

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (2) **Explanation:** Donations can be classified into general or specific. General donations are the donations received by a NPO, use of which is not specified by the donor. Hence, it can be used by the Not-for-Profit Organisation for any of its objects.
Specific Donations are the donations received by a NPO, use of which is specified by the donor. It can be used for the purpose specified by the donor. Hence, Fund Based Accounting is applied on Specific Donations.
2. (1) **Explanation:** Objective of Not-for-Profit Organisation is not to earn profit but to serve the society and its members. Profit (called Surplus), may however, accrue to the Not-for-Profit Organisation.
3. (4) **Explanation:** The financial statements prepared by a Not-for-Profit Organisation include Receipts & Payments Account, Income & Expenditure Account and Balance Sheet.
4. (3) **Explanation:**
 - (i) *True*, because it is the Donor who decides the utilisation of the donation. In case, the Donor does not specify the purpose, it is a General Donation which the Not-for-Profit Organisation is free to use for any of its objects.
 - (ii) *True*, because a Donor may make donation either in cash or in kind to a Not-for-Profit Organisation.
 - (iii) *False*, because in case the purpose is not stated in the Legacy Donation, it is accounted as General Donation and is credited to Income & Expenditure Account.
 - (iv) *True*, because subscription received in advance for future period is a liability for Not-for-Profit Organisation as the income will accrue in the following year(s).
5. (4) **Explanation:** Receipts & Payments Account is a summary of receipts and payments of amounts under appropriate heads of accounts. It being a summary of receipts and payments, is prepared on cash basis of accounting.
6. (4) **Explanation:** Receipts & Payments Account is prepared on Cash Basis of Accounting. It therefore, shows receipts of every nature (capital and revenue) and relating to previous years, current year and future years, *i.e.*, belonging to any period.
7. (2) **Explanation:** Income & Expenditure Account is a nominal account prepared by a Not-for-Profit Organisation at the end of the year to determine its surplus or deficit, which is transferred to Capital Fund or General Fund.
8. (1) **Explanation:** Receipts & Payments Account is prepared on cash basis of accounting. Hence, all receipts and payments during the year whether capital or revenue in nature irrespective of whether they are for current accounting period or not are shown in the account.
9. (4) **Explanation:** Income & Expenditure Account is a nominal account that is prepared by Not-for-Profit Organisation at the end of the year to determine its surplus (*i.e.*, excess of income over expenditure) or deficit (*i.e.*, excess of expenditure over income).
10. (1) **Explanation:** Income & Expenditure Account is prepared for the year which shows incomes, whether received or not and expenses whether paid or not. Thus, it is prepared on accrual basis of accounting.
11. (1) **Explanation:** Maintaining complete set of books by a Not-for-Profit Organisation means double entry system of accounting is followed resulting into Trial Balance being prepared. Thereafter, Income & Expenditure Account is prepared from the Trial Balance.
12. (2) **Explanation:** If complete set of books is not maintained by a Not-for-Profit Organisation, Income & Expenditure Account is prepared from the Receipts & Payments Account and additional information. Receipts and payments are adjusted for capital receipts and capital payments, prepaid and outstanding expenses to determine surplus or deficit for the year.
13. (1) **Explanation:** Donation or Legacy received with a direction by the donor to use the amount for a purpose specified by the donor is an amount (fund) that can be used for the specified purpose. Fund also includes amount set aside out of surplus for a specific purpose by Not-for-Profit Organisation.

14. (2) **Explanation:** General Donations are shown in the credit of Income & Expenditure Account, it being a revenue receipt.
15. (4) **Explanation:** In case of specific donations, they are credited to the Fund for that purpose and shown in the liabilities side of the Balance Sheet.
16. (1) **Explanation:** Accounting of specific funds received or funds set aside by Not-for-Profit Organisation for specific purpose is called Fund Based Accounting.
17. (1) **Explanation:** In Fund Based Accounting, specific donations or specific legacy donation is credited (added) to the fund balance, if the fund exists. In case, the fund does not exist for that purpose a new fund account is opened for the purpose. Payments or expenses from the specific fund are debited (deducted) from the fund. Balance amount is shown in the liabilities side of the Balance Sheet.
18. (2) **Explanation:** In case of Endowment fund, only the income generated from the fund can be used for specified purpose. The original donation amount will remain intact and cannot be utilised. Thus, it is a Restricted Fund.
19. (4) **Explanation:** In case an asset is created from specific fund, the amount incurred on the asset is transferred to Capital Fund from the balance of specific fund. As a result, asset created out of specific fund, is shown in the Assets side of the Balance Sheet.
20. (2) **Explanation:** Entrance Fee is received from a new member at the time of admitting him as a member. It is a revenue nature receipt and credited to Income & Expenditure Account.
21. (1) **Explanation:** Life Membership Fee is paid by a member at the time of joining the Not-for-Profit Organisation and thereafter he/she can avail the facilities without paying any subscription. It is added to the Capital Fund in the Balance Sheet.
22. (3) **Explanation:** Legacy is a form of donation. It may either be a general donation (when the deceased person does not specify the purpose of its use) or a specific donation (when the deceased person specifies the purpose of its use). Thus, it can be either specific or general.
23. (1) **Explanation:** Receipts & Payments Account is prepared on Cash Basis of accounting. Thus, incomes received or expenses paid during the year whether capital or revenue in nature irrespective of whether they are for current accounting period or not are transferred to Receipts & Payments Account.
24. (3) **Explanation:** Specific donations are credited to that particular fund and shown in liabilities side of Balance Sheet.
25. (3) **Explanation:** In case of asset created from utilisation of specific fund, cost of the Asset is shown on the assets side of the Balance Sheet following Historical Cost Concept of Accounting. Further, the amount incurred on the asset is reduced from specific fund and is transferred to Capital/General Fund.
26. (2) **Explanation:** In the present case, Donor has specified the purpose for which the Donation is to be used *i.e.*, Relief to Poor. It is, therefore, a donation for a specific purpose.
27. (2) **Explanation:** Donation where the purpose is specified (in this case Tournament), it is a donation for a specific purpose.
28. (1) **Explanation:** Subscriptions is a fee received from a member every year of a Not-for-Profit Organisation. Therefore, it is a recurring or revenue receipt for a Not-for-Profit Organisation.
29. (4) **Explanation:** The stock of sports material consumed during the year is transferred to the debit of Income & Expenditure Account, it being an expense (consumption). Stock-in-hand is shown in the Balance Sheet.
30. (1) **Explanation:** In case expenses are more than the balance in the specific fund Account, excess of expenses over fund is transferred to the debit of Income & Expenditure Account because due to use of fund no asset has come into existence and the debit balance will not be received.
31. (2) **Explanation:** In case of receipts for a specific event (say, Annual Dinner), the net amount (receipt less expenses) is shown in Income & Expenditure Account after the date of event. It is transferred to Income & Expenditure Account after the event because surplus or deficit is known after the event is held. Also the amount is received for a specific purpose.

- 32. (2) Explanation:** Not-for-Profit Organisations are set up to promote cultural, educational, health, religious, public services to the public and/or its members, etc. not with the purpose of earning profit. Since, Public Hospitals are set up for healthcare to the public at large, these are called Not-for Profit Organisations.
- 33. (1) Explanation:** Rent paid in advance is a prepaid expense, hence is shown as Advance Rent in the Assets side of the Balance Sheet. In the next year, it is transferred to the debit of Income & Expenditure Account, it being an expense for the year.
- 34. (1) Explanation:** All items of cash inflow and outflow whether capital or revenue in nature are shown in Receipts & Payments Account irrespective of the period for which they are incurred. Since payment is made to purchase the fixed asset, it will be shown in the credit (payment) side of Receipts & Payments Account.
- 35. (2) Explanation:** The Journal entry passed on receipt of Life Membership Fee:

Cash/Bank A/c ...Dr.
 To Life Membership Fee A/c
 (Amount received as life membership fee)

Cash Account/Bank Account is an asset account and increase therein is debited. Life Membership Fee is an income (Capital Receipt) for the Not-for-profit Organisation and hence, Life Membership Fee Account is credited. In the Balance Sheet, it is added to Capital Fund.

- 36. (4) Explanation:** Subscription received in advance is an income for the future period. Since it has a credit balance, it is shown in the liability side of the Balance Sheet.
- 37. (3) Explanation:** Income & Expenditure Account is a nominal account that is prepared by Not-for-Profit Organisation at the end of the year to determine its surplus or deficit, which is its closing balance.
- 38. (4) Explanation:** The amount or property received by a Not-for-Profit Organisation is a donation and if it is through the will of a deceased person, it is termed as Legacy Donation.
- 39. (1) Explanation:** Subscription received as per Receipts & Payments Account would be ₹ 15,40,000 [*i.e.*, (1,500 × ₹ 1,000: for the year ended 31st March 2022) + (40 × ₹ 1,000: for the year ended 31st March 2021)].
- 40. (4) Explanation:**

	₹
Subscription Due for the year ended 31st March, 2022 (800 × ₹1,500)	12,00,000
Less: Subscription outstanding for current year (80 × ₹ 1,500)	1,20,000
Subscription received (for 2021-22)	10,80,000
Add: Outstanding Subscription (2020 – 21) received during the year (40 × ₹1,500)	60,000
Advance Subscription received (2022 – 23) (120 × ₹ 1,500)	1,80,000
Subscription Received as per Receipts & Payments Account	<u>13,20,000</u>

- 41. (2) Explanation:** Amount credited to Income & Expenditure Account as Subscription income would be ₹ 24,00,000 (*i.e.*, 1,200 × ₹ 2,000) because Income & Expenditure Account is prepared on accrual basis of accounting. Therefore, income for the year whether received or not is shown in the credit of the account.
- 42. (3) Explanation:** Amount of Rent to be shown as expense in Income and Expenditure Account
 = Rent Paid during the year – Rent Outstanding as on 31st March, 2021 + Rent Outstanding as on 31st March, 2022
 = ₹ 45,000 (₹ 40,000 – ₹ 15,000 + ₹ 20,000).

- 43. (2) Explanation:**

BALANCE SHEET as at 31st March, 2022

Liabilities	₹	Assets	₹
Creditors for Consumables	57,500	Sundry Assets	8,70,300
Salary Outstanding	10,500		
Capital Fund (Bal. Fig.)	7,25,000		
Add: Surplus	77,300		
	<u>8,02,300</u>		
	<u>8,70,300</u>		<u>8,70,300</u>

44. (4) Explanation:

BALANCE SHEET as at 31st March, 2022

Liabilities	₹	Assets	₹
Creditors for Furniture	87,500	Sundry Assets	9,75,800
Subscription Received in Advance	20,500		
Capital Fund (Bal. Fig.)	8,93,100		
Less: Deficit	25,300		
	9,75,800		9,75,800

45. (1) Explanation:

	₹
Subscription Due for the year ended 31st March, 2022 (600 × ₹ 450)	2,70,000
Less: Subscription outstanding for current year (as on 31st March, 2022)	47,000
Subscription received (for 2021 – 22)	2,23,000
Add: Advance Subscription received (as on 31st March, 2022)	27,000
Subscription Received as per Receipts & Payments Account	2,50,000

46. (2) Explanation: Subscription for the year that will be shown as income in Income & Expenditure Account = $90 \times ₹ 1,000 = ₹ 90,000$.

Income & Expenditure Account is prepared on accrual basis of accounting.

47. (3) Explanation:

Dr.		SUBSCRIPTION ACCOUNT		Cr.	
Particulars		₹	Particulars		₹
To Balance b/d (O/s. Subscription)		40,000	By Balance b/d (Advance Sub.)		12,000
To Income & Expenditure A/c		4,50,000	By Bank A/c		4,65,000
To Balance c/d (Advance Subscription)		30,000	By Balance c/d (O/s Sub.: Bal.Fig.)		43,000
		5,20,000			5,20,000

48. (4) Explanation:

Dr.		SUBSCRIPTION ACCOUNT		Cr.	
Particulars		₹	Particulars		₹
To Balance b/d (O/s. Subscription)		60,000	By Balance b/d (Advance Sub.)		36,000
To Income & Expenditure A/c		12,75,000	By Bank A/c		12,65,000
To Balance c/d (Advance Subscription)		55,000	By Balance c/d (O/s. Sub.: Bal.Fig.)		89,000*
		13,90,000			13,90,000

*₹ 89,000 is the amount of Outstanding Subscription as on 31st March, 2022. It means ₹ 89,000 also includes the outstanding subscriptions for the years ended 31st March, 2021 and 2022. As during the current year, i.e., year ended 31st March, 2022, it has received ₹ 40,000 out of ₹ 60,000 for the previous year, it means balance ₹ 20,000 is still receivable. Thus, Outstanding Subscription for the year ended 31st March, 2022 would be ₹ 69,000 (i.e., ₹ 89,000 – ₹ 20,000).

49. (2) Explanation:

	₹
Subscription Due for the year ended 31st March, 2022 (380 × ₹ 600)	2,28,000
Less: Subscription Received during the current year	1,75,000
Subscription receivable (as on 31st March, 2022)	53,000
Less: Advance Subscription received (as on 31st March, 2021)	30,000
Subscription Outstanding for the current year	23,000

50. (1) Explanation:

	₹
Subscription Due for the year ended 31st March, 2022	3,60,000
Less: Subscription outstanding for current year (as on 31st March, 2022)	28,000
Subscription received (for the year ended 31st March, 2022)	3,32,000
Add: Advance Subscription received (as on 31st March, 2022)	16,000
Subscription Received as per Receipts & Payments Account	<u>3,48,000</u>

51. (3) Explanation:

Dr.		SUBSCRIPTION ACCOUNT		Cr.	
Particulars		₹	Particulars		₹
To Income & Expenditure A/c		4,12,500	By Balance b/d (Adv. Sub. Opening)		13,750
			By Bank A/c		3,50,000
			By Balance c/d (O/s. Sub.: Bal. Fig.)		48,750
				4,12,500	4,12,500

52. (2) Explanation: Number of Members who have Paid Subscription

= Total Members – Members who have not Paid Subscription

= 1,200 – (₹ 72,000/₹ 900) = 1,200 – 80 = 1,120.

53. (1) Explanation: Number of Members who have Paid Subscription

= Total Members – Members who have not Paid Subscription – Members who already paid in Advance

= 1,600 – (₹ 96,000/₹ 1,200) – (₹ 1,50,000/₹ 1,200) = 1,600 – 80 – 125 = 1,395.

54. (4) Explanation:

Dr.		SUBSCRIPTION ACCOUNT		Cr.	
Particulars		₹	Particulars	₹	
To Income and Expenditure A/c (Bal. Fig.)		6,36,000	By Balance <i>b/d</i> (Advance Subscription)	20,000	
To Balance <i>c/d</i> (Advance Sub.)		30,000	By Bank A/c	6,00,000	
			By Balance <i>c/d</i> (O/s. Sub.)	46,000	
		6,66,000		6,66,000	

55. (1) Explanation:**BALANCE SHEET as at 31st March, ...**

Liabilities	₹	Assets	₹
External Liabilities	12,50,000	Total Assets	22,25,000
Capital Fund (Bal. Fig.)	7,20,000		
Add: Surplus	2,55,000		
	<u>22,25,000</u>		<u>22,25,000</u>

56. (3) Explanation:**BALANCE SHEET as at 31st March, ...**

Liabilities	₹	Assets	₹
External Liabilities	12,75,000	Total Assets	22,00,000
Capital Fund (Bal. Fig.)	10,75,000		
Less: Deficit	1,50,000		
	<u>22,00,000</u>		<u>22,00,000</u>

57. (4) Explanation:

Dr. Cr.

CREDITORS FOR MEDICINES ACCOUNT

Particulars	₹	Particulars	₹
To Cash/Bank A/c	4,50,000	By Balance b/d	49,000
To Balance c/d	65,500	By Purchases of Medicines (Credit Purchases: Bal. Fig.)	4,66,500
	5,15,500		5,15,500

Total Medicines Purchased = Cash Purchases + Credit Purchases = ₹ 1,25,000 + ₹ 4,66,500 = ₹ 5,91,500.

58. (3) Explanation:

BALANCE SHEET as at 31st March, ...

Liabilities	₹	Assets	₹
Research Fund:			
Opening Balance	12,80,000		
Add: Donations Received	2,54,000		
Int. on Research Fund Investment	25,000		
	15,59,000		
Less: Expenses on Research	1,75,300		
	13,83,700		

59. (1) Explanation:

Dr.	CREDITORS FOR SPORTS MATERIALS ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c	5,80,000	By Balance b/d	1,24,000
To Balance c/d	1,56,500	By Purchases of Sports Materials A/c (Credit Purchases : Bal. Fig.)	6,12,500
	7,36,500		7,36,500

Total Sports Materials Purchased = Credit Purchases + Cash Purchases

(If Cash Purchases = 20% of Total Purchases; Credit Purchases = 80% of Total Purchases)

It means, Total Purchases of Sports Materials = ₹ 6,12,500 × 100/80 = ₹ 7,65,625.

60. (4) Explanation:

Dr.	CREDITORS FOR STATIONERY ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c	2,50,000	By Balance b/d	48,000
To Balance c/d	66,500	By Purchases of Stationery A/c (Credit Purchases: Bal. Fig.)	2,68,500
	3,16,500		3,16,500

Total Stationery Purchased = Credit Purchases + Cash Purchases

= ₹ 2,68,500 + ₹ 53,700 (i.e., 20% of ₹ 2,68,500) = ₹ 3,22,200.

61. (2) Explanation:

BALANCE SHEET as at 31st March, ...

Liabilities	₹	Assets	₹
Library Fund:			
Opening Balance	12,80,000		
Add: Interest (₹ 68,000 + ₹ 22,000)	90,000		
	13,70,000		

62. (3) Explanation:

	₹
Salaries Paid during the year	2,40,000
Less: Salaries Outstanding as on 31st March, 2021	35,000
	2,05,000
Add: Salaries Outstanding as on 31st March, 2022	15,000
Amount of Salaries to be shown as expense in Income & Expenditure Account	2,20,000

63. (4) Explanation: Book Value of furniture sold is ₹ 40,000. Depreciation charged for 9 months till 31st December, 2022 is ₹ 3,000 (i.e., ₹ 40,000 × 10/100 × 9/12). Depreciated value of Furniture at the time of Sale is ₹ 37,000.

Loss on sale of Furniture = ₹ 37,000 × 20/100 = ₹ 7,400.

64. (2) Explanation: Book Value of Furniture sold is ₹ 60,000. Depreciation charged for 6 months till 1st October, 2021 is ₹ 3,000 (i.e., ₹ 60,000 × 10/100 × 6/12). Depreciated value of Furniture at the time of Sale is ₹ 57,000.

Gain on sale of Furniture = ₹ 57,000 × 20/100 = ₹ 11,400.

65. (4) Explanation: Stock of Sports Material Consumed = Opening Stock + Purchases – Closing stock
= ₹ 2,00,000 + ₹ 7,50,000 – ₹ 2,50,000 = ₹ 7,00,000.

66. (3) Explanation:

Dr.		SUBSCRIPTION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Income & Expenditure A/c (Bal. Fig.) (Subscription for the current year)	6,36,000	By Balance b/d (Advance Opening)	20,000	
To Balance c/d (Advance Closing)	30,000	By Bank A/c (Subscription Received)	6,00,000	
	6,66,000	By Balance c/d (O/S end)	46,000	
			6,66,000	

67. (1) Explanation:

Dr.		STOCK OF SPORTS MATERIALS ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	20,000	By Income & Expenditure A/c (Sports Materials Consumed)	90,900	
To Suppliers of Sports Materials A/c (Credit Purchases transferred from Suppliers A/c)	95,900	(Balancing Figure)		
	1,15,900	By Balance c/d	25,000	
			1,15,900	

Dr.		SUPPLIERS OF SPORTS MATERIALS ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d (Advance)	8,000	By Balance b/d	21,000	
To Bank A/c (Amount paid to Suppliers)	85,500	By Stock of Sports Materials (Credit Purchase)	95,900	
To Balance c/d	32,400	By Balance c/d (Advance)	9,000	
	1,25,900		1,25,900	

68. (4) Explanation:

Dr.		STOCK OF MEDICINES ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	78,000	By Income & Expenditure A/c (Medicines Consumed)	12,32,000*	
To Suppliers of Medicines (Credit Purchases transferred from Suppliers of Medicines A/c)	12,47,000	(Bal. Fig.)		
	13,25,000	By Balance c/d	93,000	
			13,25,000	

Dr.		SUPPLIERS OF MEDICINES ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Bank A/c (Amount paid to Suppliers)	12,35,000	By Balance b/d	1,00,000	
To Balance c/d	1,12,000	By Stock of Medicines (Credit Purchases)(Bal. fig.)	12,47,000	
	13,47,000		13,47,000	

69. (2) Explanation:

Dr.		STOCK OF SPORTS MATERIALS ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	1,00,000	By Income & Expenditure A/c (Sports Materials Consumed)	3,500	
To Purchases of Sports Materials	28,000	By Returns of Sports Materials	8,000	
		By Balance c/d	1,16,500	
	1,28,000		1,28,000	

70. (1) Explanation:

BALANCE SHEET as at 31st March, 2022

Liabilities	₹	Assets	₹
Sports Fund		Sports Fund Investment	20,00,000
Opening Balance	20,00,000		
Add: Donations	2,25,000		
Interest Received	1,50,000		
	23,75,000		
Less: Expenses	23,75,000		20,00,000

Dr. INCOME & EXPENDITURE ACCOUNT for the year ending 31st March, 2022 Cr.

Expenditure	₹	Income	₹
To Sports Expenses (Note)	1,75,000		

Note: Expenses on Sports events are ₹ 25,50,000 out of which ₹ 23,75,000 are met from Sports Fund and the balance of ₹ 1,75,000 is debited to Income & Expenditure A/c.

- 71. (4) Explanation:** Subscription outstanding as on 31st March 2021 is ₹ 1,15,000, out of which ₹ 98,000 is received in the current year *i.e.*, year ended 31st March 2022. Therefore, subscription still in arrears for the year ended 31st March 2021 is ₹ 17,000 (*i.e.*, ₹ 1,15,000 – ₹ 98,000). Subscription Outstanding as on 31st March 2022 is ₹ 38,000, this includes subscription in arrears of ₹ 17,000 for the year ended 31st March, 2021.

Thus, Outstanding Subscription for the year ended 31st March, 2022 is ₹ 21,000 (*i.e.*, ₹ 38,000 – ₹ 17,000).

72. (2) Explanation:

Dr. SUBSCRIPTION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Income & Expenditure A/c (250 × ₹ 1,200) (Subscription for the current year)	3,00,000	By Balance b/d (Advance Opening)	17,500
To Balance c/d (Advance Closing)	28,000	By Bank A/c (Subscription Received)	2,37,500
	3,28,000	By Balance c/d (O/S end) (Bal. Fig.)	73,000
			3,28,000

73. (1) Explanation:

Dr. SUBSCRIPTION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Income & Expenditure A/c (750 × ₹ 550) (Subscription for the current year)	4,12,500	By Bank A/c (Subscription Received)	3,50,000
To Balance c/d (Advance at the End) (25 × ₹ 550)	13,750	By Balance c/d (O/S at the End)	76,250
	4,26,250		4,26,250

- 74. (1) Explanation:** Life Membership Fees is a Capital Receipt and added to Capital Fund. Life Membership Fee of ₹ 25,000 wrongly shown as Revenue Receipt will increase the income and as a result Surplus will be increased by the same amount. However, Capital Fund will not change as Life Membership Fee will be added to Closing Capital Fund as it is included in Surplus.

- 75. (3) Explanation:** Prizes awarded being expenses related to the specific fund are met from Prize Fund to the extent of Fund available and the balance is shown in the debit side of Income and Expenditure A/c, it being not receivable.

76. (4) Explanation:

Prize Fund as on 1st April 2021	₹ 2,00,000
Add: Income from Prize Fund Investment during the year	40,000
	2,40,000
Less: Prizes awarded during the year	58,000
Balance to be Shown in Liabilities side under Prize Fund	1,82,000

77. (3) **Explanation:** Receipts & Payments Account is a summary of cash (including bank) receipts and payments during an accounting period. Thus, it is prepared on cash basis of accounting. Income & Expenditure Account is prepared on an Accrual Basis of Accounting as revenue and expenses are recorded in the period in which they become due, rather than when they are received or paid.
78. (3) **Explanation:** Subscription received in advance in previous year is a liability for previous year because it belongs to next year. Hence, it is income for the Current year.
79. (4) **Explanation:** Subscription due but not received from members is an accrued income. Accrued income is added to income and shown as an asset.
80. (4) **Explanation:** Subscription received in advance in the year 2021-22 for the year 2023-24 is an income for the year 2023-24. Hence, it is shown as a liability for the years 2021-22 and 2022-23.
81. (4) **Explanation:** Total Interest on investment = Interest received which is shown in Receipts & Payments Account + Accrued Interest which is shown in the assets side of Balance Sheet

$$₹ 48,000 = ₹ 36,000 + ₹ 12,000$$

$$\text{Total Interest on investment} = \text{Value of Investment} \times \text{Rate}/100.$$

$$₹ 48,000 = \text{Value of Investment} \times 8/100$$

$$\text{Value of Investment} = ₹ 6,00,000.$$
82. (1) **Explanation:** Total Interest on investment = Interest Received + Accrued Interest

$$= ₹ 40,000 + ₹ 20,000 (₹ 40,000/8 \times 4) = ₹ 60,000$$

$$\text{Value of Investment} = ₹ 60,000 \times 100/12 = ₹ 5,00,000$$

Interest on Investment is accrued for 4 months which means it has been received for 8 months. Interest received is shown in Receipts & Payments Account.
83. (4) **Explanation:** 'Receipts & Payments Account is prepared on Cash Basis of Accounting, i.e., transactions which have been received or paid in cash are shown in the account.

Depreciation is a non-cash expense.

Accrued Interest on Deposits means interest due but not received.

Subscription outstanding at the end of the year means subscription due from members but not received.

Interest received during the year is the amount received. Hence, Interest received during the year will be shown in 'Receipts & Payments Account.

2. CASE STUDY BASED MCQS

1. A. 1. **Explanation:** Honorarium paid is a revenue expense for the NPO. Hence, will be debited to Income & Expenditure Account.
- B. 3. **Explanation:** Grant received is for a specific purpose, i.e., to purchase Educational Equipments. The amount so received will have to be spent on this purpose alone. Hence, it will be shown in the Liabilities Side of the Balance Sheet and Fund Based Accounting will be applied.
- C. 3. **Explanation:** Smart Board purchased is an asset, i.e., it is a Capital Expenditure. Hence, it will be shown in the Assets Side of the Balance Sheet.
- D. 4. **Explanation:** Fees received is received during the year. Hence, it will be shown in the Receipts (Debit) Side of Receipts & Payments Account. It is a revenue income received from the students. It being an income for the year, will be transferred (posted) to the credit of Income & Expenditure Account.
2. A. 3. **Explanation:** Donation is received by the Club and the donors have not specified the purpose for which it is given. Hence, it is a revenue receipt and transferred to the credit of Income & Expenditure Account.
- B. 4. **Explanation:** Amount received for development of Playground will be shown in the Liabilities Side of the Balance Sheet as a separate item, i.e., Playground Fund.
- C. 2. **Explanation:** Amount spent on development of playground has resulted in an asset. Thus, it will be shown in the Assets side of the Balance Sheet.
- D. 4. **Explanation:** Entrance Fee is a receipt of revenue nature. Hence, it is transferred to the credit of Income & Expenditure Account.

3. A. 4. **Explanation:** Not-for-Profit Organisations create special funds for certain purposes/activities and any receipts related to fund is credited to it. Hence, it will be added to Prize Fund and shown in the Liabilities side of the Balance Sheet.
- B. 3. **Explanation:** Not-for-Profit Organisations create special funds for certain purposes/activities and such funds are invested in securities and the income earned on such investments is added to the respective fund because it is earned on investment of the fund and not credited to Income and Expenditure Account.
- C. 4. **Explanation:** It is a fund for awarding prizes and therefore, amount used in awarding prizes will be deducted from Prize Fund.

D. 1. **Explanation:** BALANCE SHEET as at 31st March, 2021 (An extract)

Liabilities	Amount (₹)	Assets	Amount (₹)
Prize Fund	10,00,000	9.5% Prize Fund Investment	10,00,000
Add: Donations	1,25,000	Accrued Interest*	20,000
Add: Interest Received	75,000		
Add: Accrued Interest*	20,000		
	12,20,000		
– Prizes Awarded	(3,50,000)		
	8,70,000		

* Interest on Prize Fund Investment: ₹ 10,00,000 × 9.5 % = ₹ 95,000

Accrued Interest: ₹ 95,000 – ₹ 75,000 = ₹ 20,000.

- E. 2. **Explanation:** It is a fund for awarding prizes and expense is more than the balance in Prize Fund and an asset is not created. Also amount of deficit will not be recovered. Therefore, deficit amount is shown in the debit side of Income & Expenditure Account.
4. A. 4. **Explanation:** Credit purchases are ₹ 7,80,500, determined as follows:

Dr. SUPPLIERS OF FOOD ITEMS ACCOUNT		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d (Advance)	80,000	By Balance b/d	2,19,000
To Bank A/c (Amount paid to Suppliers)	6,85,500	By Stock A/c (Credit Purchases) (Balancing Figure)	7,80,500
To Balance c/d	3,24,000	By Balance c/d (Advance)	90,000
	10,89,500		10,89,500

B. 2. **Explanation:** The amount of Food Items consumed is ₹ 8,25,500, determined as follows:

Dr. STOCK OF FOOD ITEMS ACCOUNT		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	3,20,000	By Income & Expenditure A/c (Balancing Figure)	8,25,500
To Suppliers	7,80,500	(Food Items Consumed)	
(Credit Purchases transferred from Suppliers)		By Balance c/d	2,75,000
	11,00,500		11,00,500

5. A. 3. **Explanation:** The amount debited to Receipts & Payments Account will be ₹ 4,02,500, calculated as follows:

	₹
Amount receivable as Subscription (₹ 3,500 × 125)	4,37,500
Less: Subscription in Arrears for the year (₹ 3,500 × 18)	63,000
	3,74,500
Add: Advance Subscription (₹ 3,500 × 8)	28,000
	4,02,500

- B. 2. **Explanation:** It is the amount received to be used for a specific purpose, i.e., Replacement of Lifts. Therefore, it will be credited to Elevator Fund Account and shown in the Liabilities Side of the Balance Sheet.
- C. 1. **Explanation:** Amount that will be shown in the Income & Expenditure Account as Subscription is the sum total of the amount received and receivable, it being prepared on accrual basis of accounting. Therefore, the amount shown will be ₹ 4,37,500 (₹ 3,500 × 125).
- D. 3. **Explanation:** Subscription in arrears for the year is ₹ 63,000 (₹ 3,500 × 18).

6. A. 1. **Explanation:** Closing Balance of Capital Fund will be ₹ 62,00,000, calculated as follows:
- | | ₹ |
|---------------------------------------|-----------|
| Opening Balance | 50,00,000 |
| Add: Transfer from Sports Ground Fund | 12,00,000 |
| Closing Balance | 62,00,000 |
- B. 4. **Explanation:** Closing Balance of Sports Ground Fund will be ₹ 13,25,000, calculated as follows:
- | | ₹ |
|---------------------------------------|-----------|
| Opening Balance | 20,00,000 |
| Add: Donations for Sports Ground Fund | 3,45,000 |
| Interest Received | 1,80,000 |
| | 25,25,000 |
| Less: Amount Spent | 12,00,000 |
| Balance | 13,25,000 |
- C. 4. **Explanation:** Since interest is received, it will be shown in the Receipts & Payments Account in the receipt side. It being interest received on Sports Ground Fund Investment, it will be added to the fund balance and shown in the Liabilities side of the Balance Sheet.
- D. 3. **Explanation:** Since interest is received, it will be shown in the Receipts & Payments Account in the receipt side. It being interest received on General Fund Investment, *i.e.*, not on a specific fund investment (such as Sports Ground Fund Investment), it will be transferred to the credit of Income & Expenditure Account.

3. SEQUENCE BASED MCQS

1. 2. **Explanation:**
- A. Determine entries (items) of Income and Expenses from Receipts & Payments Account: Only revenue receipts/expenses of current accounting period (whether received/paid or not) are taken to prepare Income & Expenditure Account.
 - C. Adjust expenses and incomes for Outstanding Expenses, Prepaid Expenses and Accrued Incomes.
 - B. Determine Surplus or Deficit in Income & Expenditure Account: By comparing total of debit (*i.e.*, Expenditure) side and total of credit (*i.e.*, Income) side of Income & Expenditure Account. If total of income (credit) side is more than the total of expense (debit) side, it is surplus (*i.e.*, excess of Income over Expenditure). And if, total of expense (debit) side is more than the total of income (credit) side, it is deficit (*i.e.*, excess of Expenditure over Income). Surplus or deficit is transferred to the Capital Fund and shown in the Balance Sheet.
 - D. Closing Balance Sheet: Prepare Balance Sheet as at the end of the year.
2. 2. **Explanation:**
- B. Carry forward the balance of Covid Fund from previous year's Balance Sheet.
 - A. Add Donations and Grants Received for the Covid Fund.
 - D. Add Interest Received on Covid Fund Investment to the Covid Fund along with interest accrued, if any.
 - C. Deduct Covid Expenses incurred from Covid Fund.
 - E. Show Accrued Interest on Covid Fund Investment as an asset in current year's Balance Sheet.
3. 4. **Explanation:**
- B. Carry forward the balance of Auditorium Fund from previous year's Balance Sheet.
 - A. Add Legacy and Donations Received for the Auditorium Fund.
 - E. Add Income from Auditorium Fund Investment in Auditorium Fund and show Auditorium Fund Investment in assets side of Balance Sheet.
 - C. Deduct expenses incurred on construction from Auditorium Fund and add it to Capital Fund.
 - D. Show Auditorium (WIP) as an asset in the current year's Balance Sheet.

4. MATCHING QUESTIONS

1. 4. Explanation:

- A. Sports Fund ₹ 57,90,000 and Expenses on Sports events 52,90,000;
 III. ₹ 5,00,000 will be shown in the liabilities side of Balance Sheet as Liabilities.
- B. Sports Fund ₹ 68,70,000 and Expenses on Sports events ₹ 73,70,000;
 IV. ₹ 5,00,000 will be debited to Income & Expenditure A/c.
- C. Sports Event Receipts ₹ 23,60,000 and Sports Events Expenses ₹ 18,60,000;
 I. ₹ 5,00,000 will be credited to Income & Expenditure A/c.
- D. Sports Event Receipts ₹ 34,56,000 and Sports Event Expenses ₹ 40,56,000;
 II. ₹ 6,00,000 will be debited to Income & Expenditure A/c.

2. 2. Explanation:

Dr.		SUBSCRIPTION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Income & Expenditure A/c (1,000 × ₹ 8,500) (Subscription for the current year)	85,00,000	By Balance b/d (Advance beg.) (175 × ₹ 8,500)	14,87,500	
To Balance c/d (Advance Closing) (125 × ₹ 8,500)	10,62,500	By Bank A/c (Bal. Fig.)	59,50,000	
	95,62,500	By Balance c/d (O/S Closing) (250 × ₹ 8,500)	21,25,000	
			95,62,500	

3. 2. **Explanation:** General Legacy and Subscription are Revenue receipts hence Credited to Income & Expenditure Account. Life membership fees is a capital receipt and added to capital fund. Interest on Loan is a Revenue expense hence debited to Income & Expenditure A/c.
4. 3. **Explanation:** Cash and Bank balance are Assets. Bank overdraft is a liability. Assets have opening balances on debit side and closing balance on credit side. Liabilities have opening balances on credit side and closing balance on debit side.
5. 3. **Explanation:** Profit on sale of Gym Equipment is an income hence Credited to Income & Expenditure Account. Purchase of Gym Equipment is an outflow of cash hence Credited to Receipts & Payments Account. Sale of Gym Equipment is an inflow of cash hence debited to Receipts & Payments Account. Depreciation on Gym Equipment is an expense hence debited to Income & Expenditure Account.
6. 4. **Explanation:** Stock of Medicines in the Beginning or at the end is an Asset. Cash Purchases of Medicines is an outflow of cash hence Credited to Receipts & Payments Account. Stock Consumed during the year is an expense hence debited to Income & Expenditure A/c. Profit on Sale of Medicines is an income hence Credited to Income & Expenditure A/c.
7. 2. **Explanation:** Receipts & Payments Account is prepared on cash basis of accounting, and Income & Expenditure Account on accrual basis of accounting.
8. 3. **Explanation:**
- | | |
|-----------------|--|
| A. Capital Fund | III. Excess of Assets over Liabilities |
| B. Deficit | I. Excess of Expenditure over Income |
| C. Surplus | IV. Excess of Income over Expenditure |
| D. Deficiency | II. Excess of Liabilities over Assets |
9. 4. **Explanation:**
- Depreciation is a non-cash expense hence shown in the debit side of Income & Expenditure Account.
- Life Membership Fees received is a capital receipt hence shown in the debit side of Receipts & Payments Account and added to capital fund in balance sheet.
- Loss on Sale of Fixed Assets is a non-cash expense hence shown in the debit side of Income & Expenditure Account.
- Receipts from sale of old Newspapers is a revenue receipt hence shown in the Debit Side of Receipts & Payments Account and Credit side of Income & Expenditure Account.

10. 4. Explanation:

Bank overdraft is a liability.

Legacy for Library is a capital receipt hence shown in liabilities.

Investment in Securities is a capital expenditure, hence an asset.

Honorarium to Doctors is a revenue expenditure hence shown in debit of Income & Expenditure Account.

Sale of Newspapers is a revenue income hence shown in credit of Income & Expenditure Account.

11. 1. Explanation:

A. The amount of subscription which is shown in the Income & Expenditure Account is the amount receivable from its members. Hence, the amount is ₹ 3,60,000 (600 × ₹ 600).

B. Rent paid by club ₹ 2,80,000 + Outstanding for current year ₹ 15,000 + Rent paid in advance for the current year in previous year ₹ 11,000 = Rent debited to Income & Expenditure A/c ₹ 3,06,000.

C.

CREDITORS FOR FOOD MATERIALS ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c	3,20,000	By Balance b/d	25,000
To Balance c/d	24,000	By Purchases of Medicines (Credit Purchases: Bal. Fig.)	3,19,000

Total Medicines Consumed = Stock of Food material at the beginning + Purchases – Stock of Food material at the end

$$= ₹ 23,300 + ₹ 3,19,000 - ₹ 26,300 = ₹ 3,16,000$$

D. Total Interest on investment = Interest received which is shown in Receipts & Payments Account + Accrued Interest which is shown in the assets side of Balance Sheet

$$= ₹ 18,000 + ₹ 6,000 = ₹ 24,000$$

Total Interest on investment = Value of Investment × Rate/100

$$₹ 24,000 = \text{Value of Investment} \times 8/100$$

$$\text{Value of Investment} = ₹ 3,00,000.$$

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 4. Explanation:

B. Not-for-Profit Organisation's profit, i.e., Surplus is not distributed among its members but utilised for the furtherance of the activities of Not-for-Profit Organisation.

Remaining statements are features of a Not-for-Profit Organisation.

2. 1. Explanation: Profit & Loss Account and Profit & Loss Appropriation Account are prepared by enterprise (Profit earning entities). Financial Statements prepared by Not-for-Profit Organisation are Receipts & Payments Account, Income & Expenditure Account and Balance Sheet.

3. 4. Explanation: Financial Statements prepared by Not-for-Profit Organisation are Receipts & Payments Account, Income & Expenditure Account and Balance Sheet. Profit & Loss Appropriation Account is prepared by Partnership Firm.

4. 4. Explanation: Adjustments for outstanding expenses, prepaid expenses, accrued income or income received in advance, and depreciation are made in Income & Expenditure Account as it is prepared on Accrual Basis of accounting. However, Receipts & Payments Account is prepared on Cash basis of accounting. Hence, no such adjustments are made in Receipts & Payments Account.

Remaining are the feature(s) of Receipts & Payments Account.

5. 3. Explanation:

B. Receipts & Payments Account is prepared from Cash Book. Hence, is not a feature of Income & Expenditure Account.

Remaining entries (items) are features of Income & Expenditure Account because

A. It is prepared on accrual basis of accounting.

C. Adjustment for outstanding expenses, prepaid expenses, accrued income or income received in advance, and depreciation is made in Income & Expenditure Account.

D. Income & Expenditure Account is a nominal account, it is prepared by a Not-for-Profit Organisation at the end of the year to determine surplus or deficit.

6. 3. Explanation:

A. It is prepared on Accrual Basis of Accounting. Hence, entry at serial (A) is not a feature of Income & Expenditure Account.

B. It shows incomes and expenditures of revenue nature only relating to the current accounting period. Hence, entry at serial (B) is not a feature of Income & Expenditure Account.

Remaining are the features of Income & Expenditure Account.

Income & Expenditure Account is a nominal account which is prepared by a Not-for-Profit Organisation at the end of the year to determine its surplus or deficit. It is prepared following Accrual Basis of Accounting. It accounts only revenue nature of items.

7. 2. Explanation: General Fund is an Unrestricted Fund which means the fund the use of which is not restricted. Management can use the amount in the fund as is considered appropriate, but for the purpose for which the organisation exists. Remaining Funds are restricted funds because they can be used for the purposes for which they exist.

8. 4. Explanation: General Fund is an Unrestricted Fund which means the fund the use of which is not restricted. Management can use the amount in the fund as is considered appropriate, but for the purpose for which the organisation exists. Remaining Funds are restricted funds because they can be used for the purposes for which they exist.

9. 1. Explanation: Life Membership Fee is accounted as a Capital Receipt and added to Capital Fund in the liabilities side of the Balance Sheet. Remaining are incomes and transferred to the credit of Income & Expenditure Account.

10. 3. Explanation: Income & Expenditure Account shows incomes and expenditures of revenue nature only relating to the current accounting period.

A. Interest on General Fund Investments is a revenue receipt.

B. Sale Proceeds of Match Tickets is a capital receipt as it is fund based.

C. Donations are General Donations. Hence, is a revenue receipt.

D. Match Fund is a capital receipt.

Therefore, Sale Proceeds of Match Tickets and Match Fund are not shown in Income & Expenditure Account.

11. 2. Explanation: Income & Expenditure Account shows incomes and expenditures of revenue nature only relating to the current accounting period. However, out of the given entries (items) following are of capital nature:

B. Payment made to Creditors as it will reduce the liability.

C. Books purchased as it will increase the Asset.

D. Repayment of Loan as it will reduce the liability.