

2 - 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	In a non-profit organization
CAPITAL = ASSETS – LIABILITIES	ACCUMULATED FUND = ASSETS – LIABILITIES

ACCUMULATED FUND

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

B. 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 2018

	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 2018

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	
		XX / (XX)

ARD Club
Statement of Financial Position as at 31 December 2018

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 2010			XX
Current Liabilities			
Trade payables / Creditors		XXX	
Bank O/D (Over Draft)		XXX	
Accrued Expenses		XXX	
Subscriptions Advance / Prepaid		XXX	XXX
Total Liabilities			XXX

2 - Club Accounts

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.

REQUIRED

- (a) Prepare the café income statement to show the gross profit and the profit for the year (net profit) made by the café during the year ended 30 April 2011.
- (b) Prepare the income and expenditure account of the Welcome Cricket Club for the year ended 30 April 2011.

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

Q2. 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.
- (b) Prepare the income and expenditure account for PPE Rowing Club for the year ended 31 March 2012. Clearly identify the profit or loss on the dinner dance and competitions.
- (c) Prepare the statement of financial position for PPE Rowing Club at 31 March 2012.

Q3. The treasurer of Hamilton Social Club has provided the following information for the year ended 31 March 2011.

	31 March 2010	31 March 2011
	\$	\$
Café inventory at cost	3400	3950
Café trade payables	1570	880
Subscriptions in arrears	240	120
Equipment (net book value)	5400	9360
Stock of stationery at cost	110	85
Cash at bank	1800	340
5% loan (repayable 2015)	—	5000

Equipment costing \$5000 was purchased on 1 April 2010. It was financed by the 5% loan. At the year end 31 March 2011, no payment of interest had been made.

Included in the café inventory at 31 March 2011 were items costing \$120 that were out of date. They had a net realisable value of \$30.

REQUIRED

- (a) Prepare a statement of financial position (balance sheet) for Hamilton Social Club at 31 March 2011. Show clearly the surplus or deficit for the year. An income and expenditure account is not required.

Q4. The following information is given about the Schubert Music Club.

**Schubert Music Club
Balance Sheet at 31 December 2008**

	Cost \$	Depreciation \$	Net Book Value \$
Non-current (Fixed) Assets			
Clubhouse	50 000	10 000	40 000
Instruments	<u>6 000</u>	<u>5 000</u>	<u>1 000</u>
	<u>56 000</u>	<u>15 000</u>	<u>41 000</u>
Current Assets			
Inventory (stock) of cafe supplies		4 000	
Subscriptions in arrears		400	
Cash and cash equivalents (bank)		<u>2 100</u>	
		<u>6 500</u>	
Current Liabilities			
Trade payables (creditors) for cafe supplies	3 000		
Cafe expenses owing	1 200		
Subscriptions in advance	<u>300</u>		
		<u>4 500</u>	
			<u>2 000</u>
			<u>43 000</u>
Accumulated fund			41 000
Life subscriptions			<u>2 000</u>
			<u>43 000</u>

**Schubert Music Club
Receipts and Payments Account for the year ended 31 December 2009**

	\$		\$
Balance b/d	2 100	Suppliers for cafe	8 400
Subscriptions – 2008	300	Cafe expenses	4 200
Subscriptions – 2009	2 200	Wages – cafe staff	5 000
Life subscriptions	4 000	Clubhouse repairs	6 000
Cafe takings	18 500	Sundries	2 500
		Balance c/d	<u>1 000</u>
	<u>27 100</u>		<u>27 100</u>

Additional information at 31 December 2009

- 1 Inventory (stock) for the cafe was \$2 000.
- 2 Suppliers for cafe purchases were owed \$2 200.
- 3 Cafe expenses of \$50 were owing.
- 4 Depreciation is to be charged on a straight line basis:
Clubhouse: 4% on cost per annum
Instruments: \$1 000 per annum

- 5 Life subscriptions are available under a scheme which started 8 years ago. The cost remains at the original \$500 per person. At 31 December 2008 there were six members with life subscriptions.

The life subscriptions are brought into income over 20 years commencing from the year in which payment of life subscription takes place.

- 6 The ordinary subscription rate for 2009 was \$100 per person. This is to be increased by 50% in 2010.

No subscriptions are prepaid for 2010.

\$300 remained owing from 2009 but these are expected to be received during January 2010.

Subscriptions owing at 31 December 2008, which were not received during 2009, are to be written off as bad debts.

REQUIRED

- (a) Prepare a Subscriptions Account for ordinary members for the year ended 31 December 2009 (a life subscriptions account is not required).
- (b) Prepare a Cafe Trading Account for the year ended 31 December 2009.
- (c) Prepare an Income and Expenditure Account for the year ended 31 December 2009.

The treasurer had suggested increasing cafe prices and the rate of lifetime subscriptions but the club committee refused to do this.

Instead, the committee decided to raise the ordinary subscriptions by 50%.

REQUIRED

- (d) Suggest three additional ways in which the club could try to minimise or eliminate the deficit in future years.

Q5. The following is the receipts and payments account of the Rumbledethumps Bowling Club for the year ended 30 September 2009.

Receipts		Payments	
	\$		\$
Opening balances		Greenkeeper's wages	25 000
Cash	850	Insurance	3 450
Bank current account	12 150	Furniture for clubhouse	2 150
Bank deposit account	84 500	Secretary's honorarium	2 000
Subscriptions		General expenses	8 950
Ordinary	31 200	Clubhouse repairs	3 540
Life	10 000	Band for dinner dance	500
Café takings	94 320	Other dance expenses	4 730
Dinner dance	6 000	Café refreshments	43 500
		Café wages	23 500
		Clubhouse rates	4 500
		Closing balances	
		Cash	530
		Bank current account	10 980
		Bank deposit account	105 690
	<u>239 020</u>		<u>239 020</u>

The following information is also available:

Other assets and liabilities of the club at 30 September

	2008	2009
	\$	\$
Clubhouse	120 000	120 000
Café refreshment stock	9 500	10 500
Creditors for café refreshments	6 700	7 900
Insurance prepaid	430	550
Rates accrued	900	950
Furniture and fittings	26 200	25 400
Subscriptions prepaid	2 200	2 400
Subscriptions due and unpaid	2 800	2 600

Life membership was introduced on 1 October 2008 when five life members were admitted and paid \$2000 each. It was decided that life membership should be accounted for separately and credited to ordinary revenue over twenty years, in equal amounts.

Interest on the bank deposit account of \$4500 for the year ended 30 September 2009 had not been taken into account at the year end.

REQUIRED

- Prepare the café trading account for the year ended 30 September 2009.
- Prepare the club income and expenditure account for the year ended 30 September 2009.
- Prepare the club balance sheet at 30 September 2009.
- State two advantages and two disadvantages of using a receipts and payments account instead of an income and expenditure account, in a non-trading organisation.

Q6. The Cardio Health Club operates a fitness centre and a shop and has the following assets and liabilities.

	1 June 2012 \$	31 May 2013 \$
Premises	100 000	100 000
Sports equipment (at cost)	30 000	115 000
Sports equipment – depreciation provision	5 000	14 400
Shop inventory	8 500	4 800
Cash	250	250
Bank (current account)	10 000	?
Bank (deposit account)	2 000	?
Subscriptions outstanding	4 200	5 600
Subscriptions paid in advance	4 000	3 500
Shop staff wages accrued	1 000	3 000
Insurance paid in advance		1 000
Loan from sports association		40 000

The receipts and payments in the bank current account for the year ended 31 May 2013 were:

Receipts	\$
Shop revenue	120 000
Subscriptions	44 000
Loan from sports association	40 000
Donations	450

Payments	\$
Wages of fitness coaches	16 000
Sports equipment	85 000
Printing and stationery	5 500
Transfer to deposit account	300
Sundry expenses	800
Insurance	12 000
Heating and lighting	20 000
Wages of shop staff	27 000
Shop purchases for resale	32 500

Additional information

- 1 The wages of shop staff are treated as a direct cost.
- 2 Insurance and heating and lighting are apportioned 80:20 between the fitness club and the shop.
- 3 The loan from the sports association was received on 1 December 2012. Interest is payable at 6% per year.
- 4 Donations are treated as revenue.
- 5 During the year interest amounting to \$90 had been credited to the bank deposit account.

REQUIRED

- (a) Prepare the shop income statement for the year ended 31 May 2013.
- (b) Prepare the income and expenditure account of the Cardio Health Club for year ended 31 May 2013.
- (c) Prepare the statement of financial position of the Cardio Health Club at 31 May 2013.

- Q7.** The treasurer of the Ocean Fishing Club has prepared the following receipts and payments account for the year ended 31 March 2014.

Receipts	\$	Payments	\$
Balance at 1 April 2013	6 570	Payments to trade payables	2 974
Subscriptions received	7 400	Shop wages	3 670
Donations	1 450	Administration expenses	2 790
Receipts from annual family day	2 300	New equipment	5 600
Shop takings	7 690	Repairs to equipment	2 500
		Transfer to deposit account	7 000
		Balance c/d	876
	<u>25 410</u>		<u>25 410</u>

	1 April 2013	31 March 2014
	\$	\$
Shop inventory	975	859
Trade payables for shop	560	784
Deposit account	6 000	13 000
Equipment at cost	9 800	?
Provision for depreciation	2 940	?
Repairs to equipment owing	420	370
Shop wages due	250	195
Shop fittings at net book value	750	640

Additional information

- 1 The donations are to be capitalised.
- 2 There are 350 members who pay an annual subscription of \$20.
At 1 April 2013, 30 members had paid in advance for the coming year but 24 members had not yet paid for the year ended 31 March 2013.
At 31 March 2014, 10 members had yet to pay and some members had paid in advance but the treasurer has not yet calculated how many.
- 3 Interest of 5% per annum is credited to the deposit account by the bank on 31 March each year. This has not yet been entered in the books.
The transfer of \$7000 to the deposit account was made on the 31 March 2014.
- 4 Equipment is depreciated at 15% per annum using the reducing (diminishing) balance method. A full year's depreciation is charged in the year of purchase.

REQUIRED

- (a) Prepare the shop trading account for the year ended 31 March 2014.
- (b) Prepare the income and expenditure account for the year ended 31 March 2014.
- (c) Prepare the statement of financial position at 31 March 2014.

Q8 The Top Hat Sports Club is a not-for-profit organisation which runs a gym and operates a café. The treasurer is experienced and for many years has prepared a receipts and payments account.

The club president read a book about the importance of accruals and prepayments. He decided to take the receipts and payments account prepared by the treasurer and to adjust the figures. He produced the following:

Top Hat Sports Club
Income and expenditure account at 31 December 2010

	\$	\$
Opening bank balance		4 320
Annual subscriptions		
received during the year	39 300	
arrears at 1 January 2010	450	
prepaid at 1 January 2010	300	
arrears at 31 December 2010	750	
prepaid at 31 December 2010	<u>150</u>	
		40 950
Café takings		12 260
Depreciation		<u>4 610</u>
		62 140
Rent	12 000	
General expenses	4 620	
Heat, light and power	8 240	
Wages	18 600	
Purchase of equipment	5 300	
Cost of refreshments		
payments during the year	8 140	
owing at 1 January 2010	700	
owing at 31 December 2010	<u>760</u>	
	<u>9 600</u>	
		<u>58 360</u>
Closing bank balance		<u>3 780</u>

Further information is as follows:

- 1 The club president made depreciation the balancing figure. The treasurer was surprised to see it appear with income.
- 2 The club president was unaware that there was an unpaid invoice for \$910 for heat, light and power at the year end.
- 3 Asset valuations were:

	1 January 2010	31 December 2010
	\$	\$
Café inventory	420	800
Equipment	17 200	19 500

- 4 The club has two members of staff. One was paid \$10 600 for the year and worked in the gym and the other earned \$8000 and worked in the café.
- 5 The club has 265 members who each pay an annual subscription of \$150.

On 1 January 2010 the managing committee decided to allow the admission of life members, each paying \$1600. This would be transferred to income over 20 years. Three people took up life membership during 2010. The club president omitted life subscriptions from his statement.

REQUIRED

- (a) Prepare the corrected income and expenditure account. [9]
- (b) Prepare a balance sheet at 31 December 2010. [15]
- (c) Explain **three** differences between the financial statements of a not-for-profit organisation and the financial statements of a public limited company. [6]