

Not for Profit / Club Accounts

Non-profit-oriented organizations are whose primary objective is not profit maximization. They make profit but which is incidental to its other social objectives and the profit / surplus cannot be distributed among its members as dividends instead it should be reinvested for the same cause. Examples are clubs, associations, charity and other non-profit oriented organizations. As their main purpose is to provide recreational facilities like (Swimming, chess, cricket and other facilities) charities and other welfare activities for the members rather than to make profit from the members.

Difference in Terminologies

Profit Making Organization	Non-Profit Organization
Income statement / Trading Profit & Loss Account	1) Trading Account (Refreshment / Canteen etc)
	2) Income and expenditure account (For Entire Club including Canteen)
Net profit	Surplus (Only in Income & Expenditure Ac)
Net loss	Deficit (Only in Income & Expenditure Ac)
Capital	Accumulated fund
Cash Book	Receipt & Payment Account

Receipt and Payments Account

Receipt and payments account is the summary of the cash/bank for the period. Receipts and payments account only shows the cash/bank balance at the end of the period. It includes all (Capital and revenue) receipts and all (Capital & revenue) expenditure.

Income and Expenditure Account

an income and expenditure account follows the same rules as an income statement. The only differences are the terms used. It only includes revenue receipts and expenditures (as per law).

Difference between Receipt & Payments A/C & Income and Exp A/C

Receipt & Payment Account	Income & Expenditure Account
It includes all capital & revenue Receipts and payments	It shows only revenue receipts and payments
It is a cash/bank summary	It is summary of income and expenses in the period.
It reveals only cash/bank balance at the end	It reveals surplus/deficit at an end of the period.

Subscription Account (Income)

	\$		\$
A Balance b/d	XXX	P Balance b/d	XXX
Subscription refund	XXX		
Income & Expenditure A/c	XXX	Bank (Subscription received During the year)	XXX
		Bad Debts	XXX
P Balance c/d	<u>XXX</u>	A Balance c/d	<u>XXX</u>
	<u>XXX</u>		<u>XXX</u>

Member's subscription

It is the main source of income for a Club. It is the fee charged by members for the use of club facilities.

Subscription in arrears

Subscription not received for the previous years, it is an asset/receivable for an organization.

Subscription In Advance

Subscription received in advance for the future periods. It is a liability for an organization.

Donations

Income for an organization received for some charitable purpose which has to be credited to the income and expenditure account in the year they received. If donations are specified as capital income then it has to be recorded in balance sheet instead of I & E account.

Locker Fees

The club may provide lockers for rent to the members to deposit their personal belongings. The fees collected are another source of income for the club, and it also credited in income and expenditure account.

Entrance fees

Those are the fees paid by the members when they first join the organization and it is also credited to I & E a/c in the year in which they are received.

Profit from Bar / Snacks / Refreshments / Canteen / Cafeteria

Most non-trading concerns have bar or lounge to sell refreshment and light snacks to the members and the profit from such sales is another source of income for the organization. It is therefore necessary to prepare a bar trading account to determine the bar profit, that would be transferred to the I & E account.

Legacy

Legacy means, "Will" of a person or an organization and it is a capital receipt for non-trading organization. It would be recorded in balance sheet as permanent capital.

Life membership

In some clubs and societies, members can make a payment for life membership. This means that by paying a fairly substantial amount now members can enjoy the facilities of the club for the rest of their lives. Such a receipt should not be treated as income in the income and expenditure account solely in the year in which the member paid the money. It should be credited to a life membership account, and transfers should be made from that account to the credit of the income and expenditure account of an appropriate amount annually.

Donations

Any donations received are usually shown as income in the year that they are received.

Entrance fees

When they first join a club, in addition to the membership fee for that year, new members often have to pay an entrance fee. Entrance fees are normally included as income in the year that they are received. A club could, however, decide to treat them differently, perhaps by spreading the income over a number of years. It all depends on the circumstances.

Accumulated Fund

It is same as a capital account in non-profit organization we prepare statement of accumulated fund instead of capital a/c as we prepare in sole trader and in partnership.

In sole trader or partnership CAPITAL = ASSETS – LIABILITIES	In a non-profit organization ACCUMULATED FUND = ASSETS – LIABILITIES
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OPENING ACCUMULATED FUND

	\$	\$
OPENING ASSETS		
Cash / Bank	XXX	
Inventory of refreshment	XXX	
Equipment	XXX	
Subscription in arrears	XXX	
Prepaid Expense	XXX	
Premises	XXX	XXX
Less: OPENING LIABILITIES		
Subscription in advance	XXX	
Accrued/Owings to supplier	XXX	
Overdraft / Loan	XXX	(XXX)
Opening Accumulated fund		XXX

Exam Focused theory Questions

Q. Why do members prefer to have income & expenditure account instead of receipt and payment account? OR What is the difference between income & expenditure account and receipt and payment account?

- A. Income and expenditure account works on the income statement principle. It records only current year incomes and current year expenses, which shows the performance of current year as Surplus or Deficit. It is more accurate statement to judge and evaluate the efficiency of any organization. On the other hand receipt and payment account records the cash received or paid during the period including opening and closing cash/bank balance, in other words it is just a cash book of the company. Receipt and payment account does not, account for any adjustments of prepaid and accrued, it does not distinguish between capital and revenue receipts and expenses; it does not include any non monetary item like depreciation. But income and expenditure account includes all the above as mentioned.

Q. How matching / accrual concept supports in recording subscription Income?

- A. While calculating subscription income for the year, we consider the subscription in arrears (opening and closing values) and subscription in advance (Opening and closing values), we add or deduct them accordingly, and calculate the current year subscription for the income and expenditure account. Matching or accrual concept also states that current year income should be recorded in current year whether we have received it or not.

ARD Club
Refreshments Trading Account for the year Ended 31 Dec 2020

	Sale of refreshment		XXX
Less	Cost of Sales:		
	Opening inventory of refreshment	XXX	
Add	Purchase of refreshment	XXX	
Less	Closing inventory of refreshment	(XXX)	(XXX)
	Gross profit		XXX
Less	Expenses (Only related to Refreshments)		(XXX)
	Profit from refreshment Trading		XXX

ARD Club
Income & Expenditure Account for the year Ended 31 Dec 2020

Income		
	Profit on sale of refreshment	XXX
	Gain on disposal of Asset	XXX
	Sale of tickets	XXX
	Subscriptions Income (w)	XXX
	Rent of hall/premises	XXX
	Donations (if specified as revenue receipt)	XXX
		XXX
Less: Expenditure		
	Wages – Grounds man and assistant	XXX
	Loss on disposal of asset	XXX
	Depreciation of ground equipment	XXX
	Interest on loan	XXX
	Secretary's expenses	XXX
	Ground upkeep	XXX
	Utilities	XXX
		(XXX)
	Surplus / Deficit for the year	
		XX / (XX)

ARD Club
Statement of Financial Position as at 31 December 2020

Assets	\$	\$	\$
Non-Current Assets	Cost	Acc Dep	NBV
Land	XXX	-	XX
Building	XXX	(XX)	XX
Equipment	XXX	(XX)	XX
			XXX
Current Assets			
Inventory		XXX	
Subscriptions in Arrears / Owing		XXX	
Prepaid Expense		XXX	
Bank		XXX	
Cash		XXX	XXX
Total Assets			XXX
Total Liabilities			
Opening Accumulated Fund		XXX	
Add Surplus / Less (Defecit)		XX/(XX)	
Add: Donations (Capital) / Legacy / Gift		XXX	XXX
Non-Current Liabilities			
6% Loan 2025			XX
Current Liabilities			
Trade payables / Creditors		XXX	
Bank O/D (Over Draft)		XXX	
Accrued Expenses		XXX	
Subscriptions Advance / Prepaid		XXX	XXX
Total Liabilities			XXX

Q1 The Welcome Cricket Club has the following assets and liabilities.

	30 April 2011	1 May 2010
	\$	\$
Equipment (at cost)	104 000	40 000
Equipment – depreciation provision	14 400	4 000
Café inventory	4 800	6 500
Cash at bank	?	12 800
Subscriptions outstanding	3 600	2 200
Subscriptions paid in advance	3 500	5 000
Café staff wages accrued	4 000	500
Loan from cricket association	20 000	–
Loan interest	?	–

The receipts and payments for the year ended 30 April 2011 are:

Receipts	\$
Café revenue (sales)	90 000
Subscriptions	34 000
Loan from cricket association	20 000
Donations	450
Ticket sales	14 560
Payments	\$
Equipment	64 000
Rent	21 000
Heating and lighting	18 000
Wages of café staff	28 800
Café purchases for resale	36 000

Additional information:

- 1 Wages are a direct cost of the café and are charged to the trading account.
- 2 The rent and heating and lighting are apportioned 40% to the café and 60% to the rest of the club.
- 3 The loan from the cricket association was received on 1 November 2010. Interest is payable at 10% per year.
- 4 Depreciation is charged to the income and expenditure account.

(c) Prepare the balance sheet of the Welcome Cricket Club at 30 April 2011.

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2 The PPE Rowing Club prepares its accounts annually on 31 March.

The summary of the Receipts and Payments Account for the year ended 31 March 2012 is shown below.

Receipts	\$	Payments	\$
Balance b/d	3 000	Competition prizes	3 100
Subscriptions received	84 400	Dinner dance – hire of band	2 400
Competition receipts	12 200	Dinner dance – catering	5 200
Dinner dance ticket sales	14 000	Insurance	9 800
Donations	1 500	Clubhouse maintenance	10 300
Sale of equipment	24 000	Equipment	46 000
		General expenses	30 200
		Electricity	1 600
		Transfer to deposit account	20 000

Additional information

1 The remaining assets and liabilities of the club at the beginning and end of the year were:

	1 April 2011	31 March 2012
	\$	\$
Clubhouse	150 000	150 000
Equipment	160 000	140 000
General expenses owing	800	400
Subscriptions due and unpaid	2 600	3 100
Subscriptions paid in advance	6 300	4 500
Stock of competition prizes	800	300
Deposit account	-	20 000

2 During the year equipment with a book value of \$26 000 was sold for \$24 000.

3 Of the subscriptions due on 1 April 2011, \$280 remains unpaid. This is to be treated as a bad debt.

4 On 1 October 2011, \$20 000 was transferred from the Receipts and Payments Account to a short-term deposit account. This transfer is shown in the summarised Receipts and Payments Account above. Interest of 5% per annum is earned on the deposit account. This interest has not yet been recorded.

REQUIRED

- (a) Prepare the subscriptions account for PPE Rowing Club for the year ended 31 March 2012.

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(c) Prepare the statement of financial position for PPE Rowing Club at 31 March 2012.

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Q3 The Puxton Social Club provides social facilities for the local community.

The treasurer provided the following information:

- 1 Balances on 1 October 2016
 - Subscriptions in arrears \$200
 - Subscriptions in advance \$320
- 2 Subscriptions received and banked during the year, \$7600
- 3 None of the subscriptions in arrears at 1 October 2016 were received. These were written off as irrecoverable.
- 4 Balances on 30 September 2017
 - Subscriptions in arrears \$280
 - Subscriptions in advance \$400

REQUIRED

(a) Prepare the subscriptions account for the year ended 30 September 2017. Balance the account and bring down the balances on 1 October 2017.

Subscriptions account

Date	Details	\$	Date	Details	\$

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(b) State **two** differences between a receipts and payments account and an income and expenditure account.

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After the preparation of the income and expenditure account the following balances remained in the books at 30 September 2017:

	\$
Subscriptions in advance	400
Subscriptions in arrears	280
Trade payables	80
Treasurer's salary owing	250
Inventory of refreshments	350
Surplus	150
Heat and light prepaid	30
Equipment and fixtures (at valuation)	5800
8% Bank loan (repayable 31 December 2019)	3500
Bank	170 Debit

The Puxton Social Club depreciates the equipment and fixtures using the revaluation method.

REQUIRED

(d) State **two** advantages of the revaluation method of depreciation.

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Q4 The W Sports Club provides sporting facilities for members. The club also runs a shop for the sale of sports clothing.

The following information is available.

**Summarised Receipts and Payments Account
for the year ended 30 April 2018**

	\$		\$
Balance b/d	700	Shop purchases of sports clothing	1400
Subscriptions	1820	Catering for special event	600
Sale of tickets for special event	1080	Wages	1500
Shop sales of sports clothing	2600	General expenses	1900
Other income	1250	Rent	1150
		Balance c/d	900
	<u>7450</u>		<u>7450</u>
Balance b/d	900		

Balances at:	1 May 2017	30 April 2018
	\$	\$
Subscriptions in arrears	75	45
Subscriptions in advance	60	50
Inventory – sports clothing	400	550
Trade payables – sports clothing	200	140
Other payables – special event	–	250
Non-current assets (at valuation)	6200	5900
Rent accrued	–	100

Additional information

- 1 The subscriptions received in the year included all subscriptions in arrears on 1 May 2017.
- 2 The wages include \$900 for the sports clothing shop and \$180 for the special event. The special event was organised in March 2018.
- 3 20% of the rent and \$130 of the general expenses relate to the sports clothing shop.

REQUIRED

(a) Calculate the subscriptions for the year ended 30 April 2018.

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(d) Prepare the income and expenditure account for the year ended 30 April 2018.

W Sports Club
Income and Expenditure Account for the year ended 30 April 2018

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- (e) Explain why subscriptions paid in advance will be shown as a liability in the statement of financial position of the W Sports Club.

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