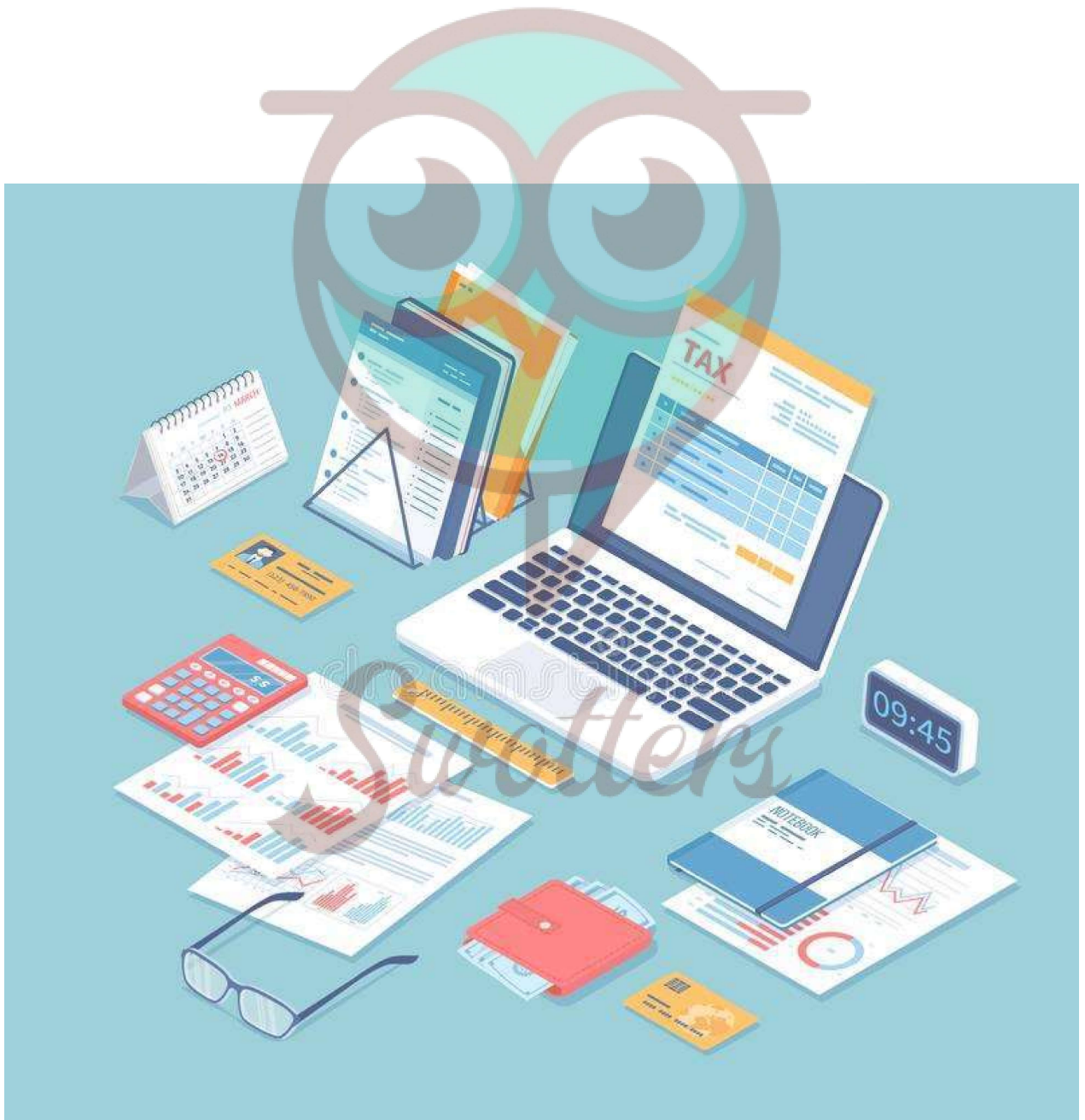


ACCOUNTANCY



Important Questions

Multiple Choice questions-

Question 1. Receipts and Payments A/c is the summary of a:

- (a) Cash Book
- (b) Sales Book
- (c) Purchases Book
- (d) Journal

Question 2. Subscriptions received in advance during the accounting year is:

- (a) An Income
- (b) An Expense
- (c) An Asset
- (d) A Liability

Question 3. Income and Expenditure A/c is of the nature of:

- (a) Trial Balance
- (b) Deficit A/c
- (c) P & L A/c
- (d) Balance Sheet

Question 4. Cash received by converting an asset into cash is reflected in:

- (a) Conversion A/c
- (b) Receipts and Payments A/c
- (c) Contract A/c
- (d) Suspense A/c

Question 5. If the credit side of Receipts and Payments A/c exceeds the debit side, the balance represents:

- (a) Bank charges
- (b) Commission
- (c) Bank overdraft
- (d) Interest

Question 6. No cash transaction will be excluded from:

- (a) Balance Sheet
- (b) Profit & Loss A/c
- (c) Receipts and Payments
- (d) Income and Expenditure A/c

Question 7. In Receipts and Payments A/c, cash in hand or at the bank is put on:

- (a) Credit side
- (b) Left-hand side
- (c) Right-hand side
- (d) None of these

Question 8. The task of preparing Income and Expenditure A/c and the Balance Sheet commences after the preparation of the:

- (a) Trial Balance
- (b) Profit and loss A/c
- (c) Trading A/c
- (d) Cash A/c

Question 9. In Income and Expenditure A/c all revenue expenses are entered on:

- (a) Assets side
- (b) Left-hand side
- (c) Liabilities side
- (d) Right-hand side

Question 10. In the Income and Expenditure Account all revenue receipts are entered on:

- (a) Assets side
- (b) Left-hand side
- (c) Right-hand side
- (d) Liabilities side

Very Short-

1. How are specific donations treated while preparing final accounts of a 'Not-For-Profit Organisation'?
2. State the basis of accounting of preparing 'Income and Expenditure Account' of a 'Not-For-Profit Organisation'.
3. Differentiate between 'Receipts and Payments Account' and 'Income and Expenditure Account' on the basis of 'Period'.
4. What is meant by 'Life membership fees'?
5. How are the following items presented in the financial statements of a Not-for-Profit organisation:
 - a. Tournament Fund – 80,000
 - b. Tournament expenses – 14,000
6. How are general donations treated while preparing financial statements of a not-for-profit organisation?
7. State the basis of accounting on which 'Receipt and Payment Account' is prepared in case of Not-for Profit Organisation.
8. Where will you show the 'Subscription received in advance' during the current year in the Balance Sheet of a Not-For-Profit Organisation?
9. A not-for-profit organisation sold its old furniture. State whether it will be treated as revenue receipt or capital receipt.
10. Mention a fund who are specific in nature.

Short Questions-

1. State the meaning of 'Not-for-Profit' Organisations.

2. State the meaning of Receipt and Payment Account.
3. State the meaning of Income and Expenditure Account.
4. What are the features of Receipt and Payment Account?
5. What is subscription? How is it calculated?
6. What steps are taken to prepare Income and Expenditure Account from a Receipt and Payment Account?

Long Questions-

1. Explain the statement: "Receipt and Payment Account is a summarised version of Cash Book".
2. "Income and Expenditure Account of a Not-for-Profit Organisation is akin to Profit and Loss Account of a business concern". Explain the statement.
3. Distinguish between Receipts and Payments Account and Income and Expenditure Account.
4. Explain the basic features of Income and Expenditure Account and of Receipt and Payment Account.

Assertion Reason Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
 - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
 - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
 - c. Assertion is correct but Reason is not correct.
 - d. Reason is correct but Assertion is not correct.

Assertion: Endowment Fund is recorded only in the Balance Sheet.

Reason (R): Endowment is treated as capital receipt hence shown on the liabilities side of Balance Sheet.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.

- Assertion and Reason both are correct and Reason is the correct explanation of assertion
- Assertion and Reason both are correct but Reason is not correct explanation of assertion
- Assertion is correct but Reason is not correct.
- Reason is correct but Assertion is not correct.

Assertion: The Income and Expenditure Account is like the cash book.

Reason (R): Income and Expenditure Account shows the surplus or deficit that is earned during the financial year by the non-profit organization.

MCQ Answers-

- Answer: (a) Cash Book
- Answer: (d) A Liability
- Answer: (c) P & L A/c
- Answer: (b) Receipts and Payments A/c
- Answer: (c) Bank overdraft
- Answer: (c) Receipts and Payments
- Answer: (b) Left-hand side
- Answer: (d) Cash A/c
- Answer: (b) Left-hand side
- Answer: (c) Right-hand side.

Very Short Answers-

- Ans. Specific donation is treated as capital receipt & it is shown on the liabilities side of the Balance Sheet.
- Ans. Accrual basis.
- Ans.

Basic	Receipts & Payments A/c	Income & Expenditure A/c
Period	May relate to preceding and succeeding periods	Relate to the current period

- Ans. Membership fee paid in lump sum to become a life member of a not-for-profit organisation.
- Ans.

Balance Sheet of _____ NPO. as on _____ Date

Liabilities		Amount (₹)	Assets		Amount (₹)
Tournament Fund	80,000				
Less: Tournament expenses	<u>14,000</u>	66,000			

6. Ans. General donations are treated as revenue receipts.
7. Ans. Cash basis of accounting.
8. Ans. Liability side of current year's balance sheet.
9. Ans. Revenue.
10. Ans. Sports fund.

Short Answers-

1. Ans. Organisations that are established with the aim of providing services to society and not profit earning are called as Not-for-profit Organisations (NPO). Some organisations that come under NPO are hospitals, religious organisations and trade unions. An NPO earns income from life membership fees, subscriptions, grants, donations etc.
2. A receipts and payments account (R & P Account) is a summary of actual cash receipts and payments that is extracted from the cash book over a certain time period. All the cash received is recorded on the Receipts and all the cash payments gets recorded in Payments side of the R & P Account. All the cash and bank transactions are recorded in Cash Book and this book is created on the basis of all these transaction. All cash and bank transactions that are of revenue and capital nature gets recorded. It records all transactions i.e. bank receipts and cash receipts.

This account helps in determining the closing balance of bank and cash receipts and thereby assess cash position of a Not-for-profit organisation or NPO.

3. Income and Expenditure (I & E) account is the equivalent of P & L account (Profit and Loss Account). In an income and expenditure account, surplus and deficit is determined during the accounting period while in a P& L account the net profit or loss is determined at the running of accounting period. It is nominal account and records transactions that are of revenue nature. The closing balance is called deficit or surplus based.
4. **The receipts and payments account has the following features:**
 - i. It is known as cash book summary for NPO (Not-for-profit organisations) as it records all the cash and cash equivalents of the organisation.
 - ii. This account shows cash transactions that are of revenue and capital nature.

- iii. It does not follow the double entry bookkeeping system as it is a summary of transactions.
 - iv. It does not include transactions that do not have cash or bank items.
 - v. It helps in revealing the cash position of the organisation.
5. For a not-for-profit organisation subscription acts as one of the main sources of income. It refers to money that the members pay periodically for maintaining their membership in active state. Subscription charges can be paid in flexible options like monthly, quarterly, half-yearly or yearly. It appears on the receipt side of R & P account.

For calculating subscription for current period, add subscription received in advance meant for current period during the previous year and outstanding subscription for current year to the subscription received for the current year and deducting subscription received in advance for next year and outstanding subscription from previous year from subscription received in the current year.

Calculation of Subscription

Subscription received during the year	-	-
(+) Subscription received (in advance) during previous year	-	-
for current year	-	-
(+) Subscription outstanding at the end of the year	-	
(-) Subscription received in advance for the next year		
(-) Subscription outstanding for the previous year		
Subscription shown in Income and Expenditure Account		

6. Following steps should be followed:

- i. Exclude opening cash and bank balances and also do the same for closing cash and balances.
- ii. Exclude income of the previous period and any such income that is received in advance.
- iii. Exclude all items involving capital receipts and payments.

- iv. Exclude expenditures that are of the previous or coming period.
- v. Include all incomes of the current period which are yet to be received.
- vi. Include expenditures of current period which are yet to be paid.
- vii. Provision for bad debts and fixed assets depreciation should be taken into account and charged to the account (income and expenditure account).

Long Answers-

1. A receipts and payments account (R & P Account) is a summary of actual cash receipts and payments that is extracted from the cash book over a certain time period. All the cash received is recorded on the Receipts and all cash payments are recorded in Payments side of the R & P Account. All the cash and bank transactions are recorded in Cash Book and this book is created on the basis of all these transaction. All cash and bank transactions that are of revenue and capital nature gets recorded. It records all transactions i.e. bank receipts and cash receipts.

This account helps in determining the closing balance of bank and cash receipts and thereby assess cash position of a Not-for-profit organisation or NPO.

Here are some similarities between Cash Book and Receipts and Payments Account:

- i. Both are real accounts.
- ii. Only transactions of cash and bank are recorded
- iii. There is no distinction between Revenue and Capital Items
- iv. Helps in assessing the cash position of an organisation
- v. Starts with an opening balance consisting of cash and bank and concludes with closing balance of cash and bank.

Therefore, it can be said that Receipt and Payments Account is a summarised version of cash book.

2. The account containing all expenses and losses for current accounting period prepared by a Not-for-profit organisation is called as Income and Expenditure (I & E) account, while a similar account prepared by profit earning organisation is called as Profit and Loss Account (P & L).

Here are some of the similarities between I & E and P & L accounts:

- i. Accrual basis is followed for the preparation of both accounts.

- ii. Expenses and losses are recorded on Expenditure (debit) side and gains and income are recorded on Income (credit) side.
- iii. Records only revenue items related to current accounting period.
- iv. Both exhibit nature similar to nominal accounts.

Therefore, it can be said that from the above statements that Income and Expenditure account of a Not-for-Profit Organisation is akin to Profit and Loss Account of a business concern.

3.

Basis of Comparison	Receipts and Payments Account	Income and Expenditure Account
Nature	Contains bank and cash transaction summary.	Contains summary of income and expenses of current year
Revenue and Capital	Both revenue and capital transactions are recorded	Only revenue transactions are recorded
Debit Side	Records cash and bank receipts are recorded	Records expenses and losses incurred for the current accounting year
Credit side	Records payments received in form of cash and cheques	Records incomes and gains during the current accounting year
Account Type	Real Account	Nominal Account
Accounting Period	Records receipts and payments made during the year which may be related to current, previous or next accounting year	Records only the expenditure and income made during the current accounting year
Object	Shows the cash position of NPO	Shows the net results in terms of deficits or surplus
Depreciation	Non-cash items like depreciation is not included	Includes non-cash items like depreciation, bad-debts for determining net profit or loss.

Adjustment	Before preparing financial statements the Payments and Receipts received during the year can be adjusted.	Cash and non-cash transactions can be adjusted
System	Cash basis	Accrual Basis

4. Income and Expenditure account is similar to the P & L account (Profit and Loss Account). In an income and expenditure account surplus and deficit is determined during the accounting period while in a P& L account the net profit or loss is determined during an accounting period. It is a nominal account and records transactions that are of revenue nature. The closing balance is called deficit or surplus based.

Basic Features of I & E Account are:

- i. It is a nominal account.
- ii. Prepared on the basis of R & P (Receipt and Payment Account). All revenue items irrespective of income or expenditure get transferred.
- iii. Transactions that are of capital nature are not included in the account.
- iv. It is similar to P & L account.
- v. Records only current accounting year items and excludes any other transactions.
- vi. Items like prepaid expenses, depreciation, income received in advance can be adjusted.
- vii. Balancing figure is expressed as surplus or deficit based on the status of expenses and income.

A receipts and payments account is a summary of actual cash receipts and payments that is extracted from the cash book over a certain time period. All the cash received is recorded on the Receipts and all cash payments are recorded in Payments side of the Receipts and Payments Account. This account is prepared on the basis of all the cash and bank transactions that are recorded in Cash Book. It records all cash and bank transactions that are of revenue and capital nature. It records all transactions i.e. bank receipts and cash receipts.

This account helps in determining the closing balance of bank and cash receipts and thereby assess cash position of an NPO.

Basic Features of R & P Account are:

- i. It is a real account also known as summarised version of Cash Book.
- ii. It records only bank and cash transactions.
- iii. Non-cash transactions like depreciation is not recorded.
- iv. It begins with an opening balance of cash and bank and ends with closing balance of cash and bank.
- v. Helps in assessing the cash position of an organisation.
- vi. It does not distinguish between capital and revenue items.

Assertion Reason Questions-

1. (a) Assertion and Reason both are correct and Reason is the correct explanation of assertion.
2. (d) Reason is correct but Assertion is not correct.

