

Additional Information :

- i) The club has 50 members each paying an annual subscription of Rs. 25.
- ii) On December 31, 1988 salaries outstanding amounted to Rs. 200 and salaries paid included Rs. 100 for the year 1987.
- iii) Provide 5% depreciation on land and building.

Hint : Total Subscriptions for the year 1988 50 x 25 = 1250

Less Subscriptions received during 1988	1000
Subscription Outstanding in 1988.	250

(Answer : Excess of Expenditure over Income Rs. 300; Balance Sheet Total Rs. 11,950)

5 The following is the Receipts & Payments Account of Ajmer Literary Society for the year ended December 31, 1988.

	Rs.		Rs.
To Balance b/d	12,500	By Salaries	2,500
To Subscriptions	52,500	By Printing & Stationery	1,250
To Annual Day Receipts	49,300	By Annual Dry Expenses	11,500
To Interest	2,500	By Sundry Expenses	4,500
		By Investments	75,000
		By Postage & Telegrams	2,200
		By Repairs	6,340
		By Balance c/d	13,510
	1,16,800		1,16,800

Additional Information :

- i) Buildings on 1.1.1988 was worth Rs. 50,000 Depreciation is to be charged @ 5%.
- ii) Number of members was 2,000. Annual subscription was Rs. 25 per member.
- iii) Other items :

	As on 1.1.1988 Rs.	As on 31.12.1988 Rs.
Outstanding Subscription	1,000	1,500
Investments	5,000	80,000
Annual day receipts outstanding	—	250
Annual day expenses owing	—	2,500
Prepaid Printing & Stationery	—	300

You are required to prepare an Income & Expenditure Account for the year ended December 31, 1987 and a Balance Sheet as at that date.

Hint : Total income from subscriptions for 1988 is Rs. 50,000, of this, Rs. 1,500 is still outstanding.
Hence the amount received for 1988 should be Rs. 48,500, The actual amount received is Rs. 52,500 (which includes Rs. 1,000 for 1987)
Hence Rs. 3,000 (52,500 – 1,000 – 48,500) is to be treated as subscriptions received in advance.

Answer : Surplus of Income Rs. 69,060;
Total of B/S Rs. 1,43,060.
Capital Fund Rs. 68,500).

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

UNIT 19 ACCOUNTS OF NON-TRADING CONCERNS – TI

Structure

- 19.0 Objectives
- 19.1 Introduction
- 19.2 Preparation of Income & Expenditure Account and Balance Sheet
- 19.3 Preparation of Receipts & Payments Account from Income & Expenditure Account
- 19.4 Preparation of Balance Sheets from Receipts & Payments and Income & Expenditure Accounts
- 19.5 Final Accounts of Professionals
- 19.6 Let Us Sum Up
- 19.7 Some Useful Books
- 19.8 Answers to Check Your Progress
- 19.9 Terminal Questions/Exercises

19.0 OBJECTIVES

After studying this unit you should be able to :

- prepare Income & Expenditure Account and Balance Sheet from a Trial Balance
- prepare Receipts & Payments Account from Income & Expenditure Account
- prepare opening and closing balance sheets from Receipts & Payments and Income & Expenditure Accounts
- prepare final accounts of professionals

19.1 INTRODUCTION

In Unit 18 you learnt about the preparation of final accounts of non-trading concerns which consists of the Receipts & Payments Account, the Income & Expenditure Account, and the Balance Sheet. In most cases, you are given the Receipts and Payments Account and you have to prepare the Income & Expenditure Account and Balance Sheet. But, sometimes, you are given the Income & Expenditure Account with some additional information from which you have to prepare the Receipts & Payments Account and the Balance Sheet. In some cases, you are given the Receipts & Payments Account as well as the Income & Expenditure and you may be required to prepare the opening and closing Balance Sheets. In this unit you will learn how the required statements are to be prepared from the given information. In addition you will also learn about the preparation of the final accounts of professionals like doctors, solicitors, etc, whose main job is to provide some personal service as consultants and not involved in trading of goods.

19.2 PREPARATION OF INCOME & EXPENDITURE ACCOUNT AND BALANCE SHEET

You have learnt that the Income & Expenditure Account and the Balance Sheet is usually prepared with the help of a Receipts & Payments Account and some additional information. You have also learnt about the treatment of various items of income and expenditure which are peculiar to non-trading concerns. Look at Illustration 1. This may help you to revise the preparation of Income & Expenditure Account and Balance Sheet from the Receipts & Payments Account and additional information.

Illustration 1
From the following Receipts & Payments Account and additional information supplied, prepare the final accounts of a club for the year ended December 31,1988.

Receipts and Payments Account for the year ending December 31, 1988			
Dr.			Cr.
	Rs.		Rs.
To Balance b/d	14,000	By Tournament Expenses	2,200
To Donations for Building	16,000	By Furniture Purchased	4,000
To General Donations	400	By Curtains	1,600
To Legacies	12,000	By Crockery	800
To Sale of Old Furniture (book value Rs. 160)	150	By Sports Materials	2,400
To Endowment Fund	20,000	By Salaries	2,600
To Sale of Newspapers	800	By Honorarium	5,200
To Sale of Old Sports Material	160	By Charities	16,000
To Advertisements in the Year Book	3,800	By Advertisements	500
To Proceeds of Concerts	2,400	By Rent and Taxes	2,800
To Subscriptions		By Advances for Construction of Building	10,000
1987 1,200		By Entertainment Expenses	2,900
1988 28,000		By Payment to Creditors of last year	800
1989 1,600		By Electric Installation Expenses	6,000
	30,800	By Library Books	1,600
To Tournament Fund	3,000	By Newspapers	2,600
		By Postage	1,400
		By Bar Purchases and Expenses	3,200
		By 7% Investments Purchased on July 1, 1988	20,000
		By Balance c/d	16,910
	1,03,510		1,03,510

Additional Information :

- i) Balance on December 31,1988'.
Sports Materials 200
Bar Stock 240
Postage 40
Furniture 3,160
- ii) Subscriptions outstanding on December 31, 1988 were Rs. 1,400 and Salaries outstanding on the same date were Rs. 100.
- iii) Salaries paid included Rs, 160 for 1987 and Rs. 20 for 1989.
- iv) investment included investments out of Building Donations Rs. 16,000,
- v) Furniture is to be depreciated by 10%.

Solution :

Accounts of Non-trading
Concerns - II

Income and Expenditure Account
for the year ended December 31, 1988

Dr.			Cr.
	Rs.		Rs.
To Loss on Sale of Furniture	10	By General Donations	400
To Salaries 2,600		By Sale of Newspaper	800
Add Salaries outstanding for 1988 100		By Sale of Sports Material	160
	2,700	By Advertisements in the Year Book	3,800
Less Salaries outstanding for 1987 160		By Concert Proceeds	2,400
Less Salaries prepaid in 1988 20		By Subscriptions 28,000	
	2,520	Add Subscription outstanding for 1988 1,400	29,400
To Honararium	5,200	By Interest on Investments (7% for 6 month on Rs. 4,000)	140
To Charities	16,000	By Excess of expenditure over income	2,650
To Depreciation on Furniture	700		
To Advertisements	500		
To Rent and Taxes	2,800		
To Entertainment Expenses	2,900		
To Newspapers	2,600		
To Postage 1,300			
Less Stock 40			
	1,360		
To Bar Purchases 3,200			
Less Bar stock 240			
	2,960		
To Sports Material 2,400			
Less Stock 200			
	2,200		
	39,750		39,750

Balance Sheet for the year ended December 31, 1988

Dr.			Cr.
	Rs.		Rs.
Capital Fund 17,400		Cash	16,910
Less Excess of Expenditure over income 2,650	14,750	Furniture 7,160	
Endowment Fund	20,000	Less Sale 160	
Building Fund 16,000			7,000
Add Interest on Investment from Building Fund 560	16,560	Less Dep. 700	6,300
Legacies	12,000	Crockery	800
Tournament Fund 3,000		Curtains	1,600
Less Tournament Expenses 2,200	800	Advance for Construction of Building	10,000
		Electric Installations	6,000
		Library Books	1,600
		Investments	20,000
		Stock of Sports Material	200

Accounts of Non-trading
Concerns, Depreciation,
Provisions and Reserves

Subscriptions received in advance	1,600	Bar Stock	240
		Postage	40
		Subscription outstanding	1,400
		Salaries paid in advance	20
		Interest Accrued on Investment	700
Salaries Outstanding	100		
	65,810		65,810

Working Notes :

Balance Sheet as on December 31, 1987

	Rs.		Rs.
Creditors	800	Cash in hand	14,000
Salary Outstanding	160	Subscription outstanding	1,200
Capital Fund (balancing figure)	17,400	Furniture	3,160
	18,360		18,360

- Notes : 1 Donations for building being donations for specific purpose have beer-credited to Building Fund and shown as such on the liabilities side.
- 2 Investment of Rs. 20,000 include Rs 16,000 out of building fund. Hence, Rs. 560 of the income from investments (7% on Rs. 16,000 for 6 months) has been added to building fund and the balance (Rs. 140) has been credited to Income and Expenditure Account.
- 3 The total amount of income from investments (Rs. 700) is outstanding and has been shown on the assets side.
- 4 Legacies and endowment fund have been capitalised.

In Illustration 1 the Income & Expenditure Account and Balance Sheet have been prepared from the Receipts and Payments Account as per the usual practice. Sometimes you may be asked to prepare these statements from the Trial Balance itself as is the case with trading concerns. In fact, there is nothing peculiar about it. You already know how to prepare the Profit & Loss Account and the Balance Sheet from a given Trial Balance. Follow the same procedure for the preparation of the Income & Expenditure Account and Balance Sheet. Look at Illustration 2 and see how they are prepared from a given Trial Balance.

Illustration 2

From the Trial Balance of the Allahabad Club given below, prepare the Income and Expenditure Account of the club and also its Balance Sheet as at December 31, 1987. Depreciate Furniture by 10% and billiard table by 20%. Subscriptions amounting to Rs. 500 were in arrears.

Trial Balance			
Dr.			Cr.
	Rs.		Rs.
Furniture	5,000	Membership Subscriptions	21,120
Billiard Table and Accessories		Sundry Receipts	3,486
Chinn Glass Cutlery	666	Sale of Tickets	6,468
Repairs	1,468	Creditors	5,200
Salaries & Wages	4,524	Entrance Fee	896
Cash at bank	9,600	Capital Fund	
Cash in hand	348		
Rent & Telephone	6,388		

Fuel & Light	3,236	
Entertainment	4,380	
Sundries	3,200	
Annual Dinner	1,520	
Debtors	2,340	
	45,170	45,170

Accounts of Non-trading Concerns – II

Solution:

Allahabad Club Income and Expenditure Account for the year ended December 31, 1987

Dr.			Cr.
	Rs.		Rs.
To Repairs	1,468	By Subscriptions	
To Salaries & Wages	4,524		
To Rent & Telephone	6,388	Received	21,120
To Fuel & Light	3,236	Acid Outstanding	500
To Sundries	3,200		21,620
To Annual Dinner	1,520	By Sale of Tickets	6,468
To Entertainment	4,380	By Sundry Receipts	3,486
To Depreciation		By Entrance Fee	896
Furniture 500			
Billard Table 500			
	1,000		
To Excess of Income over Expenditure	6,754		
	32,470		32,470

Balance Sheet of Allahabad Club as on December 31, 1987

	Rs.		Rs.
Sundry Creditors	5,200	Cash in hand	348
Capital Fund :		Cash at bank	9,600
Opening Balance 8,000		Debtors	2,340
Add Excess of Income over Expenditure 6,754	14,754	Subscriptions Outstanding	500
		Furniture 5,000	
		Less Depreciation 500	4,500
		Billard Table 2,500	
		Less Depreciation 500	2,000
		China Glass and Cutlery	666
	19,954		19,954

19.3 PREPARATION OF RECEIPTS & PAYMENTS ACCOUNT FROM INCOME & EXPENDITURE ACCOUNT

You have learnt that the Receipts and Payments Account is the summary of Cash Book. It commences with the opening **cash** and bank balances, shows all receipts and payments made during the year, and ends with the closing cash and bank **balances**. While recording the receipts and payments in this account, no distinction is made between capital and revenue items as both are to be included. Similarly, whether the amount received or paid relates to the current year the preceding years or the following years, it is fully recorded in the Receipts and Payments Account. **You** know it is prepared **normally** with the help of Cash Book and Ledger (or the Trial Balance). But, sometimes, you may be asked to prepare it **from** the Income and Expenditure Account and some additional information. In such a situation, you must remember that the **Income** and Expenditure Account shows those items which are of revenue nature and records only such amounts which relates to the current year. The capital items and the receipts and **payments** relating to the preceding and the following years are to be excluded. Then, it also includes the amounts of expenses and incomes which are yet to be paid or received (outstanding). Hence, **while** calculating the amount of each receipt and payment on the basis of the respective income and expenditure as given in the Income & Expenditure Account, you **will** have to make necessary adjustments in their amounts. Let us clarify this with the help of an example. Suppose, the Income and Expenditure Account for the year ending December 31, 1988 shows the income from subscriptions as Rs. 9,000 which includes Rs. 800 for subscriptions outstanding at the end and Rs. 600 for subscriptions received in advance during 1987. It is also **observed** that during 1988 Rs. 700 was received for subscriptions related to 1989 and Rs. 400 for subscriptions outstanding at the end of 1987. **Now** the amount received on account of subscriptions during 1988 will be worked out as follows :

	Rs.
Income from subscriptions	9,000
Less outstanding at the end	800
	<hr/> 8,200
Add outstanding at the beginning	400
	<hr/> 8,600
Less subs. received in advanced during 1987	600
	<hr/> 8,000
Add subs. received in advance during 1988	700
	<hr/> 8,700
Amount of subs. received during 1988	<hr/> 8,700

Thus, you will notice that for calculating the amount of subscriptions received we make adjustments in the income from subscriptions **which** are just the reverse of what we would do while calculating the income from subscriptions with the help of the figure **given** in the Receipts and Payments Account and the additional **information**. This applies to **all** items of receipts and payments.

Look at Illustration 3 and see how the amount of each item of receipt and payment has been completed and the Receipts and Payments Account prepared.

Illustration 3

The Income and Expenditure Account of Lion's Club, **Delhi** for the year ended December 31, 1988 is given below.

Income and Expenditure Account
for the year ending December 31, 1988

Accounts of Non-trading
Concerns - II

Dr			Cr.
	Rs.		Rs.
To Salaries	4,000	By Subscriptions	7,500
To General Expenses	1,250	By Entrance Fees	500
To Audit Fees	250	By Special Contribution for Annual Dinner	1,000
To Secretary's Allowance	1,000	By Profit on Special show	500
To Stationery & Printing	450		
To Annual Dinner Expenses	1,200		
To Interest and other charges	150		
To Depreciation on Sports Equipment	300		
To Excess of Income over Expenditure	900		
	9,500		9,500

The following adjustments were made while preparing the foregoing account

		Rs.
Subscriptions outstanding (1.1.1988)		500
Subscriptions outstanding (31.12.1988)		250
Subscriptions received in advance (1.1.1988)		400
Subscriptions received in advance (31.12.1988)		600
Salaries outstanding (1.1.1988)		500
Salaries outstanding (31.12.1988)		300

Insurance prepaid (included in General Expenses) on 31.12.1988 was Rs. 100. The audit fees for 1988 is still unpaid and the audit fees for 1987 amounting to Rs. 100 has been paid during 1988.

The Club owned freehold premises valued at Rs. 10,000. The club also had sports equipment valued at Rs. 2,500 as on 1.1.1988. The sports equipment in stock as on 31.12.1988 was for Rs. 2,700. During 1988, the club had taken a loan of Rs. 2,000 from a bank which was unpaid till the end of the year. Cash in hand amounted to Rs. 3,100 at the end of the year.

Prepare the Receipts and Payments Accounts for the year ended December 31, 1988 and the Balance Sheets as at the beginning and at the end of the year 1988.

Solution :

Receipts & Payments Account
for the year ended December 31, 1988

Dr.			Cr.
	Rs.		Rs.
To Balance b/d (balancing figure)	100	By Salaries (2)	4,200
To Entrance Fees	500	By General Expenses (4)	1,350
To Subscriptions (1)	7,950	By Audit Fees (3)	100
To Bank Loan	2,000	By Allowance to Secretary	1,000
To Special contribution for Annual Dinner	1,000	By Annual Dinner Exp.	1,200
		By Stationery & Printing	450

**Accounts of Non-trading
Concerns, Depreciation,
Provisions and Reserves**

To Profit on Special Show	500	By Interest and other charges	150
		By Equipment (5)	500
		By Balance c/d	3,110
	12,050		12,050

**Balance Sheet
as on January 1, 1988**

	Rs.		Rs.
Advance Subscriptions	400	Cash in hand	100
Salary Outstanding	500	Subscription Outstanding	500
Audit Fee Outstanding	100	Freehold premises	10,000
Capital Fund	12,100	Sports Equipment	2,500
(balancing figure)			
	13,100		13,100

**Balance Sheet
as on December 31, 1988**

	Rs.		Rs.
Advance Subscriptions	600	Cash in hand	3,100
Salary Outstanding	300	Subscription Outstanding	250
Audit Fee Outstanding	250	Prepaid Insurance	100
Bank Loan	2,000	Freehold Premises	10,000
Capital Fund		Sports Equipment	2,500
Balance 12.100		Additions	500
			3,000
Add Surplus		Less Depreciation	300
of current year	<u>900</u>		
	13,000		2,700
	16,150		16,150

Working Notes :

1 Subscriptions

	Rs.
Subscriptions as per Income & Expenditure Account	7,500
Less Outstanding at the end	<u>250</u>
	7,250
Less Received in advance during 1987	<u>400</u>
	6,850
Add Outstanding at the beginning	<u>500</u>
	7,350
Add received in advance for 1989 during 1988	<u>600</u>
	7,950
Subscription received during the year	

2 Salaries

	Rs.
Salaries as per Income/Expenditure Account	4,000
Add Outstanding at the beginning	<u>500</u>

		4,500	Accounts of Non-trading
Less Salaries Outstanding at the end		300	Concerns - II
Salaries paid during the year		4,200	
3 Audit Fee		Rs.	
Audit fees as per Income & Expenditure Account		250	
Less Outstanding at the end		250	
		000	
Add Outstanding at the beginning		100	
Audit fees paid during the year		100	
4 General Expenses		Rs.	
General Expenses as per Income & Expenditure Account		1,250	
Add Insurance Prepaid at the end		100	
General Expenses paid during the year		1,350	
5 Sports Equipment Purchased		Rs.	
Sports equipment in stock at the beginning		2,500	
Less Depreciation during the year		300	
Sports equipment in stock		2,200	
The actual stock of sports equipment at the end is Rs. 2,700. It means sports equipment amounting to Rs. 500 was purchased during the year.			

19.4 PREPARATION OF BALANCE SHEETS FROM RECEIPTS & PAYMENTS AND INCOME & EXPENDITURE ACCOUNTS

Sometimes the Receipts & Payments Account as well as the Income & Expenditure Account are given and you may be required to prepare the opening and closing balance sheets. In such a situation, you will have to ascertain the opening and closing balances of various items by making item-wise comparison of the Receipts & Payments Account and the Income & Expenditure Account. This will help you mainly to ascertain the amounts of various outstanding and prepaid expenses and incomes. As for the fixed assets, the opening balances are generally given under additional information. Their closing balances can be easily ascertained by taking into account the additons (and disposal, if any) made during the year as given in the Receipts & Payments Account and after adjusting the amount of depreciation as given in the Income & Expenditure Account. Look at Illustration 4 and see how the opening and closing balance sheets have been prepared after ascertaining the opening and closing balances of all items involved.

Illustration 4

The Secretary of an Education Society submitted to you the following Receipts & Payments Account and the Income & Expenditure Account for the year ended March 31, 1988 :

Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves

Receipts and Payments Account
for the year ending March 31, 1988

Dr.			Cr.
	Rs.		Rs.
To Balance b/d	450	By Printing	75
To Interest		By Advertisement	141
1986-87 100		By Staff Salary	1,300
1987-88 150		By Furniture Purchased	670
	250	By Rent	520
To Tuition Fees		By Misc. Expenses	110
1987-88 1000		By Balance c/d	1,374
1988-89 100			
	1,100		
To Entrance Fees			
1987-88	420		
To Membership Fees :			
1986-87 300			
1987-88 1,150			
1988-89 390			
	1,840		
To Miscellaneous income	120		
	4,190		4,190

Income and Expenditure Account
for the year ending March 31, 1988

Dr.			Cr.
	Rs.		Rs.
To Printing	80	By Tuition Fees	1,100
To Advertisement	150	By Membership Fees	1,150
To Rent	600	By Miscellaneous Income	130
To Staff Salary	1,200	By Interest	160
To Misc. Expenses	110		
To Depreciation on Furniture	100		
To Excess of Income over Expenditure,	300		
	2,540		2,540

The Society had the following assets on 31.3.1987.

Investments	Rs. 4,000
Furniture	Rs. 1,000
Reference Books	Rs. 500

Prepare the Balance Sheet of the Society as on March 31, 1987 and March 31, 1988.

Solution : .

Balance Sheet
as on March 31, 1987

	Rs.		Rs.
Capital Fund (balancing figure)	6,350	Cash in hand	450
		Investment	4,000
		Interest Accrued	100
		Membership Fees Accrued	300
		Reference Books	500
		Furniture	1,000
	6,350		6,350

Balance Sheet
as on March 31, 1988

Accounts of Non-trading
Concerns – II

	Rs.		Rs.
Tuition Fee received in advance (2)	100	Cash in hand	1,374
Membership Fees received in advanced	390	Investment	4,000
Printing Outstanding	5	Interest Accrued (1)	10
Advertisement Outstanding	9	Tuition Fees Accrued (2)	100
Rent Outstanding	80	Staff Salary paid in advance (3)	100
Capital Fund		Reference Books	500
as on 1.1.1987	6,350	Furniture	1000
Add Entrance Fees (4)	420	Less Depreciation	100
Add Excess of Income over expenditure	300		900
	7,070	Add Furniture Purchased	670
			1,570
	7,654		7,654

Working Notes :

- 1 The Income & Expenditure Account shows interest income of the year for Rs. 160 whereas the Receipts & Payments Account shows receipts of Rs. 150 during the year. The difference of Rs. 10 represents interest income due but not yet received, hence shown on assets side.
- 2 Income from tuition fees as per the Income & Expenditure Account is Rs. 2,100. The Receipts & Payments Account reveals that Rs. 100 was received for the next year (received in advance) and Rs. 1,000 for 1987-88. It means the tuition fees of Rs. 100 of 1987-88 is still outstanding. Hence, it has been shown as such in the Closing Balance Sheet.
- 3 The payment of staff salaries is Rs. 1,300 whereas the expenditure under this head is Rs. 1,200 only. Hence, the excess paid relates either to the previous year or the succeeding year. There is no evidence to show that there was any outstanding amount last year. Hence, it is presumed that the salary paid in excess relates to the next year i.e., it is received in advance.
- 4 The entrance fees received during the year has not been shown as income in the Income & Expenditure Account. Hence, it is assumed that intention is to capitalise it and so it is directly added to the capital fund.

Check Your Progress A

- 1 Tick the correct answer.
 - i) The Income & Expenditure Account shows an income from subscriptions at Rs. 20,000. Subscription accrued at the beginning of the year and at the end of the year were Rs. 2,000 and Rs. 3,000 respectively. The figure of the subscription received appearing in the Receipts and Payments Account will be
 - a) Rs. 19,000
 - b) Rs. 22,000
 - c) Rs. 20,000
 - ii) The Income & Expenditure Account shows salaries and wages as Rs. 24,000. Salary paid for the previous year amounting to Rs. 2,000 and outstanding for the current year amounted Rs. 3,000. The amount of the salaries and wages shown in Receipts and Payments Account will be
 - a) Rs. 23,000
 - b) Rs. 24,000
 - c) Rs. 22,000

- iii) Stock of Sports material at the beginning of the year is Rs. 3,000. Stock of Sports material after 50% depreciation is Rs. 2,200 at the end of the year. The figure of the purchase of sports material in Receipts & Payments Accounts will be
- a) Rs. 1,300
 - b) Rs. 1,600
 - c) Rs. 1,400

2 From the extracts given below find out the value of Buildings, Furniture and Instruments which will be shown in the opening Balance Sheet.

Receipts and Payments Account			
Dr.			Cr.
	Rs.		Rs.
To Balance	...	By Payments :	
	...	Furniture purchased	1,000
	...	Instruments purchased	2,000

Income and Expenditure Account			
Dr.			Cr.
To.....	Rs.	By.....	Rs.
To Depreciation			
Building @ 2½ %	5,000		
Furniture @ 10%	400		
Instruments @ 20%	1,200		

Depreciation on all assets has been worked out for the full year.

3 Fill in the blanks

- i) The procedure for the preparation of Income & Expenditure Account from Trial Balance is same as that of the preparation of,....Account from Trial Balance.
- ii) While calculating the amount of subscription to be shown on the receipts side of Receipts & Payments Account the figure of outstanding subscription at the end of the current year will be.....the income from subscriptions as per Income & Expenditure Account.
- iii) By comparing the Income & Expenditure Account with the Receipts & Payments Account one can ascertain the amounts of.....,and.....expenses and incomes.
- iv) For calculating the amount of closing fixed assets the adjustments made in the opening balance are in respect of additions and disposals to the fixed asset during the year and the amount of.....

19.5 FINAL ACCOUNTS OF PROFESSIONALS

The professionals like doctors, solicitors etc., whose main job is to provide personal service as consultants and not trading in goods, maintain books of account like a non-trading concern. They prepare their final accounts also in the same manner. The only difference relates to the Income & Expenditure Account which in case of professionals is termed as 'Receipts & Expenditure Account'. It is so because they

account for their income on cash basis though the expenses are included **on** accrual basis. In other words, they take into account the outstanding expenses, but not the outstanding incomes. They adopt cash basis for **recording** incomes on the **ground** **that** their debtors are of a very uncertain nature so that a fee may not be considered as earned until the cash is received. Not **only** that, the professionals can not file suit for recovery **of** their fees.

There **are** two methods which can be adopted with regard to the outstanding fees of the professionals: (i) ignore the amount of outstanding fees **altogether i.e.**, do not **include** it in the incomes at all, or (ii) include it first in the income as outstanding fees and **then** make-provision for doubtful debts equal to 100% of this amount. The second method is considered better because the outstanding fees is duly brought into account. As for the Balance Sheet, the outstanding fees are shown on the assets side and 100% provision for doubtful debts is deducted therefrom **thus reducing** its amount to nil.

Look at Illustration 5 and **see** how the final accounts of a **professional** are prepared.

Illustration 5

Dr. Sandeep Gupta, a medical practitioner has **furnished** the following information for the year ended March 31, 1988. He requests you to ascertain his income for the year and also to prepare a Balance Sheet as on that date.

Balances	As on 1.4.87 Rs.	As on 31.3.88 Rs.
Outstanding bills of patients	100	250
Provision for doubtful debts	100	250
Furniture	1,200	1,300
Equipment	3,500	4,600
Scooter	4,000	3,600
Stock of Medicines	600	450
Suppliers' bills outstanding	200	500
Dispensary expenses unpaid	300	400

Receipts and Payments Account for the year ending March 31, 1988

Dr.		Cr.	
	Rs.		Rs.
To Balance b/d	300	By Suppliers' bills paid	3,200
To Visiting Fees	600	By Dispensary Expenses	1,600
To Consultation Fees	1,000	By Furniture purchased	150
To Receipts from Patients	9,600	By Equipment purchased	1,200
		By Scooter Expenses	800
		By Private Expenses	4,000
		By Balance c/d	550
	11,500		11,500

The Scooter was used for private purposes also. Half of the **expenses** (including depreciation) on scooter are to be treated as professional expenses. Medicines costing Rs. 50 were donated to refugee relief fund and medicines costing Rs. 20 **were** used for private purposes.

Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves

Solution :

Receipts and Expenditure Account
for the year ended March 31, 1988

Dr.			Cr.
	Rs.		Rs.
To Cost of Medicines Used	3,580	By Receipts from Patients	9,600
To Dispensary Expenses	1,700	Add outstanding at the end	250
			9,850
To Depreciation		Less Outstanding at the beginning	100
Furniture 50			
Equipments 100	150		9,750
To Scooter Expenses	600	By Visiting Fees	600
To Donation	50	By Consultation Fees	1,000
To Provision for doubtful debts 250			
Less old provision 100	150		
To Surplus (Income)	5,120		
	11,350		11,350

Balance Sheet as on March 31, 1988

	Rs.		Rs.
Suppliers bill outstanding	500	Cash in hand	550
Expenses outstanding	400	Outstanding bills of patients	250
Capital 9,100		Less provisions of doubtful debts	250
Add Surplus 5,120			
		Stock of Medicines	450
		Furniture.	1,300
Less Drawings 4,620	9,600	Equipments	4,600
		Scooter	3,600
	10,500		10,500

Working Notes :

1 Cost of Medicines Used :

a) Calculation of medicines purchases :

Suppliers' A/c

Dr.			Cr.
	Rs.		Rs.
To Cash received from suppliers	3,200	By Balance b/d	200
To Balance c/d	500	By Purchases (balancing figure)	3,500
	3,700		3,700

b) Calculation of Cost of Medicines Used

Accounts of **Non-trading**
Concerns - II

		Rs.
Opening Stock		600
Add Purchases		3,500
		<hr/>
		4,100
Less Closing Stock		450
		<hr/>
		3,650
Less Medicines donated	50	
Less Medicines used personally	20	70
	<hr/>	<hr/>
Cost of Medicines used		3,850
		<hr/>

2 Calculation of Dispensary Expenses :

	Rs.
Paid	1,600
Add Outstanding at the end	400
	<hr/>
	2,000
Less : Outstanding at the beginning	300
	<hr/>
	1,700

3 Calculation of Depreciation

a) Furniture A/c

	Rs.		Rs.
To Balance b/d	1,200	By Depreciation (balancing figure)	50
To Cash (purchases)	150	By Balance c/d	1,300
	<hr/>		<hr/>
	1,350		1,350
	<hr/>		<hr/>

b) Equipment A/c

	Rs.		Rs.
To Balance b/d	3,500	By Depreciation (balancing figure)	100
To Cash (purchases)	1,200	By Balance c/d	4,600
	<hr/>		<hr/>
	4,700		4,700
	<hr/>		<hr/>

4 Calculation of Scooter Expenses Charged to
Receipts and Expenditure Account :

	Rs.
Cash Expenses	800
Add Depreciation (4,000 - 3,600)	400
	<hr/>
	1200
Less 1/2 for private use	600
	<hr/>
Charged to Receipts and Expenditure Account	600
	<hr/>

5 Provision for Doubtful Debts is to be equal to the outstanding bills of patients for Rs. 250. Since the provisions for doubtful debts is already Rs. 100, therefore, it has been raised to Rs. 250 by creating additional provisions for Rs. 150. The outstanding bills at the beginning are treated as received.

6 Calculation of Opening Capital

Opening Balance Sheet			
	Rs.		Rs.
Suppliers Bills due	200	Cash in hand	300
Expenses Unpaid	300	Outstanding Bills of Patients	100
Capital (balancing figure)	9,100	Less Provision for Doubtful Debts	100
		Stock of Medicines	600
		Furniture	1,200
		Equipment	3,500
		Scooter	4,000
	9,600		9,600

19.6 LET US SUM UP

In case of non-trading concerns, we normally prepare the Income and Expenditure Account and the Balance Sheet from the Receipts and Payments Account and other informations. These statements can also be prepared from a Trial Balance, if given, Sometimes, however, the Receipts and Payments Account itself may have to be prepared from the Income and Expenditure Account and other information. In such a situation, each item of receipt and payment will have to be worked out by making necessary adjustments in the respective incomes and expenses. The capital receipts and capital payments will also have to be found out and included in the Receipts and Payments Account. The opening and closing balances of cash and bank may be taken from the opening and closing balance sheets.

In some cases, the Receipts and Payments Account as well as the Income and Expenditure Account are given and the opening and closing balance sheets may have to be prepared. This would require a comparison of each item of receipt and payment with each respective item of income and expenditure so as to work out the outstanding amounts and the advance payments.

The professional like doctors, solicitors etc., also keep their accounting records in the same manner as the non-trading concerns do. Of course, instead of Income and Expenditure Account they prepare the Receipts and Expenditure Account because they account for their professional fees on cash basis and not on accrual basis as they do for expenses.

19.7 SOME USEFUL BOOKS

Gupta, R.L. and M. Radhaswamy, 1986. *Advanced Accountancy* Sultan Chand & Sons, New Delhi (Chapter 14).

Maheshwari S.N., 1987. *Introduction to Accounting*, Vikas Publishing House : New Delhi (Chapter 15).

Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting*, R. Chand & Co. New Delhi (Chapter 5 Volume-11)

19.8 ANSWERS TO CHECK YOUR PROGRESS

- A 1 i) a ii) a iii) c
- 2 Building Rs. 2,00,000
Furniture Rs. 3,000
Instruments Rs. 4,000
- 3 iv) Profit and Loss, ii) deducted from, iii) outstanding, prepaid, iv) depreciation

19.9 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 State the steps involved in the preparation of Receipts and Payments Account from the Income and Expenditure Account. Give examples.
- 2 Why is an Income and Expenditure Account termed as Receipts and Expenditure Account in case of professionals?How do they account for the outstanding fees?

Exercises :

- 1 Delhi Cricket Club provides you the following Receipts and Payments Account for the year ended June 30,1987

Receipts and Payments Account			
	Rs.		Rs.
To Balance in hand	150	By Salaries and Wages	8,700
To Balance at bank	4,200	By Sports Equipments purchased	1,500
To Life Member's Fees	2,000	By Stationery & Printing	1,500
To Admission Fees	500	By Maintenance of Ground	2,100
To Subscriptions		By Prizes awarded	400
1985-86 400		By Investments (against donation for building)	3,000
1986-87 11,300		By Balance in hand	320
1987-88 600		By Balance at bank	5,430
	12,300		
To Sale of old Balls and Bats	300		
To Interest on Prize Fund Investments (@ 5%)	500		
To Donations for Building	3,000		
	22,950		22,950

Additional Information :

- 1 The club possessed on July 1,1986, leasehold of a ground valued at Rs. 10,000 and sports equipments at Rs. 1,000. On that date, it also owed Rs. 800 for salaries and wages.
- 2 The bats and balls sold during the year had no book value.

- 3 Investments against the donation for building were made on January 1, 1987 and consisted of Rs. 3,500, 4% Government loan.
- 4 Subscriptions for 1986-87 outstanding were Rs. 500. 50% of the sports equipments as at June 30,1987 is to be written off.
- 5 Rs. 700 of stationery and printing is to be carried forward.

Hint Investment of Prize Fund is Rs. 10,000 i.e.,

$$\frac{100}{5} \times 500 = 10,000$$

(Answer : Excess of Income over Expenditure Rs. 550;
total of Balance Sheet as at June 30, 1987
Rs. 31,270, and Balance total as at July 1, 1986
Rs. 25,750 Capital Fund Rs. 14,950)

- 2 Prepare a Receipts and Payments Account for the year ending December 31, 1987 and a Balance Sheet as on that date from the following informations:

Income and Expenditure Account
for the year ending December 31, 1987

	Rs.		Rs.
To Maintenance of Playground	4,060	By Subscriptions	10,500
To Rent & Rates	500	By Entrance Fees	600
To Stationery	150	By Sale of Sports Material	100
To Sports Material Used	2,200	By Entertainment	600
To Salaries	440		
To Surplus of Income	4,450		
	11,800		11,800

Additional Information :

	On 1.1.1987	On 31.12.87
Cash at Bank	6,000	?
Stock of Sports Material	3,000	?
Tournament Fund	2,000	800
Donation for Building	—	20,000
Stationery in Stock	400	450
Entrance Fee Fund	—	600

Sports Material (including purchases) was to be written off by 50%.

(Answer : Closing Balance Rs. 330,600; Total of B/S Rs. 33,250).

- 3 The following particulars relate to the Nene such Sports Club.

Income and Expenditure Account
for the year ended December 31 1987

	Rs.		Rs.
To Salaries	1,500	By Entrance Fees	500
To Printing and Stationery	2,200	By Subscriptions	25,600
To Advertising	1,600	By Rent	4,000
To Auditing Fees	500		
To Fire Insurance	1,000		

To Depreciation on sports eqpt. 8,000 on furniture 1,000			
To Excess of Income over expenditure	14,300		
	30,100		30,100

Accounts of Non-trading
Concerns – II

Receipts and Payments Account
for the year ended December 31, 1987

	Rs.		Rs.
To Balance b/d	4,200	By Salaries	1,000
To Entrance Fees	500	By Printing & Stationery	2,600
To Subscriptions		By Advertising	1,600
" 1986	600	By Fire Insurance	1,200
" 1987	25,000		
" 1988	400	By Investments	20,000
To Rent received	3,500	By Balance c/d	7,800
	34,200		34,200

The assets on January 1, 1987 included Club ground and Pavilion Rs. 44,000; Sports Equipment Rs. 25,000; and Furniture & Fixtures Rs. 4,000; Subscriptions in arrear on that date were Rs. 800. Prepare the Balance Sheets as on December 31, 1986 and 1987.

(Answer : Total of Balance Sheet on 31.12.1986 — Rs. 78,000;
Total of Balance Sheet on 31.12.1987 — Rs. 93,700)

4 As at **March** 31, 1988 the following balances have been **extracted** from the **books** of the Indian Chartered Accounts **Recreation Club** and you are asked to prepare (1) Trading Account for ascertaining gross profit derived from running bar and dining room and (2) income and Expenditure Account for the year ended March, 31, 1988 and (3) a Balance Sheet as at that **date**.

Debit Balances		Credit Balances	
	Rs.		Rs.
Stock-in-hand		Receipts — Bar	39,150
Bar—(1.4.87)	90	Dining Room	48,510
Dining Room (1-4-87)	1,080		
Purchases-Bar	24,660	Subscriptions	9,450
Dining Room	32,370		
Rent	10,470	Billiard's Receipts	7,300
Wages	18,690	Sundry Receipts	410
Repairs and Renewals	5,400	Interest on Fixed Deposit	270
Fuel and Light	5,280	Sundry Creditors	5,370
Misc. Expenses	4,050	Grant from Institute (permanent)	42,000
Cash in hand	560	Income and Exp. A/c (1.4.87)	1,380
Cash at bank	2,760		
Fixed Deposit	8,500		
Sundry Debtors	2,250		

Accounts of **Non-trading**
Concerns, Depreciation,
Provisions and Reserves

China glass, cutlery & linen	600		
Billiard Table	2,070		
Fixtures and Fittings	870		
Furniture	4,140		
Club Premises	30,000		
	1,53,840		1,53,840

On March 31, 1988 stock of bar and dining room consisted of Rs. **900** and Rs. 60 respectively. Provide depreciation Rs. 60 on fixtures and fittings, Rs. 390 on billiard table and Rs. 560 on furniture.

(Answer : Excess of income over expenditure —Rs. 2,950 :
Total of Balance Sheet Rs. 51,700)

5 Dr. Iodine commenced practice as an eye-specialist investing Rs. 25,000 in equipment on January 1, 1987. The Receipts and Payments Account for the year was as follows :

Receipts and Payments Account

Receipts	Amount	Payments	Amount
	Rs.		Rs.
To Fees	50,000	By Rent	3,000
To Miscellaneous Receipts	100	By Salaries to Assistants	7,500
To Equipment Sold	2,000	By Journals	1,000
		By Library Books	3,000
		By Equipments Purchased	4,000
		By Drawings	12,000
		By Balance at bank in hand	21,500
	52,100		52,100

Rs. 1500 of the fees was still outstanding. Equipment was sold and purchased on October 1, **1987**; the cost of the equipment sold being Rs. 3,000. Depreciation on equipment is 20% and on Library Books **5%**. Salaries to assistants outstanding Rs. 1,000. Prepare the Receipts & Expenditure Account and the Balance Sheet relating to **1987**.

(Answer : Surplus Rs. 31,850; Total of **Balance** Sheet Rs. 45,850).

Note: **These** questions will help you to understand the unit better. **Try** to write answers for them. But do not submit your answers to the University. **These are** for your practice only.

UNIT 20 DEPRECIATION – I

Structure

- 20.0 Objectives
- 20.1 Introduction
- 20.2 What is Depreciation?
- 20.3 Depreciation and other Related Concepts
- 20.4 Causes of Depreciation
- 20.5 Objectives of Providing Depreciation
- 20.6 Factors Influencing Depreciation
- 20.7 Methods of Recording Depreciation
- 20.8 Methods for Providing Depreciation
 - 20.8.1 Fixed Instalment Method
 - 20.8.2 Diminishing Balance Method
 - 20.8.3 Difference between Fixed Instalment and Diminishing Balance Methods
 - 20.8.4 Change of Method
- 20.9 Let Us Sum Up
- 20.10 Key Words
- 20.11 Some Useful Books
- 20.12 Answers to Check Your Progress
- 20.13 Terminal Questions/Exercises

20.0 OBJECTIVES

After **going** through this unit you should be able to :

- define depreciation
- distinguish depreciation from other related concepts
- state the causes of depreciation
- describe the objectives of providing depreciation
- state the factors influencing the amount of depreciation
- explain the methods of recording depreciation
- list various methods of providing depreciation
- prepare accounts under fixed instalment and diminishing balance methods of providing depreciation.

20.1 INTRODUCTION

While preparing final accounts you have to provide for depreciation on all fixed assets so as to work out the correct amount of profit or loss for the accounting period. Adjustments usually contain an item asking you to charge depreciation on various fixed assets at some given rate and you know how to show it in final accounts. In this unit we shall have a detailed discussion on depreciation and study the basic factors influencing the amount of depreciation and various methods of providing and accounting for the same.

20.2 WHAT IS DEPRECIATION?

You are already familiar with the distinction between revenue expenditure and capital expenditure. You are aware that when the benefit of an expenditure is available beyond the accounting year (for **one** or more years) such an expenditure is treated as capital expehditure and it often results in acquisition of an asset. Since **many** accounting years are likely to receive benefits on account of the use-of such an asset, the cost of investment **must** necessarily be allocated over the period of its useful life and **charged** to the Profit and Loss Account. Allocation of the appropriate