
UNIT 18 ACCOUNTS OF NON-TRADING CONCERNS – I

Structure

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18.0 OBJECTIVES

After studying this unit you should be able to :

- describe the accounting records maintained by non-trading concerns
- prepare Receipts & Payments Account
- prepare Income & Expenditure Account and Balance Sheet
- explain the difference between the Receipts & Payments Account and the Income & Expenditure Account
- describe the nature of some items that are **peculiar** to non-trading concerns and **explain** their treatment in final accounts.

18.1 INTRODUCTION

The accounting **systems** you have studied so far relate to the organisations which are engaged in some kind of business activity. The accounting records are equally important for welfare organisations which may not be doing any business such as clubs, societies, educational institutions, hospitals etc. They are basically charitable institutions which function without any profit motive. They are usually termed as **non-trading** concerns. Such organisations also have to keep proper records of their receipts and payments and match their **expenses** with incomes. This is a legal requirement and at the same time it helps them to **control their** expenditure. Of course, because of the nature of their activities, the **accounting** system followed by them is slightly **different**. In this unit you will learn about the accounting records of such non-trading concerns and study how they prepare **their final** accounts.

18.2 ACCOUNTING RECORDS OF NON-TRADING CONCERNS

The non-trading concerns like clubs, societies etc, **differ** from the trading concerns in **several** respects. **They** normally do not **indulge in** buying and selling of goods and **accepting** or receiving bills of exchange. The major sources of their income usually are subscriptions from members, donations, etc., and most of their transactions are cash **transactions**. Hence, they need not maintain as many books of **account as the** trading concerns **do**. **The** main objective of keeping records in such concerns is to meet the statutory requirement **and** exercise control over the utilisation of funds. Hence, they usually maintain a Cash Book to record all receipts and payments (or separate **Cash Receipts Journal and Cash Payments Journal** to provide the necessary details) and other **books** like Members Register., Minutes Book, Stock Register, etc. **You** are **fully** conversant with Cash **Book**. **Let** us **have** a brief idea **about** the other **books**.

- 1 **Members Register** : Most charitable institutions are organised as societies which are registered with the Registrar of Societies. They are required to keep full record of their subscribers (called members). Hence they maintain a Members Register which shows their names, addresses, date of admission, etc. .
 - 2, **Minutes Books** : The societies function on the basis of decisions taken by the general body of members and their managing committee. They have to keep separate minutes books for recording the proceedings of the meeting of general body and that of the managing committee. Minutes book is a permanent record of the decisions taken from time to time.
 - 3 **Stock Register** : Every society possesses fixed assets like furniture, office equipment, etc. They have to keep complete record of these items in a register called 'Stock Register' which shows date of purchase, quantity purchased, the amount at which purchased, etc. Similarly, they also keep a stock register for consumable items like stationery, sports materials, etc, which, in addition to the details of purchases, will also show their consumption and balances.
- The non-trading concerns also maintain a ledger containing the accounts of all incomes, expenses, assets and liabilities. This facilitates the preparation of final accounts at the end of the accounting year.

18.3 FINAL ACCOUNTS

You know the final accounts usually consist of a Profit and Loss Account and a Balance Sheet. In case of non-trading concerns, however, they include (i) Receipts & Payments Account, (ii) Income & Expenditure Account, and (iii) Balance Sheet.

You will notice that a non-trading concern has to prepare a Receipts & Payments Account in addition to the Income & Expenditure Account (it is similar to Profit and Loss Account) and the Balance Sheet. You know that the Profit & Loss Account and the Balance Sheet are usually prepared with the help of a Trial Balance. But, in case of non-trading concern the practice is to prepare the Income & Expenditure Account and the Balance Sheet straight from the Receipts & Payments Account and the additional information. Hence, the Receipts & Payments Account is very important for the non-trading concern and should be prepared very carefully. It does not mean, however, that the non-trading concerns should not prepare the Trial Balance at all. In fact, if the organisation has followed double entry system they must prepare a Trial Balance for checking the arithmetical accuracy of postings into ledger accounts. This would also help the preparation of Receipts & Payments Account.

18.3.1 Receipts and Payments Account

While preparing the final accounts from incomplete records (Unit 16) you had some idea of the Receipts and Payments Account. So, you know that it is simply a summary of cash and bank transactions for the year. It gives full information about all receipts and payments under different heads and is prepared with the help of the Cash Book. The Cash Book contains a record of all receipts and payments in a chronological order but the Receipts & Payments Account will simply show the total amount received or paid under each head. For example, a club receives subscriptions from its members on different dates in a year. These are recorded in the Cash Book separately on those dates. But in Receipts & Payments Account, the total amount of subscriptions received during the year will appear as one item on its debit side. Similarly, salaries paid to the staff will appear in Cash Book every month whereas the Receipts & Payments Account will simply show the total amount for salaries paid during the year on its credit side. You will recall that the opening balance in Receipts and Payments Account represents the cash and bank balances at the beginning of the year whereas the difference between the totals of the two sides reflects the closing cash and bank balances. Look at Illustration 1 and see how Receipts & Payments Account is prepared for a club.

Illustration 1

From the following information of National Club for the year ended December 31, 1987, prepare a Receipts and Payments Account.

	Rs.		Rs.
Balances on 1-1-87		Lighting and Heating	4,600
Cash in hand	600	Secretary's Honorarium	3,700
Cash at bank	6,400	General Expenses	20,150
Subscriptions	39,400	Life Membership Subscriptions	3,000
1986 - 2,400		Furniture Purchased	3,000
1987 - 36,700		Wages	34,000
1988 - 300		Balances on 31-12-87	
Restaurant and Bar Payments	1,00,000	Cash in hand	500
Restaurant and Bar sales	1,20,000	Cash at bank	4,500
Interest on Investments	1,050		

Solution :

**Receipts and Payments Account
for the year ending December 31, 1987**

Dr.			Cr.
Receipts	Amount	Payments	Amount
	Rs.		Rs.
To balance b/d		By Restaurant and Bar Payments	1,00,000
Cash in hand 600		By Wages	34,000
Cash at Bank 6,400	7,000	By Lighting and Heating	4,600
		By Secretary's Honorarium	3,700
To Annual subscriptions		By General Expenses	20,150
1986 2,400		By Furniture (purchased)	3,000
1987 36,700		By Balance c/d	
1988 300	39,400	Cash in hand 500	
		Cash at bank 4,500	5,000
To Restaurant and Bar sales	1,20,000		
To Interest on Investments	1,050		
To Life Membership Subscriptions	3,000		
	1,70,450		1,70,450

Main Features

The main features of Receipts & Payments Account can be summarised as follows :

- i) It is a real account.
- ii) It is a summary of Cash Book. All receipts are shown on the debit side and all payments on the credit side.
- iii) No distinction is made whether the payment has been made in cash or by cheque. In other words, cash and bank items are merged except in case of opening and closing balances.

- iv) It includes all receipts and payments whether they are of revenue nature or of capital nature.
- v) It shows total receipt and total payment under each head irrespective of the year to which it relates. For example, in Illustration 1 subscriptions related to 1986 as well as 1988 have been included because the amounts were actually received during 1987.
- vi) The closing balance represents the cash and bank balances at the end of the year.

18.3.2 Income and Expenditure Account

The Income & Expenditure Account serves the same purpose for a non-trading concern as the Profit & Loss Account for a trading concern. It is also prepared exactly in the same manner as the Profit & Loss Account i.e., all incomes are shown on the credit side and all expenses and losses on the debit side. However, in case of non-trading concerns the excess of income over expenses and losses is not termed as profit. It is called 'Excess of Income over Expenditure' or 'Surplus'. Similarly, the excess of expenses and losses over income is termed as 'Excess of Expenditure over Income' or 'Deficiency'.

As stated earlier, the Income & Expenditure Account is prepared with the help of Receipts & Payments Account and the additional information available. You know the Income & Expenditure Account will show incomes and expenses only for the period to which it relates and that too on accrual basis. Hence while taking figures from Receipts & Payments Account you will have to make the necessary adjustments. For example, if the amount of subscriptions received during 1987 includes Rs. 200 relating to 1986, it should be deducted for purposes of computing the income from subscriptions. Similarly, if certain amount of subscriptions relating to 1987 are still to be received (outstanding) it would not appear in the Receipts & Payments Account. But, it has been included in the income from subscriptions for 1987 and so added thereto. Another precaution you have to take relates to the distinction between capital and revenue items. In the Income & Expenditure Account you are to include only the revenue items, the capital items will be ignored. Then, you will also have to provide the necessary amount of depreciation on all fixed assets and make provisions for doubtful debts. These items do not appear in the Receipts and Payments Account, Let us now list the steps to be followed for preparing the Income & Expenditure Account from the Receipts & Payments Account.

- 1 **Go** through the receipts side for ascertaining all items of incomes and the payment side for all items of expenses and losses.
- 2 Ignore opening and closing balances.
- 3 Ignore capital receipts and capital payments.
- 4 Ignore receipts and payments relating to the preceding and the following years. If, however, a receipt or a payment includes any amount which relates to the preceding or the following year, the same should be deducted.
- 5 Add the **outstanding** amounts to the respective items of incomes and expenses.
- 6 Provide for depreciation and doubtful debts, if required.
- 7 If any fixed asset has been sold during the year, compute the amount of profit or loss on such a sale and show the same in the Income & Expenditure Account. **Note that the sale of old sports materials is not to be regarded as sale of a fixed asset. The total amount received from such sale is an income.**

Let us prepare the Income & Expenditure Account from the Receipts and Payments Account given in Illustration 1.

14.3.2 Self-balancing the Creditors Ledger

You know the Creditors Ledger contains the personal accounts of trade **creditors** only. As in case of Debtors Ledger, a General Ledger Adjustment Account is inserted in Creditors Ledger for purposes of **making it self-balancing**. This account provides the necessary corresponding debits and credits for all entries related to trade creditors. Let us now identify the items which usually appear on the debit and the credit sides of the trade creditor. They are as follows:

A Trade Creditor's Account

Dr.	Rs.	Rs.	Cr.
To Cash/Bank A/c (cash and cheques)		By Balance b/d	
To Purchases Returns A/c		By Purchases A/c (credit purchases)	
To Bills Payable A/c (bills accepted)		By Bank A/c (cheques, dishonoured)	
To Discount Received A/c		By Bills Payable A/c (B/P dishonored)	
To Allowances A/c			
To Balance c/d			

For self-balancing, all items appearing on the debit side of the personal accounts **of** trade creditors should be recorded on the credit side of the General Ledger Adjustment in Creditors Ledger and those **appearing on their credit** side should be recorded on its debit side. For this purpose; taking the total figures of such items the following journal entries will be passed:

- For total credit purchases, cheques dishonoured and the bills payable dishonoured:

General Ledger Adjustment Account (in Creditors Ledger)	Dr.
To Creditors Ledger Adjustment A/c (in General Ledger)	

- For total cash and cheques paid to creditors, purchases returns, **bill** payable accepted, discount received, other allowances:

Creditors Ledger Adjustment A/c (in General Ledger)	Dr.
To General Ledger Adjustment A/c (in Creditors Ledger)	

After passing the above two journal entries the General Ledger Adjustment Account in Creditors Ledger will appear as given in Figure 14.3,

Figure 14.3
General Ledger Adjustment Account in Creditors Ledger

Dr.	Rs.	Rs.	Cr.
To Balance b/d		By Creditor's Ledger Adjustment A/c:	
To Creditor's Ledger Adjustment A/c:		Cash Paid (incl. cheques)	
Credit Purchases		Purchases Returns	
Cheques Dishonoured		Bills Accepted	
B/P Dishonoured		Discount Received	
		Allowances	
		By Balance c/d	

The figures for various items can be extracted from the concerned subsidiary books. For example, 'credit purchases' can be taken from the Purchase Book, cash paid to creditors from Cash Book, and so on. Look at Illustration 2 and see how General Ledger Adjustment in Creditors Ledger is prepared.

Illustration 2

From the following information prepare the General Ledger Adjustment Account in Creditors Ledger.

	Rs.
Opening Balance of Sundry Creditors	28,010
Credit Purchases	27,600
Payment to Creditors	26,500
Discount Allowed by Creditors	1,450
Returns Outwards	2,240
Bills Puyable Accepted	5,300
Allowances	400
Rills Payable Dishonoured	500

Solution:

**General Ledger Adjustment Account
(In Creditors Ledger)**

Dr.	Rs.		Cr. Rs.
To Balance b/d	28,010	By Creditors Ledger Adjustment A/c:	
To Creditors Ledger Adjustment A/c:		Cash Paid	26,500
Credit Purchases	27,600	Purchases Returns	2,240
B/P Dishonoured	500	Bills Accepted	5,300
		Discount Received	1,450
		Allowances	400
		By Balance c/d	20,220
	56,110		56,110

You will notice that the General Ledger Adjustment Account in Creditors Ledger has the necessary corresponding debits and credits for all the entries related to trade creditors. This makes it self-balancing and now a separate Trial Balance can be prepared also for the Creditors Ledger.

14.3.3 Self-balancing the General Ledger

You know the General Ledger contains all real and nominal accounts. In case of most of the transactions recorded in General Ledger both the debit and credit aspects would appear in this ledger itself. Take for example, depreciation on machinery, This involves Depreciation Account (a nominal account) and the Machinery Account (a real account). Both the accounts appear in the General Ledger and so both debit and credit aspects are recorded in this ledger itself. But, in case of transactions which involve the personal accounts of trade debtors or trade creditors, the situation is different. One aspect of such transactions appears in the General Ledger and the other in Debtors Ledger or Creditors Ledger. Hence, for Self-balancing the General Ledger it becomes necessary to provide the corresponding debits and credits for all entries related to trade debtors and trade creditors. For this purpose, we open the Debtors Ledger Adjustment Account and the Creditors Ledger Adjustment Account in the General Ledger. In fact these two accounts will automatically, be opened when journal entries are passed for opening the General Ledger Adjustment Accounts in the Debtors and the Creditors Ledgers as stated in sub-sections 14.3.1 and 14.3.2. Thus, the Debtors Ledger Adjustment Account and the Creditors Ledger Adjustment Account in General Ledger will be just the reverse of the General Ledger Adjustment Account in Debtors Ledger and the General Ledger Adjustment Account in the Creditors Ledger respectively. Let us now prepare these two accounts from the information given in Illustrations 1 and 2.

Dr.	Rs.		Cr.
To Balance b/d	1,220	By General Ledger Adjustment A/c:	
To General Ledger. Adjustment A/c :		Cash received	2,005
Sales	3,720	Sales Returns	317
B/R Dishonoured	50	Discount Allowed	130
		Bad Debts	371
		Allowances	42
		B/R Received	130
		By Balance c/d	1,995
	4,990		4,990

Creditors Ledger Adjustment Account (In General Ledger)

Dr.	Rs.		Cr.
To General Ledger Adjustment A/c:		By Balance b/d	28,010
Cash Paid	26,500	By General Ledger Adjustment A/c:	
Purchases Returns	2,240	Credit Purchases	27,600
Bills Accepted	5,300	B/P Dishonoured	500
Discount Received	1,450		
Allowances	400		
To Balance c/d	20,220		
	56,110		56,110

Now let us take a comprehensive illustration and prepare all Adjustment Accounts.

Illustration 3

A firm has three ledgers in use viz., Debtors Ledger, Creditors Ledger and General Ledger. These are all kept on the self-balancing system. From the following transaction, prepare the Adjustment Accounts as they would appear in each ledger.

Balances of Trade Debtors on 1-3-1988	28,500
Balances of Trade Creditors on 1-3-1988	47,800
Transactions during the month were:	
Credit Sales	43,800
Cash received from Trade Debtors	30,950
Discount allowed to Trade Debtors	2,600
Bills Receivable received from Debtors	5,000
Bad Debts Written off	200
Credit Purchases	68,800
Purchases Returns	2,000
Cash paid to Trade Creditors	59,000
Discount allowed now disallowed	100
Interest and Charges debited to Debtors.	200

Solution:Debtors Ledger **Adjustment** Account (in **General** Ledger)

Dr.	Rs.		Cr.
To Balance b/d	28,500	By General Ledger Adjustment A/c:	
To General Ledger Adjustment A/c:		Cash received	30,950
Credit Sales	43,800	Discount Allowed	2,600
Discount Disallowed	100	Bills receivable	5,000
Interest and Charges	200	Bad Debts	200
		By Balance c/d	33,850
	72,660		72,660

Creditors Ledger Adjustment Account
(in General Ledger)

Dr.	Rs.		Cr.
		By Balance b/d	47,800
To General Ledger Adjustment A/c:		By General Ledger Adjustment A/c:	
Cash Paid	59,000	Credit Purchases	68,800
Purchases Returns	2,000		
To Balance c/d	55,600		
	1,16,600		1,16,600

General Ledger Adjustment Account
(in Debtors Ledger)

Dr.	Rs.		Rs.
To Sales Ledger Adjustment A/c:		By Balance b/d	28,500
Cash Received	30,950	By Sales Ledger Adjustment A/c:	
Discount Allowed	2,800	Credit Sales	43,800
Bills Receivable	5,000	Discount Disallowed	100
Bad debts	200	Interest and Charges	200
To Balance c/d	33,850		
	72,600		72,600

General Ledger Adjustment Account
(in Creditors Ledger)

Dr.	Rs.		Rs.
To Balance b/d	47,800	By Bought Ledger Adjustment A/c:	
To Bought Ledger Adjustment A/c:		Cash Paid	59,000
Credit Purchases	68,800	Purchases Returns	2,000
		By Balance c/d	55,600
	1,16,600		1,16,600

- Note : 1 **Discount Disallowed** : Any amount of discount allowed to debtors, if disallowed later, is debited to the concerned debtor's personal account. Hence, it has been shown on the debit side of Debtors Ledger Adjustment Account in General Ledger and the credit side of the General Ledger Adjustment Account in Debtors Ledger,
- 2 **Interest and Charges debited to Debtors** : It is an amount charged to debtors on account of late payment or same errors. It has also been shown on the debit side of Debtors Ledger Adjustment Account in General Ledger and the credit side of General Ledger Adjustment Account in Debtors Ledger.

14.4 SOME PECULIAR POINTS

Contra Balances : Normally the personal accounts of debtors show a debit balance and the personal accounts of creditors a credit balance, **Sometimes**, a debtor's account may show a credit balance and a creditor's account a debit balance, It usually happens on account of over-payments. In such a situation, both the debit and the credit balances are shown separately in the Adjustment Accounts. For example, the total of debit balances of various debtors is Rs. 60,000 and the total of credit balances Rs. 800. These will be shown in the respective Adjustment Accounts as follows:

Debtors Ledger Adjustment Account
(in General Ledger)

Dr.	Rs.	By Balance b/d	Cr.
To Balance b/d	60,000		800

General Ledger Adjustment Account
(in Debtors Ledger)

To Balance b/d 8	0	By Balance b/d	60,000
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If the creditors accounts also show both types of balances, they will appear in the concerned Adjustments Accounts separately.

Transfers : Sometimes goods are bought from the person who is also a customer to the business. In such a situation, his personal account will appear in both the Debtors Ledger and the Creditors Ledger. The settlement of such accounts is made by paying or receiving the net amount. Hence, it becomes necessary to transfer his account from the ledger where it shows a lower balance to the other where his account shows a higher balance. For example, Ganesh's personal account in Debtors Ledger shows a debit balance of Rs. 10,800 and his personal account in Creditors Ledger shows a credit balance of Rs. 1,000. In such a situation, the credit balance of Rs. 1,000 in Ganesh's Account will be transferred from Creditors Ledger to his account in Debtors Ledger. Such transfer should, also be recorded in the Adjustment Accounts. Whether the transfer takes place from creditors Ledger to Debtors Ledger or from Debtors Ledger to Creditors Ledger, it shall be reflected in various Adjustment Accounts as follows :

In Debtors Ledger Adjustment Account	Credit side
In Creditors Ledger Adjustment Account	Debit side
In General Ledger Adjustment Account in Debtors Ledger	Debit side
In General Ledger Adjustment Account in Creditors Ledger	Credit side

Provision for **Bad Debts** : Sometimes you may find an item of provision for bad debts in the information from which the Adjustment Accounts are to be prepared, You know that this provision does not appear anywhere in the personal accounts of debtors. Hence it will not be included in the Adjustment Accounts. You may simply ignore it. The same thing is true of items like **cash sales**, bills discounted, old bad debts recovered, etc.

Look at illustration 4 and see how the above items have been treated.

Illustration 4

From the following details prepare General Ledger Adjustment Accounts and the Debtors Ledger and Creditors Ledger Adjustment Accounts as on 31 December 1988 :

	Rs.		Rs.
Debtors (1-1-1988)	Dr. 17,425	Discount Allowed to	
Debtors -do-	Cr. 320	Debtors but	
Creditors -do-	Cr. 27,408	disallowed later	100
Creditors -do-	Dr. 204		
Purchases	25,200	Cash received from Debtors	8,700
Sales	28,209		
Sales Returns	208	Cash paid to Debtors	25
Purchases Returns	714	Transfer from Debtors	
Cash paid to Creditors	12,700	to Creditors Ledger	1,242
Bills received from		Cash Purchases	4,320
Debtors	9,300	Cash Sales	7,400
Bills dishonoured	200	Bad Debts written off	215
Bills accepted	7,400	Discount allowed to	
Discount allowed by Creditors	1,020	Debtors	215

Solution :

Creditors Ledger Adjustment Account
(in General Ledger)

Dr.	Rs.	Cr.	Rs.
To Balance b/d	204	By Balance b/d	27,408
To General Ledger Adjustment A/c (in Creditors Ledger)		By General Ledger Adjustment A/c (in Purchases Ledger):	
Cash Paid	12,700	Purchases	25,200
Purchases Returns	714		
Bills Accepted	7,400		
Discount	1,020		
Transfer	1,242		
To Balance c/d	29,328		
	52,608		52,608

Debtors Ledger Adjustment Account
(In General Ledger)

Dr.	Rs.	Cr.	Rs.
To Balance b/d	17,425	By Balance b/d	320
To General Ledger Adjustment A/c (in Debtors Ledger):		By General Ledger Adjustment A/c (in Debtors Ledger):	
Sales	28,209	Cash Received	8,700
Cash Paid	25	Sales Returns	208
B/R Dishonoured	200	Discount Allowed	215
Discount Disallowed	100	B/R Received	9,300
		Bad Debts	215
		Transfers	1,242
		By Balance c/d	25,759
	45,959		45,959

General Ledger Adjustment Account
(In Creditors Ledger)

Dr.	Rs.	Cr.	Rs.
To Balance b/d	27,408	By Balance b/d	204
To Creditors Ledger Adjustment A/c:		By Creditors Ledger Adjustment A/c:	
Purchases	25,200	Cash Paid	12,700
		Purchases Return	714
		Bills Accepted	7,400
		Discount Received	1,020
		Transfers	1,242
		By Balance c/d	29,328
	52,608		52,608

General Ledger Adjustment Account
(in Debtors Ledger)

Dr.	Rs.	Cr.	Rs.
To Balance b/d	320	By Balance b/d	17,425
To Debtors Ledger Adjustment A/c:		By Debtors Ledger Adjustment A/c:	
Cash Received	8,700	Sales	28,209
Sales Returns	208	Cash Paid	25
Discount Allowed	215	B/R Dishonoured	200
B/R Received	9,300	Discount Disallowed	100
Bad Debts	215		
Transfers	1,242		
By Balance c/d	25,759		
	45,959		45,959

Illustration 5

From the following information prepare Debtors Ledger Adjustment Account in General Ledger.

	Rs.
Opening Credit balance of Sundry Debtors	2,000
Opening Balance of Sundry Debtors	20,000
Cash and Cheques received	80,000
Credit Sales	1,00,000
Discounts Allowed	3,000
Returns Inwards	2,000
Bad Debts	1,500
Bills Receivable received	10,000
Bills Receivable Discounted	4,000
Provision for Bad Debts	1,000
Bad Debts Recovered	500
Closing Credit Balance in Sundry Debtors	3,000

Rs. 500 is to be transferred from Debtors Ledger to Creditors Ledger. Similarly, Rs. 600 is to be transferred from Creditors Ledger to Debtors Ledger.

**Debtors' Ledger Adjustment Account
(in General Ledger)**

Dr.	Rs.			Cr.
To Balance b/d	20,000	By Balance b/d		2,000
To General Ledger Adjustment Account (in Debtors Ledger):		By General Ledger Adjustment Account (in Debtors Ledger):		
Credit sales	1,00,000	Cash Received		80,000
		Returns Inwards		2,000
To Balance c/d	3,000	Discount Allowed		3,000
		Bad Debts		1,500
		B/R Received		10,000
		Transfers :		
		From Debtors Ledger to Creditors Ledger		500
		From Creditors Ledger to Debtors Ledger		600
		By Balance c/d		23,400
	1,23,000			1,23,000

Notes: Provision for Bad Debt, Bad Debts Recovered and Bills Receivable Discounted do not appear in the personal accounts of Debtors, Hence no entry need be made in the Adjustment Accounts.

Check Your Progress A

1 What is a self-balancing system?

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.....

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2 Name the three ledgers usually kept under Multiple Ledger System.

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.....

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3 Fill in the blanks

- i) Debtors Ledger Adjustment Account is opened in Ledger.
- ii) Creditors Ledger Adjustment Account is opened in Ledger.

- iii) The Adjustment Account opened in Debtors Ledger is termed as
.Account.
 - iv) General Ledger contains all real and accounts.
 - v) Creditors Ledger contains personal accounts of all
 - vi) Adjustment Accounts help to 'complete in each ledger to make them
self-balancing.
- 4 Indicate the Adjustment Account given in General Ledger in which each of the following items usually appears and write within brackets whether it will be on the debit or the credit side of that account.
- i) **B/P** Dishonoured
 - ii) Bad Debts
 - iii) Transfers
 - iv) Cash Sales
 - v) Interest debited to a customer
 - vi) Refunds received from a creditor
 - vii) Discount disallowed
 - viii) Provision for Bad Debts

14.5 ADVANTAGES OF SELF-BALANCING SYSTEM

The main advantages of self-balancing system are as follows:

- 1 It is easy to locate the errors because we prepare separate Trial Balance for each ledger. If the Trial Balance of a particular ledger agrees, it implies that there are no errors in that ledger. The detection work is confined only to the accounts in a ledger whose Trial Balance does not agree: For instance, if an error is committed in the personal account of a customer neither the General Ledger nor the Creditors Ledger is affected. It is only the Debtors Ledger which is affected and its Trial Balance will not agree. Hence you will look for the errors in Debtors Ledger only. Similarly, if the Trial Balance of General Ledger does not agree you will check entries in the nominal and real accounts only. This narrows down the area of detection work and the errors can be quickly detected.
- 2 The maintenance of ledgers can be divided amongst many persons. This helps in quick posting and fixation of responsibility in case of errors and frauds.
- 3 The main ledger becomes less bulky because the personal accounts of customers and suppliers are excluded. The system is very useful when the number of customers and suppliers is large.
- 4 It is easy to check the accuracy of each ledger independently with the help of Adjustment Accounts.
- 5 It facilitates the preparation of interim accounts whenever required by including the figure of total debtors and total creditors. There is no need to go through the Debtors and Creditors Ledgers.

14.6 SECTIONAL BALANCING

The sectional balancing refers to a system under which only a section of the group of ledgers is self-balanced. If a firm which uses three ledgers viz., Debtors Ledger, Creditors Ledger and General Ledger, makes only one ledger self-balancing (normally the General Ledger) it will be called 'Sectional Balancing System'. Under this system only two Adjustment Accounts viz., Debtors Ledger Adjustment Account and Creditors Ledger Adjustment Account are prepared. They are termed as Total Debtors, Account and Total Creditors Account respectively. They are also known as control accounts.

Most of the firms do not follow the self-balancing system. They simply prepare the Total Debtors and Total Creditors Accounts to check the accuracy of Debtors and Creditors Ledgers. These two accounts do not, in fact, form part of any ledger, Hence, no journal entries are passed for opening the accounts. They are prepared by extracting relevant figures from various subsidiary books. Like Debtors Ledger Adjustment Account, the Total

Receipts and Payments Account
for the year ended December 31, 1988

Accounts of Non-trading
Concerns - I

Dr.	Rs.	.	Cr.
			Rs.
To Balance on 1-1-1988	10,000	By Expenses	
To Subscriptions		1987 1,400	
1987 380		1988 <u>2,000</u>	3,400
1988 2,100			2,500
1989 <u>150</u>	2,630	By Leasehold Land	4,000
To Entrance Fees	800	By Interest Paid	400
To Locker Rent	700	By Refreshment Expenses	2,000
To Income from Refreshment	4,000	By Balance on 31.12.88	8,330
	18,130		18,130

Balance Sheet as on December 31, 1987

Liabilities	Rs.	Assets	Rs.
Capital Fund	33,620	Building	30,000
Subscriptions received in advance	600	Outstanding Subscription	380
Outstanding Expenses	1,400	Outstanding Locker Rent	240
Loan	5,000	Cash in hand	10,000
	40,620		40,620

Adjustments

- i) Expenses Outstanding as on 31-12-1988 were Rs. 500.
- ii) Subscriptions Outstanding on 31-12-1988 were Rs. 800.
- iii) Salary due but not paid upto 31-12-1988 were Rs. 200.
- iv) Depreciation of Rs. 2,000 is to be charged on Buildings.
- v) Entrance fees are to be capitalised.

Solution :

Income and Expenditure Account
for the year ended December 31, 1988

Dr.	Rs.	.	Cr.
			Rs.
To Expenses 2,000		By Subscriptions 2,100	
Add		Add Outstanding 800	
Outstanding 500	2,500	in 1988	
To Interest Paid	400	Add Received in	
To Salary Outstanding	200	Advance in 1987 600	3,500
To Depreciation on building	2,000	By Locker Rent 700	
		Less Outstanding in 1987 240	460

Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves

To Excess of Income over Expenditure	860	By Income from Refreshments (4,000-2,000)	2,000
	5,960		5,960

Balance Sheet as on December 31, 1988

Liabilities	Rs.	Assets	Rs.
Capital Fund ~ 33,620		Building 30,000	
Add Entrance Fees (capitalised) 800		Less Depreciation 2,000	28,000
Add on 860	35,280	Leasehold Land 4,000	4,000
Loan 5,000	5,000	Outstanding Subscriptions 800	800
Expenses Outstanding 500	500	Cash in hand 8,330	8,330
Salary Outstanding 200	200		
Subscription Received in Advance 150	150		
	41,130		41,130

Note : The income from refreshments has been shown after subtracting Rs. 2,000 spent on refreshment. This could also be shown separately, Rs. 2,000 as expense on the debit side of the Income & Expenditure Account and Rs. 4,000 as income on the credit side.

Illustration 6

From the following information relating to Indira Gandhi Cricket Club, prepare the Income & Expenditure Account for the year ended March 31, 1989 and Balance Sheet as on that date. Abstract of Honorary Secretary's Cash Book for the year is as follows:

Receipts and Payments Account
For the year ending March 31, 1989

Dr.	Rs.	Cr.	Rs.
To Member's Subscriptions		By Upkeep of field and pavilion	2,000
To Members Admission Fee	300	By Tournament Expenses	700
To Sale of old sports material		By Rates and Insurance	200
To Hire of Ground	300	By Telephone	50
To Subscription for Tournament		By Printing & Stationery	100
To Bank Drawn	4,000	By General Charges	50
To Donation	10,000	By Secretary's Honorarium	170
		By Grass seeds	30
		By Purchase of sports material	700
		By Bank lodged	16,650
	20,650		20,650

Assets at the beginning of the year were :

	Rs.
Play Ground	10,000
Cash at bank	3,000
Stock of sports material	1,500
Printing & Stationery	200
Subscriptions due	500
Liabilities were nil	

**Accounts of Non-trading
Concerns - I**

Donation and surplus on account of tournament should be kept in reserve for a permanent pavilion. Subscriptions due on March 31, 1989 were Rs. 750. Write off 50 per cent of sports material and 25 per cent of the printing and stationery.

Solution :

Indira Gandhi Cricket Club
Incomes and Expenditure Account for the year ended March 31, 1989

Dr.			Cr.
	Rs.		Rs.
To Upkeep of Field and Pavilion	2,000	By Subscriptions	5,250
To Rates & Insurance	200	By Admission Fee	300
To Telephone	50	By Hire of Ground	300
To Printing & Stationery	75	By Sale of old sports material	50
To General Charges	50		
To Secretary's Honorarium	170		
To Grass Seeds	30		
To Sports Material used	1,100		
To Excess of Income over Expenditure	2,225		
	5,900		5,900

Balance Sheet as on March 31, 1989

Liabilities		Asset	
	Rs.		Rs.
Pavilion Fund	10,300	Cash at bank	15,650
Capital Fund 15,200		Subscriptions outstanding	750
Add Income 2,225		Stock of Sports material	1,100
	17,425	Stock of Stationery	225
		Play Grounds	10,000
	27,725		27,725

Working Notes

1 Subscriptions :

Subscription Received	Rs. 5000
Add Outstanding at the end	750
	5,750
Less Outstanding at the beginning	500

Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves

Income from subscription	5,250
<hr/>	
2 Printing & Stationery Used :	
	Rs.
Opening Stock	200
Add Purchases	100
	<hr/>
	300
	<hr/>

25% of Rs. 300 i.e., Rs. 75 worth of stationery has been used, and the balance of Rs. 225 is now the closing stock.

3 Sports Material used :

	Rs.
Opening Stock	1,500
Add Purchases	700
	<hr/>
	2,200
	<hr/>

50% of Rs. 2,200 i.e., Rs. 1,100 worth of materials used, and the balance of Rs. 1,100 is now the closing stock.

Sale of old material has been treated as income.

4 Calculation of opening Capital Fund :

		Rs.
Total Assets as on	1.4.1987	15,200
Less Liabilities	1.4.1987	NIL
		<hr/>
Capital Fund	1.4.1987	15,200
		<hr/>

5 Calculation of Cash at bank :

	Rs.
Opening Balance	3,000
Add Amount lodged	16,650
	<hr/>
	19,650
Less Amount with drawn	4,000
	<hr/>
Closing Balance	15,650
	<hr/>

18.5 LET US SUM UP

The non-trading concerns like societies, clubs, educational institutions, hospitals, etc. also maintain a proper record of their financial transactions. It is not only a legal requirement for all registered bodies. But, it is also considered desirable for effective control of funds.

The accounting records of the non-trading concerns are based on the same principles as those applicable to trading concerns. However, the nature of their incomes and expenses is slightly different and most of their transactions are cash transactions. Hence, their main book of original entry is Cash Book. They also maintain ledger which shows all the concerned accounts.

The final accounts of non-trading concerns consist of (i) Receipts & Payments Account (ii) Income & Expenditure Account, and (iii) Balance Sheet. The Receipts & Payments Account is simply a summary of all cash transactions relating to the accounting year which begins with the opening cash and bank balances and ends with their closing balances. The Income & Expenditure Account, on the other hand, like Profit & Loss Account, is prepared for ascertaining the surplus (excess of income over expenditure) or deficiency (excess of expenditure over income). The Balance Sheet is prepared in the usual manner which shows the assets and liabilities of the organisation including the Capital Fund.

The non-trading concerns may prepare a Trial Balance, but the Receipts & Payments Accounts constitutes the major source for the preparation of Income & Expenditure Account and the Balance Sheet. Certain items like subscriptions, entrance fees, donations, legacies, special funds, etc. need special care while preparing the final accounts of such concerns.

18.6 KEY WORDS

Charitable Institutions : An institution set up for some charitable purpose such as orphanage, blind welfare society, etc.

Honorarium : Remuneration paid to persons (other than employees) who have done some work for the organisation.

Legacies : Property received as a result of the will of the **deceased person**.

Life membership fees : Lump **sum** subscription received from life members at the time of **admission**.

Locker Rent : Rents charged by a club for lockers provided to members.

Minutes Book : Register in which the proceedings of all meetings held by the society are recorded.

Members Register : A register in which information about members relating to their date of admission, names, addresses etc. is recorded.

Non-trading Concerns : Organisations not engaged in any business activity. They are usually engaged in some welfare activity and function without any profit motive.

Stock Register : A register showing record of all consumables and fixed assets.

Subscriptions : Annual fees realised by societies from its members.

18.7 SOME USEFUL BOOKS

Gupta R.L. and M. Radhaswamy, 1986. *Advanced Accountancy*, Sultan Chand & Sons, New Delhi (Chapter 14).

Maheshwari S.N., 1986. *Introduction to Accounting*, Vikas Publishing House : New Delhi. (Chapter 15)

Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting* R. Chand & Ca., New Delhi. (Chapter 15)

Shukla, M.C. and T.S. Grewai, 1987. *Advanced Accounts*, S. Chand & Co. (Pvt.) Ltd., New Delhi. (Chapter VII).

William Pickles, 1982. *Accountancy*, E.L.R.S. and Pitman, London, (Chapter 12)

18.8 ANSWERS TO CHECK YOUR PROGRESS

A 1 i) True ii) True iii) False iv) True v) False vi) False

2 i) credit ii) cash iii) accrual
iv) income, expenditure
v) Receipts and Payments
vi) Capital Fund

B 1 a) ii b) ii c) iii d) ii e) i f) iii

2 Rs. 1,20,000

3 Rs. 60,000

18.9 TERMINAL QUESTIONS/EXERCISES

1 What are the essential features of a Receipts and Payments Account? In what respect does it differ from Cash Book?

2 What do you mean by Income & Expenditure Account? How does it differ from Receipts & Payments Account?

Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves

3 Explain the meaning of the following terms and show how you will deal with them while preparing the final accounts of a non-trading concern.

- i) Legacy
- ii) Donation when purpose is not mentioned.
- iii) Life Membership Fees
- iv) Receipts for Tournament Fund
- v) Sale of used sports materials

Exercises

1 From the following particulars taken from the Cash Book of Tenali Club, prepare a Receipts & Payments Account.

Opening Balance :	Rs.
Cash-in-hand	100
Cash at bank	500
Subscriptions	3,300
Donations	260
Investment Purchased	1,000
Rent paid	400
General Expenses	210
Postage & Stationery	70
Sundry Expenses	30
Closing Cash-in-hand	20

(Answer : Cash at bank (balancing figure) Rs. 2,430)

2 The Receipts & Payments Accounts of Harikrishna Charitable Institution is given :

**Receipts and Payments Account
for the year ending March 31, 1988**

Dr.	Rs.	Cr.	Rs.
To Balance b/d		By charities	14,500
To Cash at bank	5,000	By Salaries	2,600
To Cash in hand	2,700	By Rent & Taxes	1,200
To Donations	8,000	By Printing	300
To Subscriptions	4,000	By Postage	100
To Endowment Fund	15,000	By Advertisements	250
To Legacies	6,000	By Furniture	650
To Interest on Investment	9,500	By Insurance	1,200
To Interest on deposits	150	By Investments	14,000
To Sales of old newspapers	75	By Advance for building	5,000
		By Balance c/d	
		Cash at bank	8,000
		Cash in hand	2,625
	50,425		50,425

Prepare the Income & Expenditure Account for the year ended March 31, 1988 after considering the following :

- i) It was decided to treat one-half of the amount received on account of legacies and donations as income.

ii) Liabilities to be provided for are :

Rent Rs. 200; Salaries Rs. 300; Advertisement Rs. 50.

iii) Insurance premium was paid in advance for three months.

iv) Rs. 500 due for interest on investment was not actually received.

(Answer : Excess of Income over Expenditure Rs. 825).

3 Receipts & Payments Account of National Sports Club showed that Rs. 48,500 were received by way of subscriptions for the year ended September 30, 1988.

The additional information was as follows :

- i) Subscription Outstanding as on 30.9.87 were Rs. 4,500
- ii) Subscription received in advance as on 30.9.87 were Rs. 2,900
- iii) Subscription Outstanding as on 30.9.88 were Rs. 3,400
- iv) Subscription received in advance as on 30.9.88 were Rs. 1,500

Show how above information would appear in the final accounts for the year ended September 30, 1988 of National Sports Club.

(Answer : Subscription credited to Income & Expenditure Account for the year ended September 30, 1988 Rs. 48,800. Subscription outstanding as on 30.9.1988 is Rs. 3,400 and should be shown on the assets side of the Balance Sheet and subscriptions of Rs. 1,500 received in advance as on 30.9.1988 on the liabilities side.)

4 From the following Receipts & Payments Account prepare final accounts of a youth club for the year ended December 31, 1988.

Receipts and Payments Account

Dr.	Rs.		Cr.
To Balance b/d	250	By Salaries	1,200
To Subscriptions :		By General Expenses	300
1987 300		By Electric Charges	200
1988 1,000		By Library Books	100
1989 200		By Newspapers	400
	1,500	By Postage	50
To Sale of old furniture costing Rs. 100	60	By Furniture	250
To Rent	1,740	By Stationery	1,080
To Profit from Entertainment	400	By Balance c/d	550
To Sale of Newspapers	180		
	4,130		4,130

Balance Sheet as on 1.1.88

Liabilities	Rs.	Assets	Rs.
Outstanding Salary	100	Cash	250
Capital Fund	11,550	Outstanding Subscriptions	300
		Library Books	500
		Furniture	600
		Land and Building	10,000
	11,650		11,650

Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves

Additional Information :

- i) The club has 50 members each paying an annual subscription of Rs. 25.
- ii) On December 31, 1988 salaries outstanding amounted to Rs. 200 and salaries paid included Rs. 100 for the year 1987.
- iii) Provide 5% depreciation on land and building.

Hint : Total Subscriptions for the year 1988 $50 \times 25 = 1250$

Less Subscriptions received during 1988	1000
Subscription Outstanding in 1988.	250

(Answer : Excess of Expenditure over Income Rs. 300; Balance Sheet Total Rs. 11,950)

5 The following is the Receipts & Payments Account of Ajmer Literary Society for the year ended December 31, 1988.

	Rs.		Rs.
To Balance b/d	12,500	By Salaries	2,500
To Subscriptions	52,500	By Printing & Stationery	1,250
To Annual Day Receipts	49,300	By Annual Day Expenses:	11,500
To Interest	2,500	By Sundry Expenses	4,500
		By Investments	75,000
		By Postage & Telegrams	2,200
		By Repairs	6,340
		By Balance c/d	13,510
	1,16,800		1,16,800

Additional Information :

- i) Buildings on 1.1.1988 was worth Rs. 50,000 Depreciation is to be charged @ 5%.
- ii) Number of members was 2,000. Annual subscription was Rs. 25 per member.
- iii) Other items :

	As on 1.1.1988 Rs.	As on 31.12.1988 Rs.
Outstanding Subscription	1,000	1,500
Investments	5,000	80,000
Annual day receipts outstanding	—	250
Annual day expenses owing	—	2,500
Prepaid Printing & Stationery	—	300

You are required to prepare an Income & Expenditure Account for the year ended December 31, 1987 and a Balance Sheet as at that date.

Hint : Total income from subscriptions for 1988 is Rs. 50,000, of this, Rs. 1,500 is still outstanding.

Hence the amount received for 1988 should be Rs. 48,500. The actual amount received is Rs. 52,500 (which includes Rs. 1,000 for 1987)

Hence Rs. 3,000 (52,500 – 1,000 – 48,500) is to be treated as subscriptions received in advance.

Answer : Surplus of Income Rs. 69,060;
Total of B/S Rs. 1,43,060.
Capital Fund Rs: 68,500).

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.