**WEEK SEVEN AND EIGHT**

**TOPIC: PREPARATION OF ACCOUNTS OF NON-PROFIT-MAKING ORGANIZATIONS-PRACTICAL ILLUSTRATION**

**Example**

The star sports and social club provides recreational activities, refreshments and social events for its members. Its assets and liabilities at 31st December, 2003 were as follows

**Fixed Assets N**

Pavilion 120,000

Club sports equipment 40,000

Motor roller 2,000

**Current Assets**

Stock of equipment for sale to members 4,000

Annual subscription owing 1,200

Bank balance 6,730

**Current liabilities**

Creditors for equipment for sale to members 1,300

Annual subscription received in advance 800

Life subscriptions fund 1,750

In the year ended 31st December, 2003 the club’s cash receipts and payments were as follows.

**Receipts**

Annual subscriptions N18,000

Proceeds from sale of equipment N12,000

Sale of tickets for dinner-dance N4,400. Refreshment and bar takings N2660. Life members subscription N400

**Payments**

Caretaker’s wages N8,000. Repairs to club equipment N1,700 purchase of club equipment N2000. Equipment for sale to members N4000. Heating and lighting N1800. Food for refreshment bar N1400. Secretary’s expenses N840.

Dinner – dance expenses: - Hire of band N 200 - Catering N 1000

Further information

1. At 31st December 2004: annual subscriptions in arrears N1400, annual subscriptions received in advance were N900
2. Stock of equipment for sale to members N200
3. Creditors of equipment for sale to members N900
4. A member donated N5000 to a fund to encourage young people to train for sport. This donation was invested in saving bonds.
5. the club transfers life subscriptions to the income and Expenditure Account in equal installment over five years
6. Depreciation is to be provided on fixed assets by the reducing – balance method as follows:- pavilion 6%. Sport equipment 20%, motor roller 20%. Required (a) prepare the star sport and social club’s income and Expenditure Account for the year ended 31st December, 2004 (b) prepare the club’s balance sheet as at 31st December, 2004

Solution

**Step 1:** Prepare an opening statement of affairs. This will give the balance on the Accumulated fund at 1st January 2004 and will be the starting point for recording the transactions during the year.

**Statement of affairs as at 31st December, 2003.**

Fixed Assets:- N

Pavilion Sport equipment 120,000

Club sports equipment 40,000

Motor roller 20,000

Current Assets

Stock of equipment for sale to members 4,000

Annual subscriptions owing 1,200

Bank balance 6,730

Total Assets 173,930

Current Liabilities

Creditors for equipment for sale to members 1,300

Annual subscription received in advance 800

Life subscription fund 1,700 3,850

**Accumulated fund 1st January, 2004**  170,080

**Step 2:-** prepare a receipt and payments Account. This will summarize all the transactions affecting the Income and Expenditure Account and balance sheet and calculate the bank balance at 31st December, 2004.

**Receipts and payments account for the year ended 31st December, 2004**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | N |  | N |
| 1 Jan. | Balance b/f | 6,730 | 31 Dec. Caretaker’s wages | 8000 |
| 31 Dec. | Annual subscriptions | 18,000 | Repair’s club equipment | 1,700 |
|  | Sales of equipment | 12,000 | Purchase club equipment | 2,000 |
|  | Sales of tickets dinner-dance | 4,400 | Purchase of equipment for resale | 4,000 |
|  | Takings-refreshment | 2,660 | Heating and lighting | 1,800 |
|  | Life membership subscriptions | 400 | Dinner dance hire of band | 200 |
|  |  |  | Catering | 1000 |
|  |  |  | Food for refreshment bar | 14000 |
|  |  |  | Secretary’s expenses | 840 |
|  |  |  | Balance c/d | 23,250 |
|  |  | 44,190 |  | 44,190 |

**Step 3:-** prepare workings to adjust for accruals, prepayments, depreciation and any other items. Show these workings with your answer.

1. **Purchase of equipment for resale**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Cash part | 4000 | Creditors b/f (opening bal.) | 1,300 |
| Creditors c/f | 900 | Income and Exp. a/c | 3,600 |
|  | 4,900 |  | 4,900 |

2. **Annual subscriptions A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Owing at 1st January | 1,200 | Prepaid | 800 |
| Prepaid at 31st December | 900 | Cash (R & Payt a/c) | 18,000 |
| I & E a/c 9for the up) | 18100 | Owing at 31st December | 1,400 |
|  | 20,200 |  | 20,200 |

3. **Life Subscriptions A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| I & Exp. A/C (1/5 x 2/50 ) | 430 | B/F | 1,700 |
| Balance c/f | 1,720 | Cash received (i.e. additional) | 400 |
|  | 2,150 |  | 2,150 |

4. **Club Sport equipment A/C**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Bal b/f | 40,000 | I & Exp a/c (20% x 4200) | 8,400 |
| Cash (addition) | 2,000 | Bal c/d | 33,600 |
|  | 42,000 |  | 42,000 |

**Step 4:**  The income and expenditure A/C and Balance sheet may now be copied out from steps 1, 2 and 3. As the sale of equipment to members is trading, a trading A/C should be prepared even though the question did not ask for it.

If steps 1, 2 and 3 have been carefully carried out, preparing the income & Expenditure A/C and balance sheet is now only copying exercise and can be completed in little time.

**Sales of equipment A/C**

|  |  |  |
| --- | --- | --- |
| Sales | N | N |
| Less: Cost of sales |  | 1,200 |
| Stock 1st January | 4000 |  |
| Purchase (wk. 1) | 3,600 |  |
|  | 7,600 |  |
| Less closing stock 31/12/04 | 2000 | 5,600 |
| Profit on sales of equipment (transferred to income and expenditure account) |  | 6,400 |

**STAR SPORTS AND SOCIAL CLUB**

**INCOME & EXPENDITURE ACCOUNT FOR THE YOUR ENDED 31/12/04**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N | N | N |
| Annual subscriptions (wks. 2) |  |  | 18,000 |
| Life subscription (wks. 3) |  |  | 430 |
| Profit on sale of equipment |  |  | 6,400 |
| Dinner/dance:- |  |  |  |
| Sales of ticket |  | 4,400 |  |
| Less: Hire of band | 200 |  |  |
| Catering | 1,000 | 1,200 | 3,200 |
| Refreshment Bar |  |  |  |
| Takings |  | 2,660 |  |
| Less: cost of food |  | 1,400 | 1,260 |
|  |  |  | 29,390 |
| Less expenses |  |  |  |
| Caretaker’s wages |  | 8,000 |  |
| Repairs to club equipment |  | 1,700 |  |
| Heating and lighting |  | 1,800 |  |
| Secretary’s expenses |  | 840 |  |
| Depreciation: Pavilion (6% x 120,000) |  | 7,200 |  |
| :Equipment (wks. 4) |  | 8400 |  |
| : Motor roller (20% x N2000) |  | 400 | 28,340 |
| SURPLUS OF INCOME OVER EXPENDITURE |  |  | 1,050 |

**BALANCE SHEET**

**AS AT 31ST DECEMBER, 2004**

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Fixed Assets at net book value |  |  |
| Pavilion |  | 112,800 |
| Club equipment |  | 33,600 |
| Motor roller |  | 1,600 |
|  |  | 148,000 |

**Current Assets**

|  |  |
| --- | --- |
| Stock of equipment for resale to members | 2000 |
| Subscription owing | 1,400 |
| Bank balance | 23,250 |
|  | 26,650 |

|  |  |  |  |
| --- | --- | --- | --- |
| Less current liabilities |  |  |  |
| Creditors | 900 |  |  |
| Subscriptions prepaid | 900 |  |  |
| Life subscriptions (wks. 3) | 1,720 | 3,520 | 23,130 |
|  |  |  | 171130 |
| Presented By: |  |  | 170080 |
| Accumulated fund at 1/1/04  Add surplus of income over expenditure |  |  | 1050  171130 |

Fund to encourage young people to train for sports N5000

Presented by savings fund N5000

**Evaluation**

Write short note on (a) subscription prepaid (b) subscription accrued

**Reading Assignment**

Financial accounting with Ease by Onafowokan O., Harold Randall pages 95-98

**WEEKEND ASSIGNMENT**

1. Life subscription A/C should have a (a) debit balance (b) credit balance (c) neutral balance (d) none of the above
2. Club sports equipment A/C should have a balance (a) credit (b) debit (c) debit and credit (d) neutral
3. Sales of a equipment to members is a form of (a) asset (b) trading (c) gambling (d) debating
4. Subscriptions accrued is an/a\_\_\_\_\_\_\_ (a) asset (b) liabilities (c) accumulated fund (d) working capital
5. Repair of club equipment is a \_\_\_\_\_\_ expenditure (a) revenue (b) capital (c) fixed (d) floating

**THEORY**

1. Write short notes on (a) annual subscription (b) life subscriptions (c) subscription prepaid (d) subscription accrued
2. Differentiate between life membership subscriptions and annual subscription of a non-profit-making organization.

**GENERAL EVALUATION QUESTIONS**

1. List five sources of income for a not-for-profit making organizations
2. State five differences between a Receipts and Payments Account and

an Income and Expenditure Account

1. State five uses of a Control Account
2. State six errors that will not affect the agreement of the trial balance
3. Explain the objective of transfer pricing in Manufacturing Accounts