

LECTURE 11

RECEIPT AND PAYMENT/INCOME AND EXPENDITURE ACCOUNT

LEARNING OUTCOMES

Upon completion of the lecture, the students should be able to:

- That a receipts and payments account does not show the full financial position of an organisation, except for one where the only asset is cash and there are no liabilities.
- That an income and expenditure account is drawn up to show either the surplus of income over expenditure or the excess of expenditure over income. These are the same as ‘profit’ or ‘loss’ in a profit-oriented organisation.
- That the accumulated fund is basically the same as a capital account.

- That although the main object of the organisation is non-profit-oriented, certain activities may be run at a profit (or may lose money) in order to help finance the main objectives of the organisation.
- That in an examination you should treat subscriptions owing at the end of a period in the same way as debtors, unless told otherwise.
- That donations are usually treated as income in the period in which they are received.
- That entrance fees are usually treated as income in the year in which they are received.
- That the treatment of life membership fees is purely at the discretion of the organisation, but that they are usually amortised over an appropriate period.

Income and expenditure accounts

Profit-oriented organisation	Non-profit-oriented organisation
1 Trading and Profit and Loss Account	1 Income and Expenditure Account
2 Net Profit	2 Surplus of Income over Expenditure
3 Net Loss	3 Deficit of Income over Expenditure

Accumulated fund

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Accumulated Fund} = \text{Assets} - \text{Liabilities}$$

Calculations of subscriptions

Subscriptions a/c

		£
20X2		
Jan 1	Owing b/d	xxx
Dec 31	Income and expenditure*	xxx
Dec 31	Prepaid c/d	<u>xxx</u>
		<u>xxx</u>
20X3		
Jan 1	Owing b/d	xxx

		£
20X2		
Jan 1	Prepaid b/d	xxx
Dec 31	Bank	xxx
Dec 31	Owing c/d	<u>xxx</u>
		<u>xxx</u>
20X3		
Jan 1	Prepaid b/d	xxx

* This is the difference between the two sides of the account

REFERENCES

- Wood, F. & Sangster, A. [1996]. **Business Accounting 1**. 7th edition, London: Pitman Publishing.
- Horngren, Harrison, Best, Fraser & Izan [1997]. **Accounting**. 2nd edition, Australia: Prentice Hall.