

13

INCOME AND EXPENDITURE ACCOUNT

Objectives

At the end of this chapter, students should be able to:

- Explain terminologies in income and expenditure account;
- Distinguish between income and expenditure account;
- Prepare income and expenditure account.

13.1 Introduction

An income and expenditure account is another final account prepared by a non - profit making organisation at the end of the year, just as a business organisation prepares a profit and loss account.

13.2 Terminologies

1. Income: This is earning by a person, club or society. Income may be provision of rules and regulations e.g. annual due or subscription of members of a society. It may also be by commercial dealings e.g. rent, interest e.t.c.

2. Expenditure: This refers to money spent by a club or society for its activities e.g. printing of tickets, hire of hall rental of club office e.t.c.

3. Surplus: This is excess of income over expenditure, when the earning of a society is above the amount of money spent for a given year, there is a surplus.

4. Deficit: This is the excess of expenditure over income. When a club or society spends above its earning in its annual account, there is deficit. When there is need for over spending a society has to obtain a loan or an overdraft to be able to do so.

13.3 Meaning of Income and Expenditure Account

Income and expenditure account is the final account that is prepared to show whether a club, a society or any non – profit making organisation has a surplus or deficit in that particular year, that is to know if the income of the organisation is more than the expenditure or vice - versa. When the income is in excess of the expenditure, the result is a surplus and when the expenditure is in excess of the income the result is a deficit. This account keeps records of all income and expenditure that relate to a particular year.

13.4 Preparation of Income and Expenditure Account

1. Debit all expenditures.
 2. Credit all income which relates to the particular period, whether or not it has actually been paid or received within that period.
 3. Credit all subscriptions received for the period and subscription arrears received during the period. Credit profit for fund raising activities for the particular period. Exclude all capital expenditures.
- Exclude subscription accruals and advance payments income will be deducted from expenditure on the debit side of the income and expenditure account.

Example 13.1

From the following particulars, prepare the income and expenditure account of Busa drama and music club for 31st December, 2009.

	N
Accumulated fund at 1st January, 2009	17,360
Cash in hand	8,960
Cash at bank	20,000
Music equipment	30,000
Drama equipment	38,000
Postages and stationery	5,000
Receipts from sales of tickets for performance	4,000
Hire of costumes for plays	30,000
Subscriptions received from member for 2009	92,000
	2010
Hire of theatre for special performances	8,000
Donations from supporters	30,000
Royalties paid on plays performed	4,200
Rent of hall for weekly meetings	15,200
Hire of theatre for special performances	60,000

Provisions are expected to be made for the following items which have not passed through the books of the club. Rent paid in advance amounted to N8,000.

4. Credit profit for fund raising activities for the particular period.
5. Exclude all capital expenditures.
6. Exclude subscription accruals and advance payments.

Special Fund Raising Activities: Most of the non-profit organisation always finds other means of raising funds to generate revenue, in addition to their usual membership contributions. Examples of such activities include dances, parties, races and provision of refreshment to members on profit-making basis.

Funds can be raised through:

- I. **Permanent Fund Raising Activities:** A bar or refreshment counter is among the usual permanent activities on profit making. In such cases, it is usual to prepare the normal separate trading account to record such activities. Any profit arising from the trading account is usually transferred to the credit side of the income and expenditure account. However, if a loss arises, such a loss will be debited to income and expenditure account.
2. **Adhoc Fund-Raising Activities:** This is just for a specific period or just occurring once, the usual procedure is to set off any expenses against the income derived from the activity in the income and expenditure account. When a profit is made, the expenses are deducted from income on the credit side of the income and expenditure account, when a loss is sustained, subscriptions due for 2009 amount to N12,000. Depreciation at 10 percent is to be written off the musical and drama equipment.

Solution

Busa Drama And Music Club

Income and Expenditure Accounts for 31st Dec. 2009

You should note the following operations in the account above:

Expenditure	N	Income	N
Rent of hall (N15 200-8 000)	7,200	Subscription (92 000+12 000)	104,000
Hire of theatre	60,000	Donations	30,000
Hire of costumes	30,000	Tickets receipts	64,000
Royalties	4,200		
Postages and stationery	5,000		
Depreciation	6,800		
	113,200		
Surplus of income over expenditure	84,800		
	198,000		198,000

Rent of hall: deduct prepaid rent of N8,000 from the N15,200 paid. The actual amount of rent for 2009 is N7,200.

Subscription: Add the accrued subscription of N92,000 to N12,000 paid, making a sum of N104,000.

Remember that the prepaid subscription of N8,000 is a liability to the club until 2010 and that the subscription receivable of N12,000 is a current asset in the balance sheet.

Activity

Obtain the income and expenditure of a club and a society in your locality. Compare the following items in both organisations:

- (i) Subscription
- (ii) Fund raising activities
- (iii) Expenditures

13.5 Summary

In this chapter, students have learnt that:

1. Income and expenditure is prepared to determine surplus or deficit for the years.
2. Non-profit oriented organisations carry out fund raising activities to generate revenue.

13.6 Revision Questions

1. In an income and expenditure account, _____ is debited.
 A. income
 B. asset
 C. expenditure
 D. cash
2. An income and expenditure account is prepared to determine _____.
 A. loss
 B. income
 C. surplus
 D. profit
3. When expenditure is above income in a club, the result is a _____.
 A. gain
 B. deficit
 C. loss
 D. surplus
4. One of the following is an item of income in a society:
 A. Printing
 B. Sale of tickets
 C. Hire of motors vehicle
 D. Hire of hall
5. One of the following is not an item of income and expenditure account:
 A. Loan
 B. Donation
 C. Stationery
 D. Rent
- 6(a) What is the purpose of an income and expenditure account?
 (b) Compare a profit and loss account with an income and expenditure account.

7. Distinguish between receipts and payments account and income and expenditure account.
 8. State the procedures for the preparation of income and expenditure account.
 9. Prepare a format for income and expenditure account and complete it with the appropriate items from the following list:

Subscription	Hire of Hall
Loan from Bank	Donation
Motor Vehicle	Postage
Printing of Tickets	Deficit
Rent Paid	Ticket Receipt
Rent In Advance	Bank Charges
Gift to Members	

10. The following is a summary of the amounts received and spent by star club from the date of commencement.

1st January 2009 to 31st Dec. 2009:

	₦
Subscriptions received	32,500
Receipts from sale of refreshment	40,000
Loan from co-operative society on 1st Jan 09.	30,000
Loan From bank	10,000
Land and building (at cost)	120,000
Purchase of refreshments	25,000
Wages paid	50,000
Rates paid	18,000
Telephone paid	32,000
Receipts of telephone call	14,000
Printing and stationery paid	8,000
Bank interest and charges paid	9,000
General expenses paid	11,900
Electricity paid	10,800
Prepaid to co-operative society on 31st Dec.09.	10,000

Prepare income and expenditure account for the year ending 31st Dec.2009.

Note:

- (i) All the receipts and payments were through the bank.
- (ii) N5,000 was owing for refreshment at 31st Dec., 2009.

(iii) Refreshment on hand at 31st Dec., 2009 were valued at N3,500.

(iv) Rates paid up to 31st Dec., 2009 included N3,000 paid in advance.

(v) Interest accrued but not yet paid to co-operative society amounted to N2,500.

11. Sports club charges a membership fee of N30 and an annual subscription of N10. On 1st January 2009.

During the year ended 31st December 2009 receipts and payments were as follows:

Receipts And Payments

Receipts	N	Payments	N
Subscriptions for 2008	12,000	Motor Vehicle	213,400
Subscriptions for 2009	19,200	Snacks	2,760
Subscriptions for 2010	2,380	Equipment	12,300
Entertainment fees	91,170	Wages	11,400
		Furniture	11,000
		Advertising	22,400
		General expenses	1,380
		Prizes	15,000

You are also given the following information:

(i) Depreciation is calculated at 20% on motor vehicles, 10% on equipment and 5% on furniture as they appear in the balance as at 31st Dec., 2009.

(ii) Advertising owing was N1,900.

(iii) Wages in advance were N2,200

(iv) Seventy - three members did not pay their annual subscriptions as at 31st December, 2009.

(v) Half of the subscriptions due on 1st October, 2009 are to be written off as bad debts.

You are required to prepare the income and expenditure account.