

Not for profit organisation

Questions and Answers (A level)

Question 1

March 2017

- 3 The AB Cricket Club prepares its financial statements annually.

REQUIRED

- (a) Identify **three** differences in the terminology used in the financial statements of a club compared to a profit-making organisation. [3]

Additional information

The club runs a small snack bar. The following information is available for the year ended 31 December 2016.

- 1 The snack bar takings for the year totalled \$52 750.
- 2 The food inventory was valued at \$260 at 1 January 2016. This had been reduced by 40% at 31 December 2016.
- 3 All food is purchased from one supplier. The supplier was paid \$33 785 during the year.
- 4 At 1 January 2016 the supplier was owed \$460. There was \$585 owing to the supplier at 31 December 2016.

REQUIRED

- (b) Prepare the snack bar trading account for the year ended 31 December 2016. [6]

Additional information

- 1 The annual subscription per member has remained at \$250 for many years.
- 2 There are currently 310 members. There were no resignations or new members joining during 2016.
- 3 At 31 December 2015, there were 7 members who had not paid their 2015 subscription and 2 members who had paid their subscriptions for 2016.
- 4 At 31 December 2016, there were 12 members who had not paid their 2016 subscription and 3 members who had paid their 2017 subscription.

REQUIRED

- (c) Prepare the subscriptions account for the year ended 31 December 2016. [7]

Additional information

The club buildings are in urgent need of repairs. The committee has decided to carry out the required work during 2017.

The club is proposing a scheme whereby local businesses are invited to sponsor matches.

At 31 December 2016 there was a small debit balance on the bank account.

REQUIRED

(d) Identify four actions other than sponsorship that could be taken by the club to fund the repairs of the buildings. [4]

(e) State the advantages and disadvantages to the club if the proposed sponsorship is adopted. [5]

[Total: 25]

Question	Answer	Marks																																						
3(a)	Differences: Surplus of income over expenditure is used instead of profit. (1) Excess of expenditure over income is used instead of loss. (1) Accumulated fund is used instead of capital. (1) An income and expenditure account is prepared instead of an income statement. (1) Max 3	3																																						
3(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: right; width: 10%;">\$</td> <td style="width: 10%;"></td> <td style="text-align: right; width: 10%;">\$</td> <td style="width: 30%;"></td> </tr> <tr> <td>Revenue</td> <td></td> <td></td> <td style="text-align: right;">52 750</td> <td></td> </tr> <tr> <td>Deduct cost of sales:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">260</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Purchases W1</td> <td style="text-align: right;">33 910</td> <td style="text-align: right;">(3)</td> <td></td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;">(156)</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">(34 014)</td> <td style="text-align: right;">(1)of</td> </tr> <tr> <td>Snack bar profit</td> <td></td> <td></td> <td style="text-align: right;"><u>18 736</u></td> <td style="text-align: right;">(1)of</td> </tr> </table> <p>W1: Purchases 33 785 – 460 (1) + 585 (1) = 33 910 (1)of</p>		\$		\$		Revenue			52 750		Deduct cost of sales:					Opening inventory	260				Purchases W1	33 910	(3)			Closing inventory	(156)	(1)	(34 014)	(1)of	Snack bar profit			<u>18 736</u>	(1)of	6			
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3(d)	Apply for overdraft. (1) Seek loan. (1) Increase membership. (1) Increase subscription. (1) Increase prices charged in snack bar. (1) Introduce other trading activities. (1) Max 4	4																																						

Question	Answer	Marks
3(e)	Advantages Would raise extra funds (1) without need for interest / repayment (1). Club may get benefit of association with sponsor. (1) Disadvantages Sponsor may withdraw. (1) Club may become reliant on sponsors (1) Other income sources may suffer. (1) Any other valid advantages or disadvantage Max 5	5
		25

Question 2

October 2017

- 1 The GT Boating Club is a not-for-profit organisation which collects funds by subscriptions paid annually.

At 1 January 2016 the following assets and liabilities were held by the club:

	\$	
Boathouse	240 000	
Fixtures and fittings		
Cost	15 000	
Accumulated depreciation	10 000	
Trade payables	1 750	
Total inventory	1 100	
Bank	6 150	debit
Insurance paid in advance	1 100	
Electricity owing	450	
Subscriptions in arrears	600	
Subscriptions in advance	400	

Additional information

- 1 The club runs a restaurant for the exclusive use of members and their guests. During the year ended 31 December 2016 the revenue of the restaurant was \$45 000.
- 2 The opening restaurant inventory was 75% of the total club inventory. The closing restaurant inventory had doubled at 31 December 2016.
- 3 During the year ended 31 December 2016 the club paid \$28 350 for restaurant purchases.

All the club's trade payables at 1 January 2016 related to the restaurant suppliers. This had risen by 20% at 31 December 2016.
- 4 The club paid insurance for the year of \$4800 and electricity of \$2000. Half of these costs are charged to the restaurant.
At 31 December 2016 the club still owed \$950 for insurance.

REQUIRED

- (a) Prepare a statement to calculate the restaurant profit for the year ended 31 December 2016. The statement should also clearly show the gross profit. [10]

Additional information

Another local boating club runs a similar restaurant. Its latest accounts showed that the restaurant had achieved a gross margin of 45%.

REQUIRED

- (b) (i) Calculate the difference between the gross margins of both restaurants. [2]
- (ii) Discuss **three** actions which the club could take to improve the gross margin. [6]

Additional information

The club is now considering the introduction of a life membership subscription.

The annual subscription is \$100 and the proposed life subscription would be \$1000.

Gurmukh, a retired gentleman, is considering joining the club and seeks your advice on whether or not he should pay an annual subscription or the life membership.

REQUIRED

(c) Explain the accounting treatment of the life subscriptions. [2]

(d) Advise Gurmukh whether or not he should become a life member. Justify your advice. [5]

[Total: 25]

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1(b)(i)	Gross margin = 17 125 / 45 000 = 38.06% (1 OF) Difference = 45.00 – 38.06 = 6.94% (1 OF)	2																																							
1(b)(ii)	Consider market (1) – provide higher quality food (1) to appeal to target market. (1) Seek cheaper suppliers / seek discounts from suppliers / buy in bulk (1) to reduce cost of sales. (1) Increase the prices for items served in the restaurant. (1) Should earn higher revenue. (1) Reduce food wastages. (1) This should increase the gross margin. (1) 2 marks · Max 3 points (1 mark for stating and 1 mark for developing)	6																																							
1(c)	The subscription received is debited to the bank/receipts and payments account and credited to the life membership fund. (1) An amount is transferred annually to the income and expenditure account. (1) The remaining balance in the fund is shown in the statement of financial position. (1) Max 2	2																																							

Question	Answer	Marks
1(d)	Beneficial if live longer than 10 years. (1) Otherwise not beneficial. (1) Does he have funds available to pay \$1000? (1) Saves 'trouble' of renewing every year. (1) Avoids any increases in subscriptions over the period. (1) There may be other benefits for life membership. (1) If he wishes to resign before the ten-year period, he may not get any refund. (1) Decision. (1) Max. 4 + Decision 1	5

Question 3

March 2019

The following information is available for a Club.

At 1 July 2017

	\$
Clubhouse at cost	300 000
Accumulated depreciation on clubhouse	156 000
Equipment at cost	140 000
Accumulated depreciation on equipment	64 000
Subscriptions in arrears	7 000
Subscriptions in advance	3 400
Accumulated fund	194 000

For the year ended 30 June 2018

	\$
Operating expenses	192 000
Staff salaries	326 000
Subscriptions received	544 000
Restaurant profit	12 600

At 30 June 2018

	\$
Restaurant inventory	23 400
Restaurant trade payables	12 100
Loan from a club member (repayable 2022)	10 000
Cash and cash equivalents	7 700
Subscriptions in arrears	8 200
Subscriptions in advance	2 400

The following information is also available.

1 Depreciation is charged as follows:

clubhouse at 4% per annum using the straight-line method
equipment at 15% per annum using the reducing balance method

2 Accrued restaurant wages, \$3300, had not been accounted for.

3 The loan from the club member was received on 1 January 2018. Interest is to be paid at 10% per annum. No interest has yet been paid.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Prepare the income and expenditure account for the year ended 30 June 2018. [7]
- (b) State **two** differences between an income and expenditure account and a receipts and payments account. [2]
- (c) Prepare the statement of financial position at 30 June 2018. [7]

Additional information

At 1 July 2017 the following balances for the restaurant were available.

	\$	
Inventory	15 700	
Trade payables	13 900	

- (d) Calculate the restaurant cash surplus or deficit for the year ended 30 June 2018. [4]

Additional information

The club plans to improve the clubhouse next year at a cost of \$50 000. The chairman is considering financing the improvement by either members' loans or taking a bank loan.

- (e) Evaluate whether the club should finance the improvement by members' loans or take a bank loan. Justify your answer. [5]

[Total: 25]

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1(b)	<p>Responses could include:</p> <p>receipts and payments account is a summary of cash book while income and expenditure account is of same nature as an income statement; (1)</p> <p>receipts and payments account applies cash basis accounting while income and expenditure account applies accrual accounting; (1)</p> <p>receipts and payments account records only cash transactions while income and expenditure also records non-cash transactions such as depreciation; (1)</p> <p>receipts and payments account looks for the increase / decrease in cash during the year while income and expenditure account looks for the surplus / deficit; (1)</p> <p>the opening balance of receipts and payments account represents cash balance at bank and in hand while there is no opening balance for income and expenditure account. (1)</p> <p>Accept other valid points. (1 mark) × 2 differences</p>	2

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1(c)	<p>Statement of financial position at 30 June 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> <tr> <th></th> <th style="text-align: right;">Cost</th> <th style="text-align: right;">Accumulated depreciation</th> <th style="text-align: right;">NBV</th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Clubhouse</td> <td style="text-align: right;">300 000</td> <td style="text-align: right;">168 000</td> <td style="text-align: right;">132 000 (1) OF</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">140 000</td> <td style="text-align: right;">75 400</td> <td style="text-align: right;">64 600 (1) OF</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>440 000</u></td> <td style="text-align: right;"><u>243 400</u></td> <td style="text-align: right;"><u>196 600</u></td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">23 400</td> <td></td> </tr> <tr> <td>Subscriptions in arrears</td> <td></td> <td style="text-align: right;">8 200</td> <td></td> </tr> <tr> <td>Cash and cash equivalents</td> <td></td> <td style="text-align: right;">7 700</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>39 300 (1)</u></td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td style="text-align: right;"><u>235 900</u></td> </tr> <tr> <td>Accumulated fund at 1 July 2017</td> <td></td> <td></td> <td style="text-align: right;">194 000</td> </tr> <tr> <td>Surplus for the year</td> <td></td> <td></td> <td style="text-align: right;">13 600 (1) OF</td> </tr> <tr> <td>Non-current liability</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Loan from member</td> <td></td> <td></td> <td style="text-align: right;">10 000 (1)</td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">12 100</td> <td></td> </tr> <tr> <td>Subscriptions in advance</td> <td></td> <td style="text-align: right;">2 400 (1)</td> <td></td> </tr> <tr> <td>Accrued wages</td> <td></td> <td style="text-align: right;">3 300)</td> <td></td> </tr> <tr> <td>Accrued interest</td> <td></td> <td style="text-align: right;">500) (1) OF</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>18 300</u></td> </tr> <tr> <td>Total accumulated fund and liabilities</td> <td></td> <td></td> <td style="text-align: right;"><u>235 900</u></td> </tr> </tbody> </table>		\$	\$	\$		Cost	Accumulated depreciation	NBV	Non-current assets				Clubhouse	300 000	168 000	132 000 (1) OF	Equipment	140 000	75 400	64 600 (1) OF		<u>440 000</u>	<u>243 400</u>	<u>196 600</u>	Current assets				Inventory		23 400		Subscriptions in arrears		8 200		Cash and cash equivalents		7 700					<u>39 300 (1)</u>	Total assets			<u>235 900</u>	Accumulated fund at 1 July 2017			194 000	Surplus for the year			13 600 (1) OF	Non-current liability				Loan from member			10 000 (1)	Current liabilities				Trade payables		12 100		Subscriptions in advance		2 400 (1)		Accrued wages		3 300)		Accrued interest		500) (1) OF					<u>18 300</u>	Total accumulated fund and liabilities			<u>235 900</u>	7
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1(e)	<p>Responses could include:</p> <p>less paper work and procedures (than bank loan)</p> <p>quicker to obtain loan (than bank loan)</p> <p>may not require collateral (vs. bank loan)</p> <p>however:</p> <p>still may have to pay interest</p> <p>still may have to repay the loan</p> <p>already has a loan from a member \$10 000; members may refuse to lend more</p> <p>Accept other valid points. (2 marks) for explaining one reason for obtaining members' loan and (2 marks) for explaining one reason against members' loan. (1 mark) for decision.</p>	5												