RECEIPTS AND PAYMENTS ACCOUNT

Receipts and Payments Account is a summary of the Cash Book. All cash receipts are recorded on the Receipts side (i.e. Debit side) and all cash payments are recorded on the Payments side (i.e. Credit side) of Receipts and Payments Account. It is prepared on the basis of cash and bank transactions recorded in the Cash Book. It begins with the opening balance of cash and bank and ends with the closing balances of cash and bank (balancing figure) at the end of the accounting period. It records all cash and bank transactions both of capital and revenue nature. It not only records the cash and bank transactions relating to the current accounting period, but also the cash and bank receipts (or payments) received during the current accounting period that may be related to the previous or next accounting period.

This account only helps us to ascertain the closing balance of the cash and bank and helps in assessing the cash position of an NPO.

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](https://www.toppr.com/guides/accountancy/financial-statements/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](https://www.toppr.com/guides/economics/government-budget-and-the-economy/revenue-account-and-capital-account/) items and only revenue items are included in this account.

Income and Expenditure Account is a [nominal account](https://www.toppr.com/guides/fundamentals-of-accounting/accounting-process/types-of-accounts/). Therefore, the rule of nominal account (debit all expenses and losses and credit all incomes and gains) is followed while preparing it. While preparing the account, only items of revenue nature are recorded and all items of capital nature are ignored. For example, the profit earned or loss suffered on the sale of an asset will be recorded in it but the amount received from the sale of an asset will not be recorded in it.

The closing balance of this account shows a [surplus](https://www.toppr.com/guides/business-economics/theory-of-consumer-behavior/consumer-surplus/) or deficit for the year. If the credit side exceeds the debit side, there is surplus. On the other hand, if the debit side exceeds the credit side, there is a deficit. The surplus is added to the Capital Fund while the deficit is deducted from the Capital Fund.

**Preparation of Income and Expenditure Account**

For preparing an income and expenditure account, follow the steps as listed below.

* Include all items of revenue receipts and expenses, on the respective side of the account.
* Ensure that no items of capital incomes and expenses are included in this [account](https://www.toppr.com/guides/fundamentals-of-accounting/accounting-process/types-of-accounts/).
* Also, [adjustment](https://www.toppr.com/guides/accountancy/financial-statements/need-adjustment-closing-stock-outstanding-expenses/) for amounts prepaid and outstanding, with respect to each item will have to be made.
* Further, items included in [receipts](https://www.toppr.com/guides/accountancy/accounting-for-not-for-profit-organisations/receipt-payment-account/) and payment account, [depreciation](https://www.toppr.com/guides/principles-and-practice-of-accounting/concept-and-accounting-of-depreciation/concept-and-meaning-of-depreciation/), [provisions](https://www.toppr.com/guides/accountancy/depreciation-provision-and-reserves/provisions/), and [profit or loss](https://www.toppr.com/guides/quantitative-aptitude/profit-and-loss/profit-and-loss-practice-questions/) on sale of [assets](https://www.toppr.com/guides/accounting-and-auditing/preparation-of-final-accounts-of-sole-proprietor/classification-of-assets-and-liabilities/) will have to be included in this account.
* Finally, after putting down all items of revenue and expenses, you’ll get a balance. The resulting balance will then reveal the surplus or deficit for the period.