned that Income and Expenditure Account is just similar to Profit and Loss Account prepared for

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



2. Nature of Receipts and Payments Account

A Receipts and Payments Account is a summary of the cash book. It is an elementary form of account commonly adopted by non-profit making concerns such as hospitals, clubs, societies, etc., for presenting periodically the result of their working. It consists of a classified summary of cash receipts and payments over a certain period together with the 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.

Features:

- It is the summary of the cash and bank transactions like cash book, all the receipts (capital or revenue) are debited, similarly, all the expenditures (capital or revenue) are credited.
- It starts with opening cash and bank balances and also ends with their closing balances.
- This account is usually not a part of the double entry system.
- It includes all cash and bank receipts and payments, whether they are related to current, past or future periods.
- Surplus or deficit for an accounting period cannot be ascertained from this account, since, it shows only the cash position and excludes all non cash items.

Illustration 1

The receipts and payments for the Swaraj Club for the year ended December 31, 2012 were: Entrance fees ₹ 300; Membership Fees ₹ 3,000; Donation for Club Pavilion ₹ 10,000, Foodstuff sales ₹ 1,200; Salaries and Wages ₹ 1,200 Purchase of Foodstuff ₹ 800; Construction of Club Pavilion ₹ 11,000; General Expenses ₹ 600; Rent and Taxes ₹ 400; Bank Charges ₹ 160.

9.3 Accounting

Cash in hand–Jan. 1st ₹ 200, Dec. 31st ₹ 350

Cash in Bank–Jan. 1st ₹ 400; Dec. 31st ₹ 5

Solution

Swaraj Club
Receipts and Payments Accounts
for the year ended 31st December, 2012

<i>Receipts</i>		₹	<i>Payments</i>		₹
To	Cash in hand b/d	200	By	Salaries and Wages	1,200
To	Cash with bank b/d	400	By	Purchase of Foodstuff	800
To	Entrance Fees	300	By	Club Pavilion	
To	Membership Fees	3,000		(Expenditure on its	
To	Donation of Account			construction)	11,000
	of Club Pavilion	10,000	By	General Expenses	600
To	Sales of foodstuff	1,200	By	Rent and Taxes	400
			By	Bank Charges	160
			By	Cash in hand c/d	350
			By	Cash in bank c/d	590
		<u>15,100</u>			<u>15,100</u>

2.1 Limitations of Receipts and Payments Account

From a study of the above account, it will be apparent that the increase in the cash and bank balances at the end of the year, as compared to those in beginning, does not truly represent the surplus for the year since it does not take into account the cost of construction of the pavilion, which is in excess of the donation received, the outstanding subscription or those which were collected in advance, etc. Ordinarily one must ascertain whether for a current year income is sufficient to meet the current expenses. Since the Receipts and Payments Account includes items relating to all periods or of all types, it does not serve the purpose mentioned above. On account of these drawbacks, the preparation of Receipts and Payments Account is not favoured except where the activities of the organization, the results of which are to be exhibited, are simple and modest, involve no carry over from one period to the next and it has no assets, apart from cash balance and no liabilities.

3. Income and Expenditure Account

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. The preparation of the account, therefore, requires adjustment in relevant accounts of outstanding items of income and expenditure as also exclusion of amounts paid in advance before these are included in Income and Expenditure

Account. In so far as this, it resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern as the later account does for a firm, carrying on business or trade.

Non-profit organizations registered under section 25 of the Companies Act, 1956 are required to prepare their Income and Expenditure account and Balance Sheet as per the revised Schedule VI to the Companies Act, 1956.

Features:

- It is a revenue account prepared at the end of the financial period for finding out the surplus or deficit of that period.
- It is prepared by matching expenses against the revenue of that period concerned.
- Both cash and non-cash items, such as depreciation, are taken into consideration.
- All capital expenditures and incomes are excluded.
- Only current years' income and expenses are considered.

3.1 Main Sources of Income

These are subscriptions, ordinary donations, membership fees or entrances fees (if the amount is normal or provided according to bye-laws of the society), recurring grants from local authorities and income from investments, etc. Any amount raised for a special activity, e.g. on sale of match tickets, is deducted from the expenditure of that activity and net amount is shown in the income and expenditure account. Any receipt of capital nature shall not be shown as income but will be credited to the Capital Fund or special purpose fund e.g. "Building Fund" or if the receipts is on account of sale of a fixed asset, it shall be credited to the asset account.

Examples:

Hospital - medicines and cost of tests and investigations.

Sports Club - sports materials, tournament expenses, etc.

Drama Club - expenses of staging plays, rent of the hall, payment to artists, etc.

Educational Societies - award of scholarships, organisation of seminars, etc.,

Library Societies - newspapers and magazines.

Any expenditure for acquisition of a fixed asset will be capitalised, though the amount of annual depreciation shall be debited to revenue expenditure.

It may be noted that after various accounts have been adjusted as is considered necessary and all the revenue accounts have been closed off by transfer to the Income and Expenditure Account, there will still be a number of balances left over. These are included in the balance sheet. A balance sheet is thus a complement to such an account. If a regular Trial Balance is available, the preparation of the Income and Expenditure Account and the Balance Sheet is on the lines of final accounts.

3.2 Distinction between Receipts and Payments Account and Income and Expenditure Account

Non profit 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 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 is shown on the debit side, 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.

3.3 Preparation of Income and Expenditure Account from Receipts and Payments Account

Often problems set in examinations require compilation of Income and Expenditure Account and the Balance Sheet from the Receipts and Payments Account after making adjustments in respect of Income accrued but not collected and expenses outstanding. The preparation of Balance Sheet in such a case is also necessary since an Income and Expenditure Account must always be accompanied by a Balance Sheet. The procedure which should be followed in this regard is briefly outlined below.

- (i) Compute the opening balance of the Accumulated Fund, or Capital Fund of the Institution. It will be excess of the total value of the assets over that of the liabilities at the commencement of the period.
- (ii) Open ledger accounts in respect of various items of income and expenditure (e.g. subscription, rents, printing, purchase of sports materials etc.) in which accruals or outstanding at the beginning or at the end of period have to be adjusted. Enter therein any accrual or outstanding at the end of the period as well as amounts which relate to

an earlier period or the following period. The balance of the ledger accounts, therefore will represent the amounts or income or expenditure pertaining to the period. These should be transferred to the Income and Expenditure Account.

- (iii) Post from the debit of the Receipts & Payments Account to the credit of the Income and Expenditure Account other items of income wherein accruals and outstanding amount have to be adjusted. Likewise, post item of expenses in which no adjustment is to be made directly to debit of income and Expenditure Account.
- (iv) Transfer the balance of Income and Expenditure Account to the Accumulated Fund Account.
- (v) Post the receipts and payments of capital nature from the Receipts and Payments Account to the appropriate asset or liability account for incorporating in the Balance Sheet. If a part or whole of an asset has been sold, the capital profit/loss, if any, is credited / debited in the Income and Expenditure Account. The balance of Income and Expenditure Account should be transferred to the Accumulated Fund Account.
- (vi) Prepare a Balance Sheet by including therein all the balances left over after transfers to the Income and Expenditure Account have been made.

Illustration 2

During 2012, subscription received in cash is ₹ 42,000. It includes ₹ 1,600 for 2011 and ₹ 600 for 2013. Also ₹ 3,000 has still to be received for 2012. Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

Solution

			₹
Amount received			42,000
<i>Add</i> : Outstanding on 31st Dec., 2012			<u>3,000</u>
			45,000
<i>Less</i> : Received on account of			
	2011	1,600	
	2013	<u>600</u>	<u>(2,200)</u>
			<u>42,800</u>

The various accounts will appear as under :

Subscription Outstanding Account

2012		₹	2012		₹
Jan. 1	To Balance b/d (transfer)	1,600	Dec. 31	By Subscription A/c	1,600
Dec. 31	To Subscription A/c	<u>3,000</u>	Dec. 31	By Balance c/d	<u>3,000</u>
		<u>4,600</u>			<u>4,600</u>

9.7 Accounting

2013 Jan. 1	To Balance b/d	3,000			
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Subscription Account

2012		₹	2012		₹
Dec. 31	To Subscription Outstanding A/c (transfer)	1,600	Dec. 31	By Cash A/c	42,000
Dec. 31	To Subscription received in advance A/c	600	Dec. 31	By Subscription Outstanding A/c	3,000
Dec. 31	To Income and Expenditure A/c (transfer)	<u>42,800</u>			
		<u>45,000</u>			<u>45,000</u>

Subscription received in Advance Account

2012		₹	2012		₹
Dec. 31	To Balance c/d	<u>600</u>	Dec. 31	By Subscription A/c	<u>600</u>
			2013 Jan. 1	By Balance b/d	600

Subscription outstanding ₹ 3,000 and Subscription received in advance ₹ 600 will be shown in the balance sheet on the assets and liabilities side respectively.

Illustration 3

Suppose salaries paid during 2012 were ₹ 23,000. The following further information is available:

Salaries unpaid on 31st Dec. 2011	1,400
" prepaid on " " 2011	400
" unpaid on " " 2012	1,800
" prepaid " " 2012	600

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

Solution

Salaries Account

2012		₹	2012		₹
Jan. 1	To Prepaid Salaries A/c	400	Jan. 1	By Salaries Outstanding A/c	1,400
Dec. 31	To Cash	23,000	Dec. 31	By Salaries Prepaid A/c	600
	To Salaries			By Transfer to Income	

	Outstanding A/c	<u>1,800</u>		& Expenditure A/c	<u>23,200</u>
		<u>25,200</u>			<u>25,200</u>

Salaries Outstanding Account

2012		₹	2012		₹
Jan. 1	To Salaries A/c	1,400	Jan. 1	By Balance b/d	1,400
Dec. 31	To Balance c/d	<u>1,800</u>	Dec. 31	By Salaries A/c	<u>1,800</u>
		<u>3,200</u>			<u>3,200</u>
			2013		
			Jan 1	By Balance b/d	1,800

Salaries Prepaid Account

2012		₹	2012		₹
Jan. 1	To Balance b/d	400	Jan. 1	By Salaries A/c	400
Dec. 31	To Salaries A/c	600		(transfer)	
		<u>600</u>	Dec. 31	By Balance c/d	<u>600</u>
		<u>1,000</u>			<u>1,000</u>
2013					
Jan. 1	To Balance b/d	600			

4. Balance Sheet

A Balance Sheet is the statement of assets and liabilities of an accounting unit at a given date. It is generally prepared at the end of an accounting period after the Income and Expenditure Account has been prepared. It is classified summary of the ledger balances left over, after accounts of all the revenue items have been closed off by transfer to the Income and Expenditure Account. In not for profit organizations, the excess of total assets over total outside liabilities is known as Capital Fund. The Capital fund represents the amount contributed by members. If however, members have not contributed any amount, the name should be Accumulated Fund. The surplus or deficit, if any, on the year's working as disclosed by the Income and Expenditure Account is shown either as an addition to or deduction from the Capital / Accumulated Fund brought forward from the previous period.

Non-profit organizations registered under section 25 of the Companies Act, 1956 are required to prepare their Income and Expenditure account and Balance Sheet as per the revised Schedule VI to the Companies Act, 1956.

4.1 Accounting Treatment of Some Special Items

4.1.1 Donations

These may have been raised either for meeting some revenue or capital expenditure; those intended for the first mentioned purpose are credited directly to the Income and Expenditure

9.9 Accounting

Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired there from, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

Instead of paying cash, a donor may sometimes give away or transfer a security or some other readily realisable asset. In such a case, the value of asset on valuation, must be credited to the fund for which the amount has been donated. The Bombay Public Trust Rules, 1951 (under revision) required that such amounts should be included in the Income and Expenditure Account of the Trust. If this is done the amount should be simultaneously transferred to the special fund by raising a debit of an equivalent amount in the Income and Expenditure Account.

4.1.2 Entrance and Admission Fees

Such fees which are payable by a member on admission to club or society are normally considered capital receipts creditable to Capital Fund. This is because these do not give rise to any special obligation towards the member who is entitled to the same privileges as others who have paid only their annual subscription. Nevertheless, where the amount is small, meant to cover expenses concerning admission, or the rules of the society provided that such fees could be treated as income of the society, these amounts may be included in the Income and Expenditure Account.

4.1.3 Subscription

Subscriptions being an income, should be allocated over the period of their accrual. For testing the knowledge of candidates of this important accounting principle, questions are often set in examinations wherein figures of subscription collected by a society during the year as well as those outstanding at the beginning of the year and at its close are given. If some subscriptions have been received in advance, their amount is also indicated. In such cases, it is always desirable to set up a Subscription Account for determining the amount of subscription pertaining for the period for which accounts are being prepared. For example, if it is stated that subscriptions collected by a society during the year 2012 amounted to ₹ 1,850 out of which ₹ 200 represented subscription for the year 2011; ₹ 100 were subscriptions collected in advance for the year 2013, and subscriptions amounting to ₹ 500 were outstanding for recovery at the end of 2012, the adjusting journal entries and the Subscription Account should be set up as follows :

		₹	₹
Subscription Outstanding Account	Dr.	500	
To Subscriptions Account			500
(The amount outstanding for this year credited to Subscription Account)			
Subscription A/c	Dr.	300	
To Outstanding Subscription A/c			200
To Subscriptions Received in Advance A/c			100
(Subscription received ₹ 200 for the previous year and ₹ 100 for the next year, adjusted)			

Subscription Account

Dr.					Cr.
2012		₹	2012		₹
Jan 1	To Outstanding Subscriptions	200	Dec.	By Cash A/c	1,850
Dec. 31	To Subscriptions received in advance	100		By Subscriptions outstanding	500
	To Income and Expenditure Account, transfer	<u>2,050</u>			
		<u>2,350</u>			<u>2,350</u>

The amount of outstanding subscription is adjusted in the Subscription Account by debit to Outstanding Subscription Account and that balance is shown as an asset in Balance Sheet. The Subscription Account is closed off by transferring its balance at the end of the year to the Income and Expenditure Account.

4.1.4 Life Members

Fees received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund

For adjusting lump sum subscription collected from the life members, one of the following methods can be adopted:

- (1) The entire amount may be carried forward in a special account until the member dies, when the same may be transferred to the credit of the Accumulated Fund.
- (2) An amount equal to the normal annual subscription may be transferred every year to the Income and Expenditure Account and balance carried forward till it is exhausted. If, however, the life member dies before the whole of the amount paid by him has been transferred in this way, the balance should be transferred to the Accumulated Fund on the date of his death.
- (3) An amount, calculated according to the age and average life of the member, may annually be transferred to the credit of Income and Expenditure Account.

4.2 Preparation of Balance Sheet

- **Preparation of opening balance sheet and calculation of surplus:** If capital fund or accumulated surplus in the beginning of the year is not given, it is calculated by deducting liabilities from assets in the beginning of year. While calculating opening capital fund, care should be taken to include prepaid expenses and accrued incomes as assets and outstanding expenses and advance incomes as liabilities. Any surplus earned during the year is added to the opening capital fund and deficit suffered during the year is deducted from the opening capital fund.
- **Cash and bank balance:** Closing cash and bank balance as disclosed in Receipt and Payment Account is shown in the assets side of Balance Sheet. If there is a bank overdraft, it is to be shown on the liabilities side of the balance sheet.
- **Fixed assets:** Opening balances of Fixed Assets(Furniture, building, equipment, etc.) are increased by the amount of purchases and reduced by sales of the same and depreciation on the same.
- **Liabilities:** Opening balances of liabilities should be adjusted for any increase or decrease in the same.

The illustrations explained in the chapter are of club not registered under the Companies Act, 1956. Therefore, Income & Expenditure A/c and Balance Sheet are not prepared on per Revised Schedule VI.

Illustration 4

The following was the Receipts and Payments Account of Exe Club for the year ended Dec. 31, 2012

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honoraria to Secretary	
Sale of Equipment	80	and Treasurer of 2011	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth		Current Account	150
coming Tournament	1,000	Cash in hand	250
	<u>7,820</u>		<u>7,820</u>

You are given the following additional information:

	Jan. 1, 2012	Dec. 31, 2012
	₹	₹
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unrepresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1750
Interest not yet entered in the Pass book		20
Bonus to Groundsman		300

For the year ended Dec. 31, 2012, the honoraria to the Secretary and Treasurer are to be increased by a total of ₹ 200.

Prepare the Income and Expenditure Account for 2012 and the relevant Balance Sheet.

Solution

Income and Expenditure Account of Exe Club for the year ending 31st Dec. 2012

		₹		₹
To Groundsman's fee		750	By Donations and Subscription	2,550
To Rent of Ground		250	By Receipts from teas	50
To Travelling Expenses	400		(Fares) less expenses	
Less : Contribution	(100)	300	By Proceeds of Variety	
To Printing & Office Expenses		260	Entertainment	780
To Repairs		460	By Interest	50
To Depreciation on Machinery				
Op. balance and	2,300			
Purchases				
Less: Closing Balance	(1,750)			
	550			
Less: Sale	(80)	470		
To Honoraria				
To Sect. & Treasurer		600		
To Bonus to Groundsman		300		
To Excess of Income over				
Expenditure		40		
		<u>3,430</u>		<u>3,430</u>

9.13 Accounting

Balance Sheet of Exe Club as on 31st Dec. 2012

<i>Liabilities</i>		₹	<i>Assets</i>	₹
Outstanding Expenses:				
Groundsman Bonus		300	Cash in hand	250
Printing		80	Cash in Deposit A/c	3,090
Honoraria		600	Subscription Due	100
Bank Overdraft (260-150)		110	Interest Due	20
Capital Fund: Opening	3,080		Machinery &	
Add: Surplus for the year	<u>40</u>	3,120	Equipments	1,750
Tournament Fund (Donation)				
		<u>1,000</u>		
		<u>5,210</u>		<u>5,210</u>

Opening Balance Sheet

	₹		₹
Outstanding Expenses		Cash in hand	100
and Honoraria	500	Cash in Deposit A/c	2,230
Capital Fund (Balancing Figure)	3,080	Cash in Current A/c	300
		Subscription Due	150
		Machinery	<u>800</u>
	<u>3,580</u>		<u>3,580</u>

Illustration 5

The Income and Expenditure Account of the Youth Club for the Year 2012 is as follows:

	₹		₹
To Salaries	4,750	By Subscription	7,500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for	
To Secretary's Honorarium	1,000	annual dinner	1,000
To Stationery & Printing	450	By Profit on Annual	
To Annual Dinner Expenses	1,500	Sport meet	750
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	<u>600</u>		
	<u>9,500</u>		<u>9,500</u>

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2011	600
Subscription received in Advance on 31st December, 2011	450
Subscription received in advance on 31st December, 2012	270
Subscription outstanding on 31st Dec., 2012	750

Salaries Outstanding at the beginning and the end of 2012 were respectively ₹ 400 and ₹ 450. General Expenses include insurance prepaid to the extent of ₹ 60. Audit fee for 2012 is as yet unpaid. During 2012 audit fee for 2011 was paid amounting to ₹ 200.

The Club owned a freehold lease of ground valued at ₹ 10,000. The club had sports equipment on 1st January, 2012 valued at ₹ 2,600. At the end of the year, after depreciation, this equipment amounted to ₹ 2,700. In 2011, the Club has raised a bank loan of ₹ 2,000. This was outstanding throughout 2012. On 31st December, 2012 cash in hand amounting to ₹ 1,600.

Prepare the Receipts and Payments Account for 2012 and Balance Sheet as at the end of the year.

Solution

The Youth Club Receipts and Payments Account for the year ended 31st Dec., 2012

	₹	₹		₹	₹
To Balance b/d (balancing figure)		1,390	By Salaries	4,750	
			Add: Paid for 2011	400	
To Subscriptions As per Income & Expenditure Account	7,500			5,150	
Add: 2011's Received	600		Less: Unpaid for 2012	(450)	4,700
2013's Received	<u>270</u>				
	8,370		By General Expenses	500	
Less: 2012's Received in 2011	(450)		Add : Paid for 2011	60	560
	7,920		By Audit fee (2012)		200
Less: 2012's Outstanding	<u>(750)</u>	7,170	By Secy. Honorarium		1,000
			By Stationery & Printing		450
			By Annual Dinner		1,500

9.15 Accounting

To Entrance Fees	250	By Expenses	
To Contribution for		By Interest & Bank	150
annual dinner	1,000	Charges	
To Profit on Sport meet :		By Sports	
Receipt less expenses	<u>750</u>	Equipments	400
	<u>10,560</u>	[2700-(2600-300)]	
To Balance b/d	1,600	By Balance c/d	<u>1,600</u>
			<u>10,560</u>

Balance Sheet of Youth Club as at December 31, 2012

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Subscription received in advance		270	Freehold Ground		10,000
Audit Fee Outstanding		250	Sport Equipment:		
Salaries Outstanding		450	As per last		
Bank Loan		2,000	Balance Sheet	2,600	
Capital Fund :			Additions	<u>400</u>	
Balance as per previous				3,000	
Balance Sheet	11,540		Less : Depreciation	<u>(300)</u>	2,700
Add : Surplus for 2012	<u>600</u>	12,140	Subscription Outstanding		750
			Insurance Prepaid		60
			Cash in hand		<u>1,600</u>
		<u>15,110</u>			<u>15,110</u>

Balance Sheet of Youth Club as at 31st December, 2011

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Subscriptions received in advance	450	Freehold Ground	10,000
Salaries Outstanding	400	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	600
Bank Loan	2,000	Cash in hand	1,390
Capital Fund (balancing figure)	<u>11,540</u>		
	<u>14,590</u>		<u>14,590</u>

Illustration 6

From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31st March, 2013:

Income & Expenditure Account for the year 2012-13

	₹		₹
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Misc. Income	400
	<u> </u>	By Deficit	<u>2,820</u>
	<u>23,600</u>		<u>23,600</u>

Balance Sheet as at 31st March, 2013

<i>Liabilities</i>		₹	<i>Assets</i>	₹
Subscription in Advance (2013-14)		100	Furniture	9,000
Prize Fund :			Ground and Building	47,000
Opening Balance	25,000		Prize Fund Investment	20,000
Add : Interest	<u>1,000</u>		Cash in Hand	2,300
	26,000		Subscription (2012-13)	700
Less : Prizes	<u>(2,000)</u>	24,000		
General Fund :				
Opening Balance	56,420			
Less : Deficit	<u>(2,820)</u>			
	53,600			
Add : Entrance Fee	<u>1,300</u>	<u>54,900</u>		
		<u>79,000</u>		<u>79,000</u>

The following adjustments have been made in the above accounts:

- (1) Upkeep of ground ₹ 600 and Printing ₹ 240 relating to 2011-2012 were paid in 2012-13.
- (2) One-half of entrance fee has been capitalised by transfer to General Fund.
- (3) Subscription outstanding in 2011-12 was ₹ 800 and for 2012-13 ₹ 700.
- (4) Subscription received in advance in 2011-12 was ₹ 200 and in 2012-13 for 2013-14 ₹ 100.

9.17 Accounting

Solution

Receipts and Payment Account for the year ending 31st March, 2013

<i>Receipts</i>	₹	<i>Payments</i>	₹
To Balance b/d (Balancing figure)	4,660	By Upkeep of Ground (10,000+600)	10,600
To Subscription	17,320	By Printing (1000+240)	1,240
To Interest on Prize Fund Investments	1,000	By Salaries	11,000
To Lecture (fee)	1,500	By Rent	600
To Entrance Fee	2,600	By Prizes	2,000
To Sale of Newspapers (old)	260	By Balance c/d	2,300
To Misc. Income	<u>400</u>		<u> </u>
	<u>27,740</u>		<u>27,740</u>

Working note: ₹ 600 paid for upkeep of ground for 2011-12 and ₹ 240 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

<i>2012</i>		₹	<i>2012</i>		₹
April	To Subscription Outstanding (2011-12)	800	April 1	By Cash (Balancing figure)	17,320
	To Subscription In Advance (2013-14)	100		By Subscription Outstanding (2012-13)	700
				By Subscription in Advance (2011-12)	200
2013 March	To Income & Expenditure A/c	<u>17,320</u>			<u> </u>
		<u>18,220</u>			<u>18,220</u>

Illustration 7

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2013 :

Receipts and Payments Account

<i>Receipts</i>	₹	<i>Payments</i>	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220

To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	<u>2,450</u>
	<u>36,120</u>		<u>36,120</u>

Figures of other assets and liabilities are furnished as follows:

as at March 31		
	₹	₹
	2012	2013
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2013 was ₹ 5,250.

From the above information you are required to prepare:

- The Club's Balance Sheet as at March 31, 2012;
- The Club's Income and Expenditure Account for the year ended March 31, 2013.
- The Club's Closing Balance Sheet as at March 31, 2013.

Solution

(a) Sportswriters Club Balance Sheet as on 31st March, 2012

Liabilities	₹	₹	Assets	₹
Outstanding expenses :			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200

9.19 Accounting

Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (Balancing figure)		47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	<u>500</u>
		<u>48,800</u>		<u>48,800</u>

(b) Income and Expenditure Account for the year ending 31st March, 2013

<i>Expenditure</i>		₹	<i>Income</i>	₹
To Salaries		11,460	By Subscription	28,912
To Rent & Electricity		7,329	By Interest	2,000
To Magazines & Newspapers		2,286	By Misc. Income	700
To Sundry Expenses		10,075	By Excess of expenditure over income	2,888
To Depreciation :				
Furniture	960			
Sports Equipment	1,640			
Library Books	<u>750</u>	<u>3,350</u>		
		<u>34,500</u>		<u>34,500</u>

(c) Balance Sheet of Sports Writers Club as on 31st March, 2013

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Outstanding Expenses:			Furniture		
Salaries	170		Cost	9,600	
Rent & Electricity	973		Less : Depreciation	<u>(960)</u>	8,640
Newspapers	<u>340</u>	1,483	Magazines & Sport Equipment:		
Capital Fund:			Opening balance	7,200	
Opening balance	47,000		Addition	<u>1,000</u>	
Less : Excess of exp. over income	<u>(2,888)</u>	44,112		8,200	
			Less : Depreciation	<u>(1,640)</u>	6,560
			Library Books :		
			Opening Balance	5,000	
			Addition	<u>1,000</u>	
				6,000	
			Less : Depreciation	<u>(750)</u>	5,250
			Fixed Deposit		20,000

			Cash in hand & at bank	2,450
			Prepaid Expenses	620
			Subscription Receivable	1,575
			Interest accrued	<u>500</u>
		<u>45,595</u>		<u>45,595</u>

Working Notes:

(i)	Expenses	Salaries	Rent & Electricity Papers	Magazines & News-	Sundry Expenses
		₹	₹	₹	₹
	Paid during the year	12,000	7,220	2,172	10,278
	Add : Outstanding on 31.3.2013	170	973	340	--
	Prepaid on 31.3.2012	<u>--</u>	<u>--</u>	<u>--</u>	<u>417</u>
		12,170	8,193	2,512	10,695
	Less : Outstanding on 31.3.2012	(710)	(864)	(226)	--
	Less : Prepaid on 31.3.2013	<u>--</u>	<u>--</u>	<u>--</u>	<u>(620)</u>
	Expenditure for the year	<u>11,460</u>	<u>7,329</u>	<u>2,286</u>	<u>10,075</u>
					₹
(ii)	Depreciation				
	(a) Furniture @10% on ₹ 9,600				960
	(b) Sports Equipment @ 20% on ₹ 8,200				1,640
	(c) Library books-book value			6,000	
	Revalued at			<u>(5,250)</u>	750
(iii)	Subscription				
	Received in cash				28,600
	Add : Receivable on 31.3.2013				<u>1,575</u>
					30,175
	Less: Receivable on 31.3.2012				<u>(1,263)</u>
					<u>28,912</u>

Illustration 8

From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2012, and a statement of affairs as at that date of the Mayura Hospital :

**Receipts and Payments Account for the
year ended 31 December, 2012**

	₹				₹
<i>To Balances</i>			<i>By Salaries :</i>		
Cash	400		(₹ 3,600 for 2011)		15,600
Bank	<u>2,600</u>	3,000	<i>By Hospital Equipment</i>		8,500
<i>To Subscriptions :</i>			<i>By Furniture purchased</i>		3,000
For 2011		2,550	<i>By Additions to Building</i>		25,000
For 2012		12,250	<i>By Printing and</i>		1,200
For 2013		1,200	Stationery		
<i>To Government Grant :</i>			<i>By Diet expenses</i>		7,800
For building		40,000	<i>By Rent and rates</i>		1,000
For maintenance		10,000	(₹ 150 for 2013)		
Fees from sundry			<i>By Electricity and water</i>		1,200
patients		2,400	charges		
<i>To Donations (not to be</i>		4,000	<i>By office expenses</i>		1,000
capitalised)			<i>By Investments</i>		10,000
<i>To Net collections from</i>			<i>By Balances :</i>		
benefit shows		3,000	Cash	700	
		<u> </u>	Bank	<u>3,400</u>	<u>4,100</u>
		<u>78,400</u>			<u>78,400</u>
Additional information :					₹
Value of building under construction as on 31.12.2012					70,000
Value of hospital equipment on 31.12.2012					25,500
Building Fund as on 1.1. 2012					40,000
Subscriptions in arrears as on 31.12.2011					3,250
Investments in 8% Govt. securities were made on 1st July, 2012.					

Solution

Mayura hospital
Income & Expenditure Account
for the year ended 31 December, 2012

<i>Expenditure</i>	₹	<i>Income</i>	₹
To Salaries	12,000	By Subscriptions	12,250
To Diet expenses	7,800	By Govt. Grants (Maintenance)	10,000
To Rent & Rates	850	By Fees, Sundry Patients	2,400
To Printing & Stationery	1,200	By Donations	4,000
To Electricity & Water-charges	1,200	By Benefit shows (net collections)	3,000
To Office expenses	1,000	By Interest on Investments	400
To Excess of Income over expenditure transferred to Capital Fund	<u>8,000</u>		
	<u>32,050</u>		<u>32,050</u>

Statement of Affairs as on 31st Dec., 2012

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Capital Fund :			Building :		
Opening balance	24,650		Opening balance	45,000	
Excess of Income Over Expenditure	<u>8,000</u>	32,650	Addition	<u>25,000</u>	70,000
Building Fund :			Hospital Equipment :		
Opening balance	40,000		Opening balance	17,000	
Add : Govt. Grant	<u>40,000</u>	80,000	Addition	<u>8,500</u>	25,500
Subscriptions received in advance		1,200	Furniture		3,000
			Investments-		
			8% Govt. Securities		10,000
			Subscriptions receivable		700
			Accrued interest		400
			Prepaid expenses (Rent)		150
			Cash at Bank		3,400
			Cash in hand		700
		<u>1,13,850</u>			<u>1,13,850</u>

9.23 Accounting

Working Notes :

(1) Statements of Affairs as on 31st Dec., 2011			
<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Fund		Building	45,000
(Balancing Figure)	24,650	Equipment	17,000
Building Fund	40,000	Subscription Receivable	3,250
Creditors for Expenses :		Cash at Bank	2,600
Salaries payable	<u>3,600</u>	Cash in hand	<u>400</u>
	<u>68,250</u>		<u>68,250</u>
(2) Building			
Balance on 31st Dec. 2012			70,000
Paid during the year			<u>25,000</u>
Balance on 31st Dec. 2011			<u>45,000</u>
(3) Equipment			
Balance on 31st Dec. 2012			25,500
Paid during the year			<u>(8,500)</u>
Balance on 31st Dec. 2011			<u>17,000</u>
(4) Subscription due for 2011			
Receivable on 31st Dec. 2011			3,250
Received in 2012			<u>2,550</u>
Still Receivable for 2011			<u>700</u>

Illustration 9

The receipts and payments account and the income and expenditure account of a Club for the year ended 31st December, 2012 were as follows:

Receipts and Payments Account

<i>Receipts</i>	₹	₹	<i>Payments</i>	₹
To Balance c/d		2,500	By Books purchased	1,000
To Subscriptions:			By Printing and Stationery	200
2011	600		By Salary	1,500
2012	<u>4,300</u>	4,900	By Advertisement	200
To Interest		500	By Electric Charge	400
To Donation for special fund		300	By Balance c/d	<u>7,350</u>

<i>To Rent:</i>			
2011	150		
2012	<u>300</u>	450	
<i>To Govt. Grants</i>		<u>2,000</u>	
		<u>10,650</u>	<u>10,650</u>

Income and Expenditure Account

<i>Expenditure</i>	₹	<i>Income</i>	₹
<i>To Salary</i>	2,800	<i>By Interest</i>	400
<i>To Tent Hire</i>	200	<i>By Subscription</i>	4,800
<i>To Electric charges</i>	400	<i>By Rent</i>	2,300
<i>To Depreciation on Building</i>	750	<i>By Govt. Grant</i>	2,000
<i>To Printing and Stationery</i>	200		
<i>To Advertisement</i>	150		
<i>To Surplus</i>	<u>5,000</u>		
	<u>9,500</u>		<u>9,500</u>

The club's assets as on 1st January 2012 were :

Building ₹ 15,000; Books ₹ 10,000

Furniture ₹ 4,000; Investments ₹ 10,000

Liabilities as on that date were ₹ 50 for advertisement and ₹ 100 for salary.

You are required to prepare the balance sheet of the club on 31st December, 2011 and 31st December, 2012.

Solution:

Balance Sheet
As at 31st December, 2011

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital fund(Bal. fig.)	42,200	Cash in hand	2,500
Outstanding for advertisement	50	Subscriptions outstanding	600
Outstanding for salary	100	Interest outstanding	100
		Rent receivable	150
		Buildings	15,000
		Books	10,000
		Furniture Purchased	4,000
		Investments	<u>10,000</u>
	<u>42,350</u>		<u>42,350</u>

Balance Sheet
As at 31st December, 2012

<i>Liabilities</i>		₹	<i>Assets</i>		₹
Donation for Special Fund		300	Cash in hand		7,350
Outstanding for salary		1,400	Subscriptions outstanding		500
Outstanding for Tent hire		200	Books	10,000	
Capital Fund			Add: Purchase	<u>1,000</u>	11,000
Balance on 31/12/11	42,200				
Add: Surplus	<u>5,000</u>	47,200	Buildings	15,000	
			Less: Dep.	<u>(750)</u>	14,250
			Furniture		4,000
			Investments		10,000
			Accrued Rent		<u>2,000</u>
		<u>49,100</u>			<u>49,100</u>

Note: In the above solution, it is assumed that ₹ 100(₹ 500-₹ 400) excess interest received during the year is in relation to the outstanding interest of the last year.

Illustration 10

The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2012.

Receipts	₹	Payments	₹
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	<u>2,24,600</u>
		<u>21,53,600</u>

The assets and liabilities as on 1.4.2011 were as follows:

	₹
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, 2012 was ₹ 18,000.
- (ii) Outstanding subscription as on 31st March, 2012 was ₹ 7,000.
- (iii) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.
- (iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2012.
- (v) The cost of assets sold net as on 1.4.2011 was ₹ 10,000.
- (vi) Depreciation is to be provided at the rate of 10% on assets.
- (vii) A sum of ₹ 20,000 received in October 2011 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2012.
- (viii) Purchases made during the year amounted ₹ 15,00,000.
- (ix) The value of closing stock was ₹ 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, 2012 and the Balance Sheet as on 31st March, 2012 along with necessary workings.

Solution

*Income and Expenditure Account of Lion Club
for the year ended 31st March, 2012*

<i>Expenditure</i>	₹	<i>Income</i>	₹
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	70,000	By Entrance donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and telex	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations	92,000
To Glass and table linen	12,000	By Excess of expenditure over income transferred to capital fund	30,250
To Crockery and cutlery	14,000		
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance	6,000		
To Electricity charges	43,000		
To Loss on sale of assets	2,000		
To Depreciation	<u>49,000</u>		
	<u>4,76,000</u>		<u>4,76,000</u>

Balance Sheet of Lion Club as on 31st March, 2012

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital fund	10,89,600	Fixed assets	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors	92,000	Investments	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued	2,000
Outstanding expenses	23,000	Bank	2,24,600
		Cash	<u>8,000</u>
	<u>13,92,600</u>		<u>13,92,600</u>

Working Notes:

1. **Opening Balance Sheet**
Balance Sheet of Lion Club as on 1st April, 2011

Liabilities	₹	Assets	₹
Sundry creditors	1,12,000	Fixed assets	5,00,000
Subscription received in advance	15,000	Stock	3,80,000
Entrance donation received in advance	1,00,000	Investments	5,00,000
Gratuity fund	1,50,000	Subscription outstanding	12,000
Capital fund (balance figure)	<u>10,29,850</u>	Prepaid expenses	1,000
	<u>14,06,850</u>	Cash	10,000
		Bank	<u>3,850</u>
			<u>14,06,850</u>

2. **Subscription**

	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2012	<u>7,000</u>
	2,09,750
Add: Received in advance as on 1.4.2011	<u>15,000</u>
	2,24,750
Less: Outstanding subscription as on 1.4.2011	<u>(12,000)</u>
	2,12,750
Less: Received in advance as on 31.3.2012	<u>(18,000)</u>
	<u>1,94,750</u>

3. **Entrance donation**

	₹
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2011	<u>1,00,000</u>
	2,00,000
Less: Entrance donation in respect of ineligible member	<u>(20,000)</u>
	1,80,000
Less: 50% capitalized	<u>(90,000)</u>
Taken to income and expenditure account	<u>90,000</u>

4. Loss on sale of asset

	₹
Cost of asset sold	10,000
<i>Less: Sale proceeds</i>	<u>(8,000)</u>
Loss on sale of asset	<u>2,000</u>

5. Depreciation

	₹
Fixed asset as per trial balance	5,00,000
<i>Less: Cost of asset sold</i>	<u>(10,000)</u>
	<u>4,90,000</u>
Depreciation on ₹ 4,90,000 @ 10%	49,000

6. Salaries

	₹
Salary paid during the year	1,20,000
<i>Add: Outstanding as on 31.3.2012</i>	<u>8,000</u>
	<u>1,28,000</u>

7. Electricity charges

	₹
Electricity charges paid during the year	28,000
<i>Add: Outstanding as on 31.3.2012</i>	<u>15,000</u>
	<u>43,000</u>

8. Interest

	₹
Interest on 12% Government security investment (₹ 5,00,000 @ 12 % p.a.)	60,000
<i>Less: Interest received during the year</i>	<u>(58,000)</u>
Interest accrued	<u>2,000</u>
Interest credited to Income and Expenditure Account	60,000

9. Profit from operations:

	₹
<i>Cost of goods sold:</i>	
Opening stock	3,80,000
<i>Add: Purchases</i>	<u>15,00,000</u>

	18,80,000
<i>Less: Closing stock</i>	<u>(2,10,000)</u>
Cost of goods sold (A)	<u>16,70,000</u>
<i>Receipts from operations:</i>	
Receipts from coffee room	10,70,000
Receipts from wines and spirits	5,10,000
<i>Receipts from swimming pool</i>	80,000
<i>Receipts from tennis court</i>	<u>1,02,000</u>
Total receipts (B)	<u>17,62,000</u>
Profits from operations (B-A)	92,000

10. Insurance

	₹
Insurance paid during the year	5,000
<i>Add: Prepaid insurance as on 1.4.2011</i>	<u>1,000</u>
	<u>6,000</u>

11. Sundry creditors

	₹
Opening balance as on 1.4.2011	1,12,000
<i>Add: Purchases made during the year</i>	<u>15,00,000</u>
	16,12,000
<i>Less: Payments made during the year</i>	<u>(15,20,000)</u>
Closing balance as on 31.3.2012	<u>92,000</u>

12. Outstanding expenses

	₹
Outstanding salaries	8,000
Outstanding electricity charges	<u>15,000</u>
Outstanding expenses	<u>23,000</u>

13. Fixed assets

	₹
Fixed assets as on 1.4.2011	5,00,000
<i>Less: Cost of assets sold</i>	<u>(10,000)</u>
	4,90,000
<i>Less: Depreciation</i>	<u>(49,000)</u>
Fixed assets as on 31.3.2012	<u>4,41,000</u>

14. Capital fund

	₹
Capital fund as on 1.4.2011	10,29,850
<i>Add:</i> Entrance donation capitalised	<u>90,000</u>
	11,19,850
<i>Less:</i> Excess of expenditure over income	<u>(30,250)</u>
Balance as on 31.3.2012	<u>10,89,600</u>

5. Educational Institution**Registration**

The educational institutions which are functioning in India are mostly registered as Societies under the Indian Societies Registration Act of 1860, in some of the States, where Public Trust Acts have been passed all the Societies registered under the Indian Societies Registration Act, 1860 are required to be simultaneously registered under the Trust Act. Accordingly, in the State of Maharashtra, all the Societies have simultaneously been registered under the Bombay Public Trust Act, 1950.

Organisational Pattern

The Trust Societies are autonomous bodies with office bearers consisting of President, Secretary, Treasurer and Executive Committee Members. The General Body consists of all the Members of the Society. In case of Societies/Trusts which run a number of colleges and schools etc., for managing the affairs of each individual school or college, there is a governing body, wherein the head of the Unit, such as Principal of the college or Head Master of the school as, the case may be, are also members of the Governing Body.

The function of the Governing Body is to supervise the smooth functioning of the individual school or college.

Salient Features

The basic tenets pre-suppose, that part of the expenses of the educational institutions are met from the funds raised by the educational institutions themselves, either from donations, or from charities, collected from benevolent citizens in the country.

The State Governments through grant-in-aid-code have evolved different patterns of giving assistance to the educational institutions. There is, as such, no uniformity in the giving of assistance to the educational institutions in the form of grants.

All the educational institutions follow financial year as their accounting year.

5.1 Sources of Finance for Running the Educational Institution

There are three main sources through which amounts are collected by the educational institutions. These are:

- (1) Donation from Public;
- (2) Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and
- (3) Grants received from the Government.

The Government grants are of four kinds namely Maintenance Grant, Equipment grant, Building Grant and such other grants as may be sanctioned by the Government from time to time.

5.2 Specific items

5.2.1 Donation from Public

These are received either for recurring or non-recurring purposes. Donations are received either in cash or in kind. The 'in kind' donations are in the form of land and building, shares and securities, utensils, furniture and fixtures and the like, generally with a desire to perpetuate the memory of a distinguished member of the family of the donor.

5.2.2 Capitation fee or admission fee

Amounts are collected from parents/guardians of the students who seek admission in the educational institution. These are either in the form of capitation fees or admission fees and are generally collected by the Parent Body which runs the institution. In recent times, such collections have been a matter of severe attack and ban.

5.2.3 Laboratory and Library deposit

These are generally collected by schools and colleges and they remain with the institution till the student finally leaves it.

The School Code prescribes the rates of tuition and other fees, to be charged from the students.

5.2.4 Use of Term Fee

A separate account of receipts and expenditures shall be maintained and surplus carried over to the next year. The following are main items on which term fee can be used:

- (1) Medical Inspection.
- (2) School Magazine-manuscript and/or printing.
- (3) Examination expenses i.e. printing, including cyclo-styling of question papers and supply of answer books if there is sufficient balance.
- (4) Contribution to athletic and cultural associations, connected with school activities.

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- (5) School functions and festivals.
- (6) Inter-class and Inter-school tournaments.
- (7) Sports and Games-major and minor.
- (8) Newspapers and magazines.
- (9) Extra-curricular excursion and visits.
- (10) School competition such as elocution competition etc.
- (11) Scouting and Guiding.
- (12) School Band.
- (13) Social and Cultural activities and equipment required for the same.
- (14) Vocational Guidance in general.
- (15) Prizes for Co-curricular activities.
- (16) Any other extra-curricular or co-curricular activities.
- (17) Maintenance of playground.
- (18) Purchase of books for Pupils Library.
- (19) Drawing and Craft material.
- (20) Audio-Visual Education.
- (21) Curricular visits and excursions.
- (22) Equipment for Physical education.

5.2.5 Recurring grants

Recurring grants in the form of Maintenance Grants are received in instalments spread out throughout the year.

5.2.6 Use of grant-in-aid

The School Code provides a detailed list of items of expenditure which are admissible for grant-in-aid:

- (1) Staff salaries and allowances
- (2) Leave Allowance.
- (3) Bad Climate Allowance.
- (4) Water Allowance.
- (5) Leave Salary.
- (6) Expenditure on training of teachers.
- (7) Pension and Gratuity as may be applicable.

- (8) Expenditure on the appointment of Librarian.
- (9) Rent, Taxes and Insurance.
- (10) Other Contingencies: expenditure of printing and stationery, conveyance expenditure, expenditure on purchase of books and furniture equipment.
- (11) Current repairs.
- (12) Miscellaneous Expenses: e.g. School Garden, Physical Education.
- (13) Prizes.
- (14) Expenditure on co-operative stores.
- (15) Registration fee paid to the Board for recognition.
- (16) Maintenance of Tiffin Rooms.
- (17) Bonus to Teachers.
- (18) Electrical charges.
- (19) Telephone Charges.
- (20) Expenditure in connection with Conferences.
- (21) Subscription to educational Association etc.
- (22) Medical charges.
- (23) Audit fees of the auditors in accordance with prescribed scale.
- (24) Sales-tax and General tax on purchase of the school requirements.
- (25) Payments for merit scholarships.

Illustration 11

From the following Trial Balance of Education Society as on 31st Dec., 2012; prepare an Income & Expenditure Account and a Balance Sheet:

	Dr.	Cr.
	₹	₹
<i>Furniture & Fittings</i>	12,500	
<i>Additions to Furniture (during the year)</i>	3,200	
<i>Library Books</i>	17,500	
<i>Addition to Library (during the year)</i>	4,300	
<i>Building</i>	2,75,000	
<i>General Investment</i>	1,50,000	

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<i>Investment Reserve fund</i>		15,000
<i>Sundry Debtors and Creditors</i>	5,000	14,500
<i>Entrance Fee</i>		15,200
<i>Examination Fee</i>		2,400
<i>Subscription Received</i>		20,000
<i>Certificate fee</i>		500
<i>Hire of Society's Hall</i>		6,500
<i>Interest on Investment</i>		5,500
<i>Sundry receipts</i>		600
<i>Staff Salaries</i>	10,200	
<i>Printing, Stationery & Advertising</i>	1,000	
<i>Taxes & Insurance</i>	800	
<i>Examination Expenses</i>	600	
<i>Subscription of Periodicals</i>	1,200	
<i>Prize Trust Fund</i>		16,000
<i>Prize Trust Investment</i>	15,800	
<i>Prize Trust Income</i>		650
<i>Prize Awarded</i>	450	
<i>Prize Fund Bank</i>	275	
<i>Donations received (to be capitalised)</i>		18,000
<i>General Expenses</i>	375	
<i>Capital Fund</i>		3,89,150
<i>Cash at Bank</i>	5,500	
<i>Cash in hand</i>	<u>300</u>	
	<u>5,04,000</u>	<u>5,04,000</u>

The following further information is supplied to enable you to make the necessary adjustments:

	₹
<i>Subscriptions receivable</i>	4,500
<i>Subscription received in advance</i>	500
<i>Interest on General Investment accrued</i>	450
<i>Staff salaries outstanding</i>	1,800
<i>Taxes & Insurance Paid in Advance</i>	500

<i>Provide depreciation at the following rates (including the additions):</i>	
<i>Library books</i>	<i>15% p.a.</i>
<i>Furniture & fittings</i>	<i>5% p.a.</i>
<i>Building</i>	<i>5% p.a.</i>

The market value of General Investments on 31st Dec. 2012 was ₹ 1,30,000. You are not required to make any provision for this fall in value.

Solution

Bharat Education Society Income and expenditure Account for the year ended at 31st Dec., 2012

	₹	₹		₹	₹
To Staff salaries	10,200		By Subscription	20,000	
To Add: Outstanding	<u>1,800</u>	12,000	Add: Outstanding	<u>4,500</u>	
To Printing, Stationery & Advertising		1,000		24,500	
To Taxes & Insurance	800		Less: Received in advance	<u>(500)</u>	
Less: Prepaid	<u>(500)</u>	300			24,000
To Examination Expenses		600	By Entrance Fee		15,200
To Subscription to Periodicals		1,200	By Examination Fee		2,400
To General expenses		375	By Certificate Fee		500
To Depreciation : Library Books	3,270		By Hire of Society's Hall		6,500
Furniture & Fittings	785		By Interest on Investment		
Building	<u>13,750</u>	17,805	Received	5,500	
To Excess of Income Over Expenditure		<u>21,870</u>	Add: Accrued	<u>450</u>	5,950
		<u>55,150</u>	By Sundry Receipts		<u>600</u>
					<u>55,150</u>

Balance Sheet of Bharat Education Society as on 31st Dec., 2012

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Capital Fund	3,89,150		Building cost	2,75,000	
Add: Excess of			Less: Depreciation	<u>(13,750)</u>	2,61,250

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Income over					
Expenditure	<u>21,870</u>	4,11,020	Furniture & Fittings	12,500	
Investment Res.		15,000			
Fund					
Prize Trust Fund	16,000		Add: Additions		
Income less Prizes	<u>200</u>	16,200	during the year	<u>3,200</u>	
Capital Reserve		18,000		15,700	
Subscription received			Less: Depreciation	<u>(785)</u>	14,915
in advance		500			
Salaries Outstanding		1,800			
Sundry Creditors		14,500	Library Books	17,500	
			Add: Additions		
			during the year	<u>4,300</u>	
				21,800	
			Less: Depreciation	<u>(3,270)</u>	18,530
			General Investment		1,50,000
			(M.V. ₹ 1,30,000)		
			Interest Accrued		450
			Sundry Debtors		5,000
			Prize Trust		15,800
			Investments		
			Prize Fund cash at		275
			bank		
			Cash at Bank		5,500
			Cash in hand		300
			Subscription due		4,500
			Taxes & Insurance		
			prepaid		500
		<u>4,77,020</u>			<u>4,77,020</u>

Illustration 12

From the following balances and particulars of Republic College prepare Income & Expenditure Account for the year ended March, 2013 and a Balance Sheet as on the date :

	₹	₹
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit-Students		1,50,000

<i>Capital fund</i>		<i>16,06,000</i>
<i>Research Fund</i>		<i>8,00,000</i>
<i>Building Fund</i>		<i>25,00,000</i>
<i>Provident Fund</i>		<i>5,10,000</i>
<i>Tuition Fee received</i>		<i>8,00,000</i>
<i>Government Grants</i>		<i>5,00,000</i>
<i>Donations</i>		<i>50,000</i>
<i>Interest & Dividends on Investments</i>		<i>1,85,000</i>
<i>Hostel Room Rent</i>		<i>1,75,000</i>
<i>Mess Receipts (Net)</i>		<i>2,00,000</i>
<i>College Stores-Sales</i>		<i>7,50,000</i>
<i>Outstanding expenses</i>		<i>2,25,000</i>
<i>Stock of-stores and Supplies</i>	<i>3,00,000</i>	
<i>Purchases-Stores & Supplies</i>	<i>8,00,000</i>	
<i>Salaries-Teaching</i>	<i>8,50,000</i>	
<i>Research</i>	<i>1,20,000</i>	
<i>Scholarships</i>	<i>80,000</i>	
<i>Students Welfare expenses</i>	<i>38,000</i>	
<i>Repairs & Maintenance</i>	<i>1,12,000</i>	
<i>Games & Sports Expenses</i>	<i>50,000</i>	
<i>Misc. Expenses</i>	<i>65,000</i>	
<i>Research Fund Investments</i>	<i>8,00,000</i>	
<i>Other Investments</i>	<i>18,50,000</i>	
<i>Provident Fund Investment</i>	<i>5,10,000</i>	
<i>Seminar & Conference Expenses</i>	<i>4,50,000</i>	
<i>Consultancy Expenses</i>	<i>28,000</i>	
<i>Land</i>	<i>1,00,000</i>	
<i>Building</i>	<i>16,00,000</i>	
<i>Plant and Machinery</i>	<i>8,50,000</i>	
<i>Furniture and Fittings</i>	<i>6,00,000</i>	
<i>Motor Vehicle</i>	<i>1,80,000</i>	
<i>Provision for Depreciation</i>		
<i>Building</i>		<i>4,80,000</i>

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<i>Plant & Equipment</i>		<i>5,10,000</i>
<i>Furniture & Fittings</i>		<i>3,36,000</i>
<i>Cash at Bank</i>	<i>6,42,000</i>	
<i>Library</i>	<i>3,60,000</i>	
	<u><i>1,03,85,000</i></u>	<u><i>1,03,85,000</i></u>

Adjustments:

		₹
(1)	<i>Materials & Supplies consumed:</i>	
	<i>Teaching</i>	<i>50,000</i>
	<i>Research</i>	<i>1,50,000</i>
	<i>Students Welfare</i>	<i>75,000</i>
	<i>Games or Sports</i>	<i>25,000</i>
(2)	<i>Tuition fee receivable from Government for backward class Scholars</i>	<i>80,000</i>
(3)	<i>Stores selling prices are fixed to give a net profit of 10% on selling price</i>	
(4)	<i>Depreciation is provided on straight line basis at the following rates:</i>	
	<i>(1) Building</i>	<i>5%</i>
	<i>(2) Plant & Equipment</i>	<i>10%</i>
	<i>(3) Furniture & Fixtures</i>	<i>10%</i>
	<i>(4) Motor Vehicle</i>	<i>20%</i>

Solution

Republic College Income and Expenditure Account for the year ending 31st March, 2013

	₹	₹	₹	₹	₹
To Salaries: Teaching		8,50,000	By Tuitions & other fee		8,80,000
Research		1,20,000	By Govt. Grants		5,00,000
To Material & Supplies Consumed			By Income from Investments		1,85,000
Teaching		50,000	By Hostel room Rent		1,75,000
Research		1,50,000	By Mess Receipts		2,00,000

To Repairs & Maintenance		1,12,000	By profit-stores sales		75,000
To Sports & Games Expenses			By Seminar and Conferences		
Cash	50,000		Income	4,80,000	
Materials	<u>25,000</u>	75,000	Less : Expenses	<u>(4,50,000)</u>	30,000
To Students Welfare Expenses			By Consultancy charges :		
Cash	38,000		Income	1,28,000	
Materials	<u>75,000</u>	1,13,000	Less : Expenses	<u>(28,000)</u>	1,00,000
To Misc. Expenses		65,000	By Donations		50,000
To Scholarships		80,000			
To Depreciation					
Building		80,000			
Plant & Equipment		85,000			
Furniture		60,000			
Motor Vehicle		36,000			
To Excess of Income over Expenditure		3,19,000			
		<u>21,95,000</u>			<u>21,95,000</u>

Republic College
Balance Sheet as on 31st March, 2013

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	16,06,000		Land		1,00,000
Add: Excess of Income over Expenditure	<u>3,19,000</u>	19,25,000	Building Cost	16,00,000	
Other Funds			Less: Dep.	<u>(5,60,000)</u>	10,40,000
Research Fund		8,00,000	Equipment Cost	<u>8,50,000</u>	
Building Fund		25,00,000	Less : Dep.	<u>(5,95,000)</u>	2,55,000
Current Liabilities :			Furniture & Fittings:		
Outstanding Expenses		2,25,000	Cost	6,00,000	
			Less : Dep.	<u>(3,96,000)</u>	2,04,000
			Motor Vehicles		

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Provident Fund	5,10,000	Cost :	1,80,000	
Security Deposit	1,50,000	Less : Dep.	<u>(36,000)</u>	1,44,000
		Library		3,60,000
		Investments:		
		Capital Fund		18,50,000
		Investments		
		Research Fund		8,00,000
		Investment		
		P.F. Investment		5,10,000
		Stock :		
		Material &		1,25,000
		Supplies		
		Grants		80,000
		receivable		
		Cash in hand &		<u>6,42,000</u>
		at Bank		<u>61,10,000</u>
	<u>61,10,000</u>			<u>61,10,000</u>

Working Notes :

(1)	Material & Supplies-Closing Stock			
	Opening Stock			3,00,000
	Purchases			<u>8,00,000</u>
				11,00,000
	Less : Cost of Sales		6,75,000	
	Consumed		<u>3,00,000</u>	<u>(9,75,000)</u>
	Balance			<u>1,25,000</u>
(2)	Provisions for Depreciation			
		<i>Building</i>	<i>Plant &</i>	<i>Furniture</i>
			<i>Equipment</i>	<i>& Fitting</i>
		₹	₹	₹
	Opening Balance	4,80,000	5,10,000	3,36,000
	Addition	<u>80,000</u>	<u>85,000</u>	<u>60,000</u>
	Closing Balance	<u>5,60,000</u>	<u>5,95,000</u>	<u>3,96,000</u>

5.3 Technique of Maintaining Fund Accounts

Non-business organizations, particularly educational institutions, sometimes, maintain separate accounts/funds for any specific activity of the organization such as sports, prizes,

refreshments, etc. and in that case, presentation of information in financial statements is made fund-wise. Fund based accounting essentially involves preparation of financial statements fund-wise. In case of institution like colleges, schools and universities-separate ledgers are maintained for each fund. Fund ledgers are self balancing in nature. A fund may be created for purchase, acquisition or construction of fixed assets or for any specific activities of the organisations or for both. For example, a building fund may be created with a view to purchase, acquire or construct buildings. All receipts in connection with the acquisition or construction of buildings are separated from the main accounts and shown in the building fund. Any expenditure incurred for the purpose of construction or acquisition of building are made out of this fund. When building is ultimately acquired or constructed, the asset is recognised in the general balance sheet and consequently that portion of the building fund which has been utilised for the acquisition or construction of the building should be transferred to general fund. Depreciation can be charged on such funds only after its completion or acquisition.

In the same way, separate funds may be created for equipments, major repairs to fixed assets and for other developmental activities.

Illustration 13

Noida School maintains separate building fund. As on 31.3.2012, balance of building fund was ₹ 10,00,000 and it was represented by fixed deposit (15% per annum) of ₹ 6,00,000 and current account balance of ₹ 4,00,000. During the year 2012-13, the school collected as donations towards the building fund ₹ 5,60,000 and transferred 40% of developmental fees collected ₹ 22,56,500 to building fund. Capital work progress as on 31st March, 2012 was ₹ 8,25,000 for which contractors' bill upto 75% was paid on 14.4.2012. The extension of building was finished on 31.12.2012 costing ₹ 7,25,000 for which contractors' bill was fully met. It was decided to transfer the cost of completed building (₹ 15,50,000) to the corresponding asset account.

You are required to pass journal entries to incorporate the above transactions in the books of Noida School for the year 2012-13 and show the trial balance of building fund ledger.

Solution

Journal Entries for Building Fund Ledger

			₹	₹
(1)	Bank A/c To Building fund A/c (On collection of donations)	Dr.	5,60,000	5,60,000
(2)	Bank A/c To Building fund A/c (40% of the development fees directly transferred to building fund)	Dr.	9,02,600	9,02,600
(3)	Fixed deposit A/c	Dr.	90,000	

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	To Interest A/c (On accrual of interest)			90,000
(4)	Interest A/c	Dr.	90,000	
	To Building fund (Interest accrued on fixed deposit transferred)			90,000
(5)	Capital work in progress A/c	Dr.	7,25,000	
	To Contractors' A/c (Work completed and certified during the year)			7,25,000
(6)	Contractors' A/c	Dr.	13,43,750	
	To Bank A/c (Payments made during the year)			13,43,750
(7)	Building A/c	Dr.	15,50,000	
	To Capital work in progress A/c (Transfer of completed buildings to Asset A/c)			15,50,000
(8)	Building Fund A/c	Dr.	15,50,000	
	To General Fund A/c (Corresponding building fund transferred)			15,50,000

Trial Balance of Building Fund as on 31st March, 2013

	Dr.	Cr.
	₹	₹
Building Fund		10,02,600
Contractors' A/c		2,06,250
Fixed Deposit A/c	6,90,000	
Current A/c	<u>5,18,850</u>	-
	<u>12,08,850</u>	<u>12,08,850</u>

Summary

- 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:
 1. Receipts and Payments Account
 2. Income and Expenditure Account
 3. Balance Sheet
- A Receipts and Payments Account is a summary of the cash book.
- 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.

- ***Non-profit organizations registered under section 25 of the Companies Act, 1956 are required to prepare their Income and Expenditure account and Balance Sheet as per the revised Schedule VI to the Companies Act, 1956.***
- It may be noted that after various accounts have been adjusted as is considered necessary and all the revenue accounts have been closed off by transfer to the Income and Expenditure Account, there will still be a number of balances left over. These are included in the balance sheet. A balance sheet is thus a complement to such an account.
- Donations, Entrance and Admission Fees, Subscription, Life Members are some of the sources of incomes for the non-profit organizations. These items have separate treatments with some being capitalized while others being treated on accrual basis, as told before.
- Educational institutions are quite different from other not-for-profit organisations in term of sources of finance and items of expenditure.