

ACCOUNTING FOR NON-TRADING CONCERN

Concerns such as clubs, associations, hospitals, educational institutions, trade unions, charitable institutions are not established with the object of earning profit but to serve for their members. Hence, they would not prepare the normal trading and profit and loss account. But to avoid misappropriation and embezzlement of members' funds, it is necessary to prepare or keep proper books of accounts. The non-trading concerns have to maintain the following books of accounts.

- 1] Receipts and payments account
- 2] Income and expenditure account and
- 3] Balance sheet.

Receipts and payments account:

It is just like a cash book and based on real account. This receipt and payment account will have opening and closing balances. All receipt (both capital and revenue) are recorded on the receipt side (debit side) and payments (both capital and revenue) are recorded on the payment side (credit side). No adjustment such as prepaid expenses, outstanding expenses, Income received in advance, outstanding income, etc. are required to be done. This account is prepared for particular period and receipt whether relates to this year or previous or future years should be recorded.

Income and expenditure account:

It is just like a profit and loss account and based on nominal account. There will be no opening and closing balances in this account. All revenue receipts and incomes are recorded on the credit side and all revenue payments and expenses are recorded on the debit side and the difference will be either excess of income over expenditure or excess of expenditure over income. This account is based on mercantile system and all adjustments should be incorporated in this account.

Balance Sheet:

Balance sheet for non-trading concerns are prepared just like a balance sheet of trading concern is prepared. This statement is prepared on a particular date and showing various assets and liabilities owned by the concern.

Important terms used in Non-trading concern

The following are the various terms and conditions used in case of preparation of accounts for non-trading concerns.

1] Legacy: If any money received by any non-trading concerns because of the will of the deceased persons such amount is called legacy and should be capitalised by recording on the receipt side of the receipts and payment account as it is one time receipt and non-recurring in nature.

2] Donations: It is the amount contributed by the members to the concern without any obligations. It is given just like a gift. It may be general donations or specific donations.

If the amount donated by the members without any conditions, it is general donation and will be treated as capital or revenue based on the magnitude of the donations.

If the amount donated by the members with any specific conditions, such for construction of rooms, or development of grounds, etc. then such amount will be capitalised and shown on the liability side of the balance sheet.

3] Sale of any assets: On sale of assets, the amount realised should be compared with the cost, if there is any profit or loss, then such amount will be transferred to income and expenditure account and the amount realised on the sale will appear on the receipt side of the receipts and payments accounts.

4] Entrance fees: when any member enrolled into the non-trading concern, they have to pay entrance fees. Sometime this amount may be recorded as capital receipt as it is received only once from the members. Some other time, this amount may be recorded as revenue receipt as it is received every year from different members. No clear instructions for this and hence, the way in which it is treated should be given as foot note.

5] Specific fund: If there is any specific funds, such as building funds, tournament funds, etc. then any income and expenditure concerned with that particular event should be adjusted in the specific funds and not to be shown in the income and expenditure account.

6] Sale of sports materials: Sport materials such as bat, balls, etc. are consumable asset. Hence, any amount realised from the sale of sports materials will be treated as income and credited in the income and expenditure account.

7] Subscriptions: This is the major recurring income received from the members. Subscription received during the year will be shown as receipts in the receipts and payment account and subscription relating to the current year will be shown in the income and expenditure account.

8] Life membership fees: If any members pay the membership fees for the entire life instead of periodical payments, then such amount should be treated as capital receipts and entered in the receipt and payments account and shown in the liability side of the balance sheet.

9] Honorarium: It is the payment made to any person for giving lectures or to reimburse any expenses, such amount will be entered in the receipt and payments account and in the income and expenditure account.

OBEJCTIVE TYPE QUESTIONS

1. Non trading concern prepares:

A] Trading account	B] P and L account	C] Manufacturing Account	D] Income and expenditure A/c.
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2. Receipts and payment account is a

A] Nominal account	B] personal account	C] Real account	D] None
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3. Income and expenditure account is a

A] Nominal account	B] personal account	C] Real account	D] None
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4. Receipts and payment account shows

A] income and expenses	B] assets and liabilities	C] cash receipts and payments	D] all receipts and payments
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5. Income and expenditure account shows

A] income and expenses	B] assets and liabilities	C] cash receipts and payments	D] all revenue income and expenditure including adjustments
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6. Subscription received in advance is

A] Income	B] liability	C] assets	D] none
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7. Donation received for a specific purpose

A] shown separately in the B/s. Liability side	B] shown in Receipts & payments Account	C] shown in the income & expenditure account	D] not be recorded at all
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8. Admission fee received should be

A] capitalised	B] treated as revenue	C] treated as liability	D] treated as revenue unless the amount is large
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9. Subscription in arrears are shown on the

A] Credit side of I and C A/c. and asset side of B/s.	B] Debit side of I and C A/c. and Liability side of B/s.	C] only on the asset side of the balance sheet	D] only on the liability side of the balance sheet
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10. If there is a prize fund then prizes awarded, expenses and income are transferred to

A] Assets side of the Balance sheet	B] Liability side of the Balance sheet	C] Income & expenditure account	D] Income & expenditure account & balance sheet
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ANSWERS

1] d	2] c	3] a	4] c	5] d	6] b	7] a	8] d	9] a	10] c
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What will be the amount of subscription to be entered in the income and expenditure account?

Subscription received during the year 2003-2004	Rs.25000/-
Subscription outstanding on 01/04/2003	Rs. 5000/-
Subscription outstanding on 31/03/2004	Rs.10000/-
Subscription received in advance on 01/04/2003	Rs. 7500/-
Subscription received in advance on 31/03/2004	Rs. 5000/-