

What is income and expenditure a/c. Explain the term non-trading institution with suitable examples.

The role of a non-trading firm is to provide services to its members. However, in order to do the same, it needs to earn some revenue and incur certain expenditures. When a non-profit firm does so, it needs to prepare an income and expenditure account, which can help it in ascertaining the surplus earned or deficiency incurred during a period. Let us understand more about the income and expenditure account which is prepared by a non-profit organization.

The Income and Expenditure Account is a summary of all items of incomes and expenses which relate to the ongoing accounting year. It is prepared with the objective of finding out the surplus or deficit arising out of current incomes over current expenses. It is quite similar to the Trading and Profit and Loss Account of a trading concern and is prepared in an exact manner.

Income and Expenditure Account is prepared on an accrual basis. All incomes and expenses relating to the accounting year, whether they are actually received and paid or not, are taken into consideration. Expenditure is recorded on the debit side and income is recorded on the credit side. A distinction is made between capital and revenue items and only revenue items are included in this account.

Non-trading

institution:

Individuals or institutions with activities other than trade are known as non-trading concerns. Examples of nontrading concerns are clubs, hospitals, libraries, colleges, athletic clubs etc.

These institutions are started not for carrying on a business and making a profit but for some charitable, religious or similar purpose. Their income, which is derived from donations, subscriptions, entrances fees etc., is spent on the objects for which they are started.

Final Accounts of Non-Trading Concerns:

Non-trading concerns usually maintain their accounts by the double entry system and periodically prepare their final accounts for the submission to their members and subscribers. The method of preparing final accounts by non trading concerns is different than trading concerns.

The method of preparing final accounts by non trading concerns is different than trading concerns. As these concerns do not deal in any goods like trading concerns, so they cannot prepare a trading and profit and loss account. At the end of the year they make out an account called an Income and expenditure account and balance sheet. The Income and expenditure account serve the same purpose as the profit and loss account in the case of trading concerns and is made out exactly in the same manner.

Usually the non-profit making institutions do not maintain a full set of

books but merely a cash book in which all receipts and payments are entered. At the end of the year the cash book is summarised under suitable heads and the summary thus prepared is called a Receipt and Payment Account. In order to know the result of the year's working it should be converted into Income and expenditure account.