

SUBJECT- FINANCIAL ACCOUNTING

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STEPS FOR PREPARING AN INCOME AND EXPENDITURE

FROM A RECEIPT AND PAYMENT ACCOUNT

1. Obtain the receipt and payment account of non-trading concern for which we want to prepare an income and expenditure account.
2. Ignore the beginning and ending balances of receipt and payment account.
3. Remove all the payments relating to previous years' expenditures, future years' expenditures and capital payments for the current year.
4. Remove all the receipts relating to previous year's income, future year's income and capital revenue for the current year.
5. Include current year's incomes and revenue expenditures including depreciation on all fixed assets of the entity.
6. Find the balance of the account which may be a surplus or a deficit balance.

Example

The following receipts and payments account was prepared by Zeenat Golf Club for the year ended December 31, 2017:

ZEENAT GOLF CLUB

RECEIPTS AND PAYMENTS ACCOUNT

For the year ended Dec. 31, 2017

Receipts	₹	Payments	₹
Balance b/d	7,600	Sports Equipment (purchased on Oct 1, 2017)	20,000
Subscriptions:		Tournament Expenses	4,000
2016	4,000	Electricity	1,000
2017	37,000	Printing	600
2018	1,800	Salaries and wages	6,800
Entrance fee	1,600	Exhibition Expenses	4,200
Interest on investment	3,000	Balance c/d	18,400
	55,000		55,000

Additional information:

1. Subscription for 2017 received in 2016 - ₹1,000.
2. Unpaid subscription for 2017 - ₹600.
3. Fixed assets of the club on January 1, 2017.
includes: Club ground - ₹45,000, Sports equipment - ₹39,000,
Furniture - ₹5,000.
4. Depreciation to be charged @ 10% p.a. on furniture and @ 20% p.a. on sports equipment.

Required: Using above information, prepare an income and expenditure account of Zeenat Golf Club for the year ended Dec, 31, 2017.

ZEENAT GOLF CLUB

INCOME AND EXPENDITURE ACCOUNT

For the year ended Dec 31, 2017

Expenditure	₹	Income	₹
Tournament Expenses	4,000	Subscription	37,000
Electricity	1,000	Add: Received in 2016	1,000
Printing	600		38,000
Salaries and wages	6,800	Add: Sub. Income	600
Exhibition expenses	4,200		38,600
Depreciation on:		Interest on investments	3,000
Sports equipment	7,000		
Furniture	500		
Excess of income over expenditure	17,500		
	41,600		41,600

* Computation of Depreciation:

↳ Sports equipment: - 20% on ₹ 39,000 for one year
+ 20% on ₹ 29,000 for 3 months.

$$= [(0.2 \times ₹ 39,000) + \{(0.2 \times ₹ 29,000) \times \frac{3}{12}\}]$$

$$= ₹ 6,000 + ₹ 1,000$$

$$= ₹ 7,000$$

↳ Furniture: 10% on ₹ 5,000 for one year.

$$= 0.1 \times ₹ 5,000$$

$$= ₹ 500.$$

Note:

1. Entrance fee is a capital receipt and has therefore not been included in the Income and expenditure account.

2. The subscription only related to the year 2017 has been included.

The income and expenditure account of Zeenat Golf Club shows a surplus balance of ₹ 17,500 which has been written as excess of income over expenditure.