



**CBSE**



**CLASS 12<sup>TH</sup>**

**THE CENTRAL BOARD OF SECONDARY EDUCATION**

**PART – I**

**ACCOUNTANCY – I**



# ACCOUNTANCY – 1

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## Chapter-1 Accounting for Non-Profit Organisations

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- Preparation of Income and Expenditure a/c
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### Need and Nature of Accounting records of Non-profit organisation

#### ● **Meaning and Characteristics of NPO**

Not-for-Profit Organisations refer to the organisations that are for used for the **welfare of the society** and are set up as charitable institutions which function **without any profit motive**. Their main aim is to provide **service to a specific group or the public at large**. Normally, they do not manufacture, purchase or sell goods and may not have credit transactions. Hence, they need not maintain many books of account (as the trading concerns do) and Trading and Profit and Loss Account. The funds raised by such organisations are **credited to capital fund or general fund**. The major **sources of their income usually are subscriptions from their members donations, grants-in-aid, income from investments, etc**. The main objective of keeping records in such organisations is to meet the statutory requirement and help them in exercising control over utilisation of their funds. They also have to prepare the financial statements at the end of each accounting period (usually a financial year) and ascertain their income and expenditure and the financial position, and **submit them to the statutory authority called Registrar of Societies**.

### **Characteristics-**

1. Such organisations are formed for providing **service to a specific group or public at large** such as education, health care, recreation, sports and so on without any consideration of caste, creed and colour. Its sole aim is to provide service either free of cost or at nominal cost, and **not to earn profit**.

2. These are organised as charitable trusts/societies and **subscribers to such organisation are called members.**
3. Their affairs are usually **managed by a managing/executive committee** elected by its members.
4. The main sources of income of such organisations are: **(i) subscriptions from members, (ii) donations (general). (iii) legacies(general). (iv) grants-in-aid, (v) income from investments, etc.**
5. The funds raised by such organisations through various sources are **credited to capital fund or general fund.**
6. The surplus generated in the form of **excess of income over expenditure is NOT distributed amongst the members.** It is simply added in the capital fund.
7. The Not-for-Profit Organisations **earn their reputation on the basis of their contributions to the welfare of the society** rather than on the customers' or owners' satisfaction.
8. The accounting information provided by such organisations is **meant for the present and potential contributors and to meet the statutory requirement.**

- **Accounting Records of Not-for-Profit Organisations**

Most of their transactions are in cash or through the bank. These institutions are **required by law** to keep proper accounting records and keep proper control over the utilization of their funds. This is why they usually keep a **cash book in which all receipts and payments** are duly recorded. They also maintain a **ledger containing the accounts of all incomes, expenses, assets and liabilities which facilitates the preparation of financial statements** at the end of the accounting period. In addition, they are required to maintain a **stock register to keep complete record of all fixed assets and the consumables.** They **do not maintain any capital account.** Instead they maintain **capital fund which is also called general fund that goes on accumulating due to surpluses generated, life membership fee, etc., received from year to year.** In fact, a proper system of accounting is desirable to avoid or minimise the chances of misappropriations or embezzlement of the funds contributed by the members and other donors.

They have to provide the necessary financial information to members, donors, and contributors and also to the Registrar of Societies. For this purpose, they have to prepare their final accounts at the end of the accounting period and the general principles of

accounting are fully applicable in their preparation as stated earlier, the final accounts of a 'not-for-profit organisation' consist of the following:

- (i) Receipt and Payment Account
- (ii) Income and Expenditure Account, and
- (iii) Balance Sheet

### **Receipts and Payments a/c**

1. It is prepared at the end of the accounting year on the basis of cash receipts and cash payments recorded in the cash book. **It is a summary of cash and bank transactions under various heads.** For example, subscriptions **received** from the members on different dates which appear on the **debit side of the cash book, shall be shown on the receipts side** of the Receipt and Payment Account as one item with its total amount. Similarly, salary, rent, electricity **charges paid** from time to time as recorded on the credit side of the cash book but the total salary paid, total rent paid, total electricity charges paid during the year appear on the **payment side of the Receipt and Payment Account.**
2. Receipt and Payment Account gives summarised picture of various receipts and payments, **irrespective of whether they pertain to the current period, previous period or succeeding period or whether they are of capital or revenue nature.**
3. It may be noted that this account **does NOT show any non-cash item like depreciation.**
4. The **opening balance in Receipt and Payment Account represents cash in hand/cash at bank which is shown on its receipts side and the closing balance of this account represents cash in hand and bank balance as at the end of the year, which appear on the credit side of the Receipt and Payment Account.** However, if it is **bank overdraft at the end it shall be shown on its debit side as the last item.**

### **Steps in the Preparation of Receipt and Payment Account-**

- 1)** Take the opening balances of cash in hand and cash at bank and enter them on the debit side. In case there is bank overdraft at the beginning of the year, enter the same on the credit side of this account.
- 2)** Show the total amounts of all receipts on its debit side irrespective of their nature (whether capital or revenue) and whether they pertain to past, current and future periods.
- 3)** Show the total amounts of all payments on its credit side irrespective of their nature (whether capital or revenue) and whether they pertain to past, current and future periods.
- 4)** None of the receivable income and payable expense is to be entered in this account as they do not involve inflow or outflow of cash.

- 5) Find out the difference between the total of debit side and the total of credit side of the account and enter the same on the credit side as the closing balance of cash/bank. In case, however, the total of the credit side is more than that of the total of the debit side, show the difference on the debit as bank overdraft and close the account.

### Income and Expenditure Account

- 1) It is the summary of income and expenditure for the accounting year. It is just like a profit and loss account prepared on **accrual basis** in case of the business organisations.
- 2) It includes only **revenue items** and the balance at the end represents surplus or deficit.
- 3) The Income and Expenditure Account serves the **same purpose as the profit and loss account of a business organisation does**. All the revenue items relating to the current period are shown in this account, the expenses and losses on the expenditure side and incomes and gains on the income side of the account. It shows the net operating result in the form of surplus (i.e. excess of income over expenditure) or deficit (i.e. excess of expenditure over income), which is transferred to the capital fund shown in the balance sheet.
- 4) The Income and Expenditure Account is prepared on accrual basis with the help of Receipts and Payments Account along with additional information regarding outstanding and prepaid expenses and depreciation etc.

### **Steps in the Preparation of Income and Expenditure Account**

- 1) Pursue the Receipt and Payment Account thoroughly.
- 2) Exclude the opening and closing balances of cash and bank as they are not an income.
- 3) Exclude the capital receipts and capital payments as these are to be shown in the Balance Sheet.
- 4) Consider **only the revenue receipts** to be shown on the income side of Income and Expenditure Account. Some of these need to be **adjusted by excluding the amounts relating to the preceding and the succeeding periods and including the amounts relating to the current year not yet received**.
- 5) Take the **revenue expenses to the expenditure side of the Income and Expenditure Account with due adjustments as per the additional information provided relating to the amounts received in advance and those not yet received**.
- 6) Consider the following items not appearing in the Receipt and Payment Account that need to be taken into account for determining the surplus/ deficit for the current year:

- (a) Depreciation of fixed assets.
- (b) Provision for doubtful debts, if required.
- (c) Profit or loss on sale of fixed assets

**Difference between Income & Expenditure a/c and Receipts & Payments a/c**

<b>Basis</b>	<b>Income and Expenditure</b>	<b>Receipts and Payments</b>
<b>Nature</b>	It is like a profit and loss account	It is the summary of the cash book.
<b>Nature of the items</b>	It records income and expenditure of revenue nature only	It records receipts and payments of revenue as well as capital nature
<b>Period</b>	Income and Expenditure items relate only to the current period.	Receipts and Payments may relate to preceding or succeeding periods as well.
<b>Debit side</b>	Debit side of this account records expenses and losses	Debit side of this account records the receipts.
<b>Credit side</b>	Credit side of this account records income and gains	Credit side of this account records payments.
<b>Depreciation</b>	Includes depreciation	It does not include depreciation
<b>Opening balance</b>	There is no opening balance	Balance in the beginning represents cash in hand /cash at bank or overdraft at the beginning.

<b>Closing balance</b>	Balance at the end represents excess of income over expenses or vice-versa.	Balance at the end represent cash in hand at the end and bank balance.
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## **Balance Sheet**

- 1) 'Not-for-Profit' Organisations prepare Balance Sheet for ascertaining the financial position of the organisation. The preparation of their Balance Sheet is on the same pattern as that of the business entities. It shows assets and liabilities as at the end of the year. Assets are shown on the right-hand side and the liabilities on the left-hand side.
- 2) However, there will be a **Capital Fund or General Fund in place of the Capital and the surplus or deficit as per Income and Expenditure Account** which is either added to/deducted from the capital fund, as the case may be.
- 3) It is also a common practice to add some of the capitalised items like legacies, entrance fees and life membership fees directly in the capital fund.
- 4) Besides the Capital or General Fund, there may be other funds created for specific purposes or to meet the requirements of the contributors/donors such as building fund, sports fund, etc. Such funds are shown separately in the liabilities side of the balance sheet.
- 5) Sometimes it becomes necessary to prepare Balance Sheet as at the beginning of the year in order to find out the opening balance of the capital/general fund.

## **Preparation of Balance Sheet**

- 1) Take the Capital/General Fund as per the opening balance sheet and add surplus from the Income and Expenditure Account. Further, add entrance fees, legacies, life membership fees, etc. received during the year.
- 2) Take all the fixed assets (not sold/discarded/or destroyed during the year) with additions (from the Receipts and Payments account) after charging depreciation (as per Income and Expenditure account) and show them on the assets side.
- 3) Compare items on the receipts side of the Receipts and Payments Account with income side of the Income and Expenditure Account. This is to ascertain the amounts of:
  - (a) subscriptions due but not yet received:
  - (b) incomes received in advance;
  - (c) sale of fixed assets made during the year;



(d) items to be capitalised (i.e. taken directly to the Balance Sheet) e.g. legacies, interest on specific fund investment and so on.

- 4) Similarly compare, items on the payments side of the Receipt and Payment Account with expenditure side of the Income and Expenditure Account. This is to ascertain the amounts if:
- (a) outstanding expenses;
  - (b) prepaid expenses;
  - (c) purchase of a fixed asset during the year;
  - (d) depreciation on fixed assets;
  - (e) stock of consumable items like stationery in hand;
  - (f) Closing balance of cash in hand and cash at bank

### Treatment of some items

- 1) **Subscriptions:** Subscription is a membership fee paid by the member on annual basis. This is the main source of income of such organisations.

**Subscription paid by the members is shown as receipt in the Receipt and Payment Account and as income in the Income and Expenditure Account.** It may be noted that Receipt and Payment Account shows the **total amount of subscription actually received during the year** while the amount shown in Income and Expenditure Account is confined to the **figure related to the current period only** irrespective of the fact whether it has been received or not.

- 2) **Donations:** It is a sort of gift in cash or property received from some person or organisation.

**It appears on the receipts side of the Receipts and Payments Account.** Donation can be for specific purposes or for general purposes.

- i. **Specific Donations:** If donation received is to be utilised to achieve specified purpose, it is called Specific Donation. The specific purpose can be an extension of the existing building, construction of new computer laboratory, creation of a book bank, etc. **Such donation is to be capitalised and shown on the liabilities side of the Balance Sheet irrespective of the fact whether the amount is big or small.** The intention is to utilise the amount for the specified purpose only.
- ii. **General Donations:** Such donations are to be utilised to promote the general purpose of the organisation. These are **treated as revenue receipts as it is a regular source of**

**income hence, it is taken to the income side of the Income and Expenditure Account of the current year.**

- 3) **Legacies:** It is the amount received as per the will of a deceased person who may or may not specify the use of the amount. **Legacies, use of which is specified are specific legacy and is shown in the balance sheet as liability.** If the use is not specified it is considered as **revenue nature and credited to income and expenditure account.**
- 4) **Life Membership Fees:** Some members prefer to pay lump sum amount as life membership fee instead of paying periodic subscription. Such amount is **treated as capital receipt and credited directly to the capital/general fund.**
- 5) **Entrance Fees:** Entrance fee also known as admission fee is paid only **once by the member at the time of becoming a member.** In case of organisations like clubs and some charitable institutions, is limited and the amount of entrance fees is quite high. Hence, it is treated as non-recurring item and **credited directly to capital/general fund.**
- 6) **Sale of old asset:** Receipts from the sale of an old asset appear in the Receipts and Payments Account of the year in which it is sold. But **any gain or loss on the sale of asset is taken to the Income and Expenditure Account of the year.**
- 7) **Sale of Periodicals:** It is an item of recurring nature and shown as the **income side of the Income and Expenditure Account.**
- 8) **Sale of Sports Materials:** Sale of sports materials (used materials like old balls, bats, nets, etc) is the regular feature with any Sports Club. It is usually shown as an **income in the Income and Expenditure Account.**
- 9) **Payments of Honorarium:** It is the amount paid to the person who is not the regular employee of the institution. Payment to an artist for giving performance at the club is an example of honorarium. This payment of honorarium is shown on **the expenditure side of the Income and Expenditure Account.**
- 10) **Endowment Fund:** It is a fund arising from a bequest or gift, the income of which is devoted for a specific purpose. Hence, it is a **capital receipt and shown on the Liabilities side of the Balance Sheet** as an item of a specific purpose fund.
- 11) **Government Grant:** Schools, colleges, public hospitals, etc. depend upon government grant for their activities. **The recurring grants in the form of maintenance grant is treated as revenue receipt** (i.e. income of the current year) and credited to Income and Expenditure account. However, **grants such as building grant are treated as capital receipt and transferred to the building fund account.** It may be noted that some Not-for-Profit organisations receive cash subsidy from the government or government agencies. **This subsidy is also treated as revenue income** for the year in which it is received.

- 12) Special Funds:** The Not-for-Profit Organisations office create special funds for certain purposes/activities such as 'prize funds', 'match fund' and 'sports fund', etc. Such funds are invested in securities and the income earned on such investments is **added to the respective fund, NOT credited to Income and Expenditure Account**. Similarly, the **expenses incurred on such specific purposes are also deducted from the special fund**. **The special funds are shown in balance sheet**. However, if, after adjustment of income and expenses the **balance in specific or special fund is negative, it is transferred to the debit side of the Income and Expenditure Account or adjusted as per prescribed directions**.
- 13) Stationery:** Normally expenses incurred on stationary, a consumable item are charged to Income and Expenditure Account. But in case stock of stationery (opening and/or closing) is given, the approach would be to make necessary adjustments in purchases of stationery and work out cost of stationery consumed and show that amount in Income and Expenditure Account and its stock in the balance sheet.

## Points to remember

- Not-for-Profit Organisations refer to the organisations that are set up for the welfare of the society and are set up as charitable institutions which function without any profit motive
- NPOs are required to make- Receipts and Payments a/c, Income and Expenditure a/c and Balance sheet.
- Receipts and Payments a/c is a summary of all transactions that took place during the year. It is made on cash basis and all items- revenue and capital are included in it.
- Income and Expenditure is like P&L a/c of Business organisations. It is made on accrual basis and hence adjustments to include revenue that is due but not received and expenses that are due but not paid AND to deduct revenue received in the current period in advance or for previous period and expenses paid in advance or for previous year. It includes revenue items only.
- Subscriptions, General Donations, Legacies, Loss/Gain on sale of fixed asset, Sale of periodicals and sports material, Payments of Honorarium, Government Grants (revenue nature), Stationery are debited/credited to Income and Expenditure a/c.
- Specific Donations, Specified Legacies, Specific Funds, Endowment Fund are shown in Balance sheet under Liabilities.
- Life Membership fees, Entrance Fees are added to the capital fund.

## Questions

### **Q1. State the meaning of Receipt and Payment Account. (1 mark)**

Receipts and Payments Account is a summary of the Cash Book. It records all cash and bank transactions both of capital and revenue nature. It not only records the cash and bank transactions relating to the current accounting period, but also the cash and bank receipts (or payments) received during the current accounting period that may be related to the previous or next accounting period.

### **Q2. What is subscription? (1 mark)**

Subscriptions refer to the amount of money paid by the members on periodic basis for keeping their membership with the organisation alive. It is paid monthly, quarterly, half yearly or annually by the members.

### **Q3. What is Capital Fund? (1 mark)**

Capital fund is the excess of NPOs' assets over its liabilities. In other words, the excess of assets over the liabilities for a profit earning organisation is termed as capital and the same for an NPO is termed as capital fund.

### **Q4. Distinguish between Receipts and Payments Account and Income and Expenditure Account on the basis of type of account. (1 mark)**

Receipts and Payments a/c is a Real Account whereas Income and Expenditure is a Nominal Account.

### **Q5. What is the treatment of Life Membership fees in NPO? (1 mark)**

It is a non-recurring receipt and hence, it is added to the capital fund in the balance sheet.

### **Q6. What are Legacies? (1 mark)**

It is the amount received as per the will of a deceased person who may or may not specify the use of the amount.

### **Q7. What are the features of Receipt and Payment Account? (3 marks)**

The following are the features of Receipt and Payment Account:

1. **Nature:** It is a Real Account. It is a summarised version of Cash Book. 2. **Nature of Transactions:** It records only cash and bank transactions. Transactions other than cash and bank like depreciation, loss/ profit on sale of assets, etc. are not recorded in this account.

3. **No distinction between Capital and Revenue items:** It records all cash and bank receipts and payments of both capital and revenue nature.

4. **Opening and closing balance:** It begins with the opening balance of cash and bank and ends with the closing balance of the cash and bank (balancing figure) at the end of the accounting period.

5. **Purpose:** It reveals the cash position of an organisation. It helps to ascertain the total amount paid and received during an accounting period.

**Q8. Show the treatment of the following items by a Not-for-Profit Organisation: (i) Annual subscription (ii) Specific donation (iii) Sale of fixed assets (3 marks)**

(i) Annual Subscription

a) Subscriptions received during an accounting year (whether related to the current year or previous and subsequent year) are shown on the debit side of the Receipts and Payments Account.

b) Subscription amount related to the current accounting year only, whether received or yet to be received are shown on the credit side of the Income and Expenditure Account.

c) Subscriptions received in advance for the subsequent year are shown on the Liabilities side of the Balance Sheet.

d) Subscriptions due but not received are shown in the Assets side of the Balance Sheet.

ii) Specific donation

a) The amount received for specific donation is shown on the debit side of the Receipts and Payments Accounts.

b) The amount received for specific donation is shown on the Liabilities side of the Balance Sheet as it is used for the specific purpose for which it is received.

iii) Sale of fixed assets

- a) The amount received from the sale of fixed assets are recorded on the debit side of the Receipts and Payments Account.
- b) Profit (or loss) on the sale of fixed assets is credited (or debited) to the Income and Expenditure Account.
- c) The book-value of the fixed assets sold is deducted from its respective assets on the Assets side of the Balance Sheet.

**Q9. From the following particulars taken from the Cash Book of a health club, prepare a Receipts and Payments Account. (3 marks)**

Particulars	Rs
Opening balance:	
Cash in Hand	5,000
Cash at Bank	25,000
Subscriptions	1,65,000
Donations	35,000
Investment Purchased	80,000
Rent Paid	20,000
General Expenses	21,500
Postage and stationery	2,000
Courier charges	1,000
Sundry Expenses	2,500
Closing Cash in Hand	12,000

## Books of Health Club

### Receipt and Payment Account

Dr.

Cr.

	Amount		Amount
Receipts	Rs	Payments	Rs
Balance b/d		Investment	80,000
Cash in Hand           5,000		Rent	20,000
Cash at Bank           25,000	30,000	General Expenses	21,500
		Postage                   and	
Subscriptions	1,65,000	Stationery	2,000
Donations	35,000	Courier Charges	1,000
		Sundry Expenses	2,500
		Balance c/d	
		Cash in Hand	12,000
		Cast at Bank	91,000
			1,03,000
		(Balancing figure)	
	2,30,000		2,30,000



**Q10. The Receipt and Payment Account of Harimohan charitable institution is given:**

**Receipt and Payment Account for the year ending March 31, 2015**

<b>Receipts</b>	<b>Amount Rs</b>	<b>Payments</b>	<b>Amount Rs</b>
Balance b/d:		Furniture	3,000
Cash at Bank	22,000	Investments	55,000
Cash in Hand	8,800	Advance for building	20,000
Donations	32,000	Charities	60,000
Subscriptions	50,200	Salaries	10,400
Endowment Fund	60,000	Rent and Taxes	4,000
Legacies	24,000	Printing	1,000
Interest on Investment	3,800	Postage	300
Interest on Deposits	800	Advertisements	1,100
Sale of old newspapers	500	Insurance	4,800
		Balance c/d:	
		Cash at Bank	32,000
		Cash in Hand	10,500
	2,02,100		2,02,100