Electricity Accounting

Electricity accounting is important to CA-PE - II. Before learning electricity accounting or accounts of electricity companies, you should learn Indian Electricity Act 1910, Indian Electricity Supply Act 1948, Indian Electricity Rule 1956 and Electricity Act 2003 because financial provisions are given in these laws. Now, on its financial provision, we are explaining electricity accounting.

Clear Profit in Profit and Loss Account of Electricity Company

Clear profit means the difference between the total income and total expenditure plus specific appropriations. The above two laws define the income, expenditure and appropriations of electricity company. The provisions are set out below for ready understanding in the form of an account :

Expenditures		Incomes	
1. Cost of generation and purchase of energy		1. Gross receipts from sale of energy less discounts applicable to sale	
2. Cost of distribution and sale of energy		2. Rental of meters and other apparatus hired to consumers	
3. Rent, rates and taxes (Excluding taxes on income or profits)		3. Sale and repair of lamps and apparatus	
4. Interest on loans advanced by the board		4. Rents less outgoings not otherwise provided for	
5. Interest on security deposits		5. Transfer fees	
6. Bad Debts		6. Interest from investments, fixed and call deposits and bank balances	
7. Auditor's fees		7. Other receipts liable for Indian income tax and arising from ancillary or incidental to the business of electricity supply.	
8. Management expenses including remuneration to			

managing agents			
9. Depreciation			
10. Other expenses			
11. Contribution to provident fund, staff pension, gratuity, apprentice and other training schemes			
12. Bonus paid to the employees of the undertaking in accordance with the decision of labor tribunal of state govt.			
13. Balance Profit C/d			
Appropriations		1. Balance Profit b/d	
1. All taxes on income			
2. Balance being Clear Profit			

2. Adjustment of Dividend and Dividend Tax

After calculating net profit from profit and loss account, dividend and dividend tax is adjusted from it.

	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10
	12 mths	12 mths	12 mths	12 mths	12 mths
Reported Net Profit	**610.54**	**696.80**	**869.90**	**922.20**	**947.65**
Total Value Addition	514.36	780.25	675.22	767.90	908.13
Preference Dividend	0.00	0.00	0.00	0.00	0.00
Equity Dividend	168.41	188.22	241.38	255.98	285.36
Corporate Dividend Tax	23.42	31.99	26.95	31.75	37.98

3. Balance Sheet of Electricity Company

To make balance sheet of electricity company is the important part of electricity accounting. Here we are given the example of TATA Power's past 5 years balance sheet.

Balance Sheet of Tata Power Company	------------------ in Rs. Cr. ------------------				
	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10
	12 mths	12 mths	12 mths	12 mths	12 mths
Sources Of Funds					
Total Share Capital	197.92	197.92	220.72	221.44	237.33
Equity Share Capital	197.92	197.92	220.72	221.44	237.33
Share Application Money	0.00	0.00	60.99	0.00	0.00
Preference Share Capital	0.00	0.00	0.00	0.00	0.00
Reserves	5,315.91	5,793.03	7,771.12	8,422.06	10,386.44
Revaluation Reserves	0.00	0.00	0.00	0.00	0.00
Networth	**5,513.83**	**5,990.95**	**8,052.83**	**8,643.50**	**10,623.77**
Secured Loans	946.00	1,354.30	2,331.09	3,931.71	4,105.38
Unsecured Loans	1,850.81	2,321.22	752.26	1,315.35	1,766.63
Total Debt	**2,796.81**	**3,675.52**	**3,083.35**	**5,247.06**	**5,872.01**
Total Liabilities	**8,310.64**	**9,666.47**	**11,136.18**	**13,890.56**	**16,495.78**
	Mar '06	**Mar '07**	**Mar '08**	**Mar '09**	**Mar '10**
	12 mths	12 mths	12 mths	12 mths	12 mths
Application Of Funds					
Gross Block	5,924.74	6,229.71	6,481.99	8,985.86	10,010.80
Less: Accum. Depreciation	2,921.72	3,199.40	3,476.50	3,795.32	4,258.06
Net Block	**3,003.02**	**3,030.31**	**3,005.49**	**5,190.54**	**5,752.74**
Capital Work in Progress	211.81	781.05	1,681.74	761.16	476.21
Investments	**3,412.17**	**3,570.15**	**4,430.00**	**5,443.47**	**6,688.62**
Inventories	442.26	396.42	473.61	644.14	589.36
Sundry Debtors	1,058.23	1,478.22	1,414.52	1,587.97	1,976.31
Cash and Bank Balance	25.57	956.29	28.70	45.50	1,277.64
Total Current Assets	1,526.06	2,830.93	1,916.83	2,277.61	3,843.31
Loans and Advances	544.68	862.68	2,039.90	2,493.82	2,110.95
Fixed Deposits	964.98	411.43	0.00	0.00	0.00
Total CA, Loans & Advances	3,035.72	4,105.04	3,956.73	4,771.43	5,954.26
Deffered Credit	0.00	0.00	0.00	0.00	0.00
Current Liabilities	778.34	1,194.67	1,354.03	1,624.05	1,673.48
Provisions	589.20	631.58	585.44	651.99	702.57
Total CL & Provision	1,367.54	1,826.25	1,939.47	2,276.04	2,376.05
Net Current Assets	**1,668.18**	**2,278.79**	**2,017.26**	**2,495.39**	**3,578.21**
Miscellaneous Expenses	15.46	6.17	1.69	0.00	0.00
Total Assets	**8,310.64**	**9,666.47**	**11,136.18**	**13,890.56**	**16,495.78**
Contingent Liabilities	313.09	1,314.86	1,231.68	978.44	906.81
book value Rs)	278.62	302.73	362.11	390.36	447.68

Important Points If you are maintaining the Accounts of Electricity Company

1. # Depreciation should be lower than depreciation charge as per Income Tax Law. Excess of depreciation charge as per income tax law and you calculate under electricity law will be deferred taxation reserve which will be show in reserves and surplus.

2. # The law seeks to prevent an electricity undertaking from earning too high a profit. For this purpose, reasonable return has been defined as consisting of an yield at the standard rate which is reserve bank rate plus 2 percent on the capital base. Following example will explain this.

'H' Electricity Company earned a profit of Rs.60,00,000 (after tax) after paying Rs.48,000 at 12% interest on debentures for the year ended 31.3.2007. The following further information is supplied to you:

	Rs.
Share Capital	2,50,00,000
Reserve Fund Investment (invested in 8% Government Securities at par)	60,00,000
Contingencies Reserve Fund Investment (7%)	25,00,000
Loan from State Electricity Board	50,00,000
Development Reserve	16,00,000
Fixed Assets	6,00,00,000
Depreciation Reserve on Fixed Assets	60,00,000
Security Deposits of customers	80,00,000
Amount contributed by consumers towards cost of Fixed Assets	4,50,000
Intangible Assets	17,50,000
Tariffs and Dividends Control Reserve	22,00,000
Monthly average of Current Assets including amount due from customers Rs.5,00,000	36,00,000

Show, how the profits of the company will be dealt with under the provisions of the Electricity Act, assuming the bank rate of the year was 8%. All working notes should form part of your answer. (16 Marks) (PE II, Nov. 2007)

Answer

'H' Electricity Company

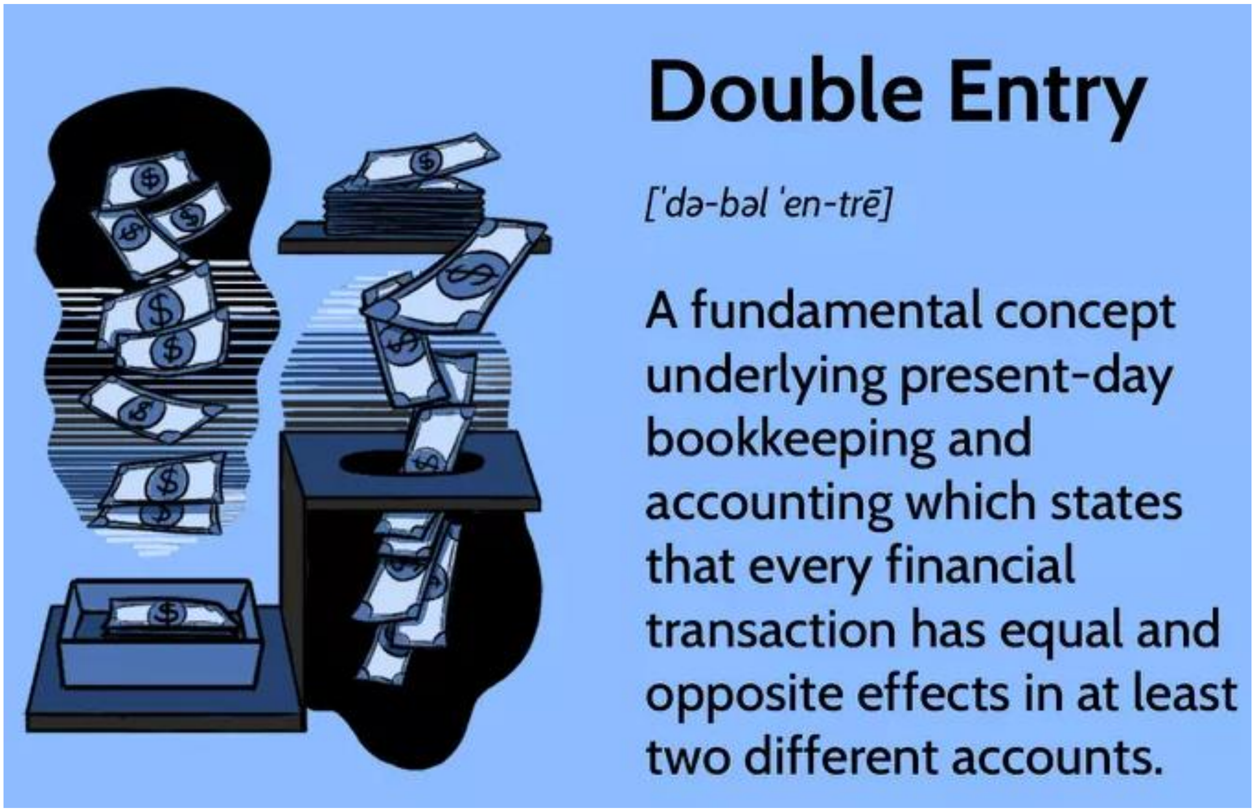
Statement of Distribution of Profit for the year ended 31.3.2007

Capital Base

	Rs.	Rs.
Fixed Assets as reduced by customers contribution		
(6,00,00,000 – 4,50,000)	5,95,50,000	
Intangible Assets	17,50,000	
Monthly average of Current Assets (Excluding amount due from customers i.e. 36,00,000 – 5,00,000)	31,00,000	
Contingencies Reserve Fund Investment	25,00,000	6,69,00,000
Deduct:		
Depreciation Reserve	60,00,000	
Loan from Electricity Board	50,00,000	
12% Debentures ($48{,}000 \times \frac{100}{12}$)	4,00,000	
Development Reserve	16,00,000	
Security Deposits of Customers	80,00,000	
Tariffs and Dividends Control Reserve	22,00,000	2,32,00,000
Capital Base		4,37,00,000

Reasonable Return

	Rs.
10% (Bank Rate + 2%) on Capital Base	43,70,000
8% on Reserve Fund Investment	4,80,000
½% on Loan from Electricity Board	25,000
½% on Debentures	2,000
½% on Development Reserve	8,000



Double entry is a bookkeeping and accounting method, which states that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the accounting equation:

Assets=Liabilities+EquityAssets=Liabilities+Equity

Types of Business Accounts

Bookkeeping and accounting are ways of measuring, recording, and communicating a firm's financial information. A business transaction is an economic event that is recorded for accounting/bookkeeping purposes. In general terms, it is a business interaction between economic entities, such as customers and businesses or vendors and businesses.

Under the systematic process of accounting, these interactions are generally classified into accounts. There are seven different types of accounts that all business transactions can be classified:

- Assets
- Liabilities
- Equities
- Revenue
- Expenses
- Gains

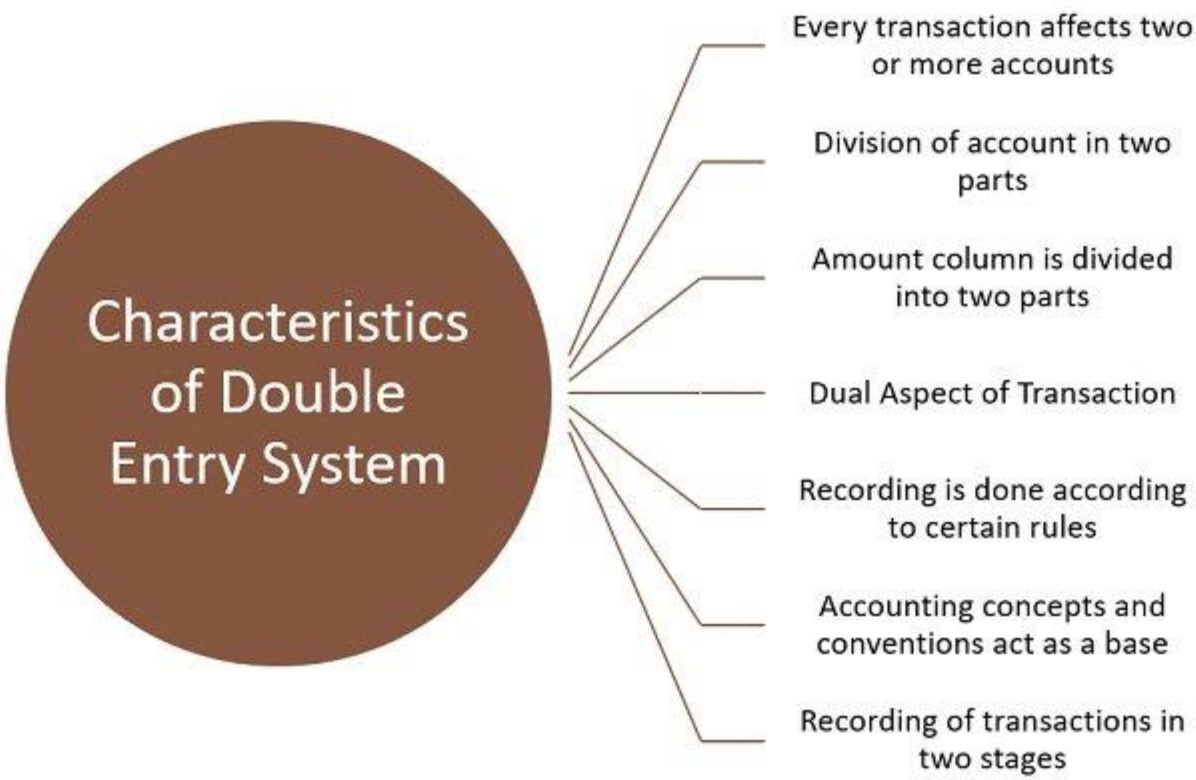
- Losses

Bookkeeping and accounting track changes in each account as a company continues operations.

Debits and Credits

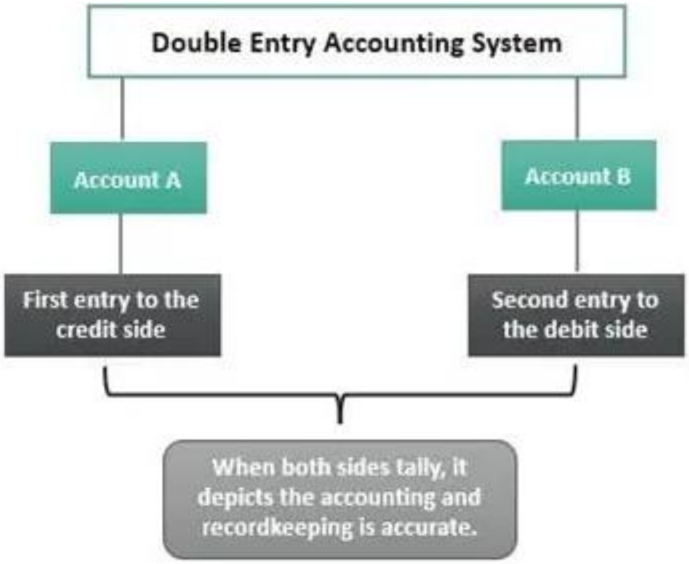
Debits and credits are essential to the double-entry system. In accounting, a debit refers to an entry on the left side of an account ledger, and credit refers to an entry on the right side of an account ledger. To be in balance, the total of debits and credits for a transaction must be equal. Debits do not always equate to increases and credits do not always equate to decreases.

A debit may increase one account while decreasing another. For example, a debit increases asset accounts but decreases liability and equity accounts, which supports the general accounting equation of Assets = Liabilities + Equity. On the income statement, debits increase the balances in expense and loss accounts, while credits decrease their balances. Debits decrease revenue account balances, while credits increase their balances.



Double Entry Accounting System Definition

A double entry accounting system refers to the bookkeeping method where two entries are made simultaneously into two different accounts, indicating a firm’s cash inflow and outflow. The purpose is to tally both the accounts and balance the credit and the debit side. This accounting system helps organizations assess their overall performance in a financial year.



It is different from the single entry accounting system, which involves filling in the information in only one account. Only a single entry recording the income and expenses in a cash register helps maintain the financial information to enable businesses to assess their position.

- A double entry accounting system refers to the bookkeeping process in which two entries are made simultaneously in two different accounts to ensure that the credit and debit sides tally.
- It works on the principle that states the company's financial scenario is efficient if the debit entries and credit entries remain balanced at any given point in time.
- Every credit entry should have an equal and consecutive debit entry.
- A mismatch of credit and debit sides at any point in time will mean accounting error, which could be easily rectified when the method of accounting used is double entry.

How Does The Double Entry Accounting System Work?

The double entry bookkeeping was introduced between the 13th and 14th centuries, and one of its first mentions is found in Luca Pacioli's book, published in 1494. He was well-known as the Father of Accounting, and he explained the double entry accounting method in detail to readers.

The double entry accounting system means keeping the transactions in order. It operates on the principle that every transaction in one account has an equal and opposite entry in the other. For example, every amount credited in one account will be a debit record for another. A bookkeeper makes the same entry in two places to reflect two different transaction scenarios. Hence, it is named a double entry bookkeeping system.

The Chart of Accounts, which remains up to date, becomes one of the best sources for accounting professionals to find the breakdown of the transactions and crosscheck the double entries made on the accounts' credit and debit sides, respectively. Making a dual entry in two different accounts involved in the transaction indicates the net effect of that transaction.

For example, when people buy something, it becomes a debit from their pocket or bank account, but the product goes into their credit record as they receive it in return. Similarly, the shopkeeper records the amount on the credit side, and the product taken out of the inventory becomes a debit record.

Rules

In a double entry accounting system, the total volume of assets must balance with the total number of liabilities and shareholders' equity a company has at a given point in time.

Thus, the accounting equation of double entry bookkeeping system can also be expressed as:

Total Assets=Total Liabilities+Total Equity

This accounting method works on certain rules or principles, which every accounting professional knows about and users are expected to be aware of. When double entry bookkeeping is done, the following things should be taken into account and crosschecked for accuracy:

- The credit side is to the right, and the debit side is to the left.
- Every debit record has a similar credit entry.
- Debit is the beneficiary; credit is the one who gives benefits.
- In the case of personal accounts, the giver is credited, the receiver is debited.
- The expenses are recorded as a debit for a nominal account, and income is the credit entry.
- In the case of the real account, inflows are debit, and outflows are credit.

Advantages

The double entry accounting method offers a number of benefits to organizations adopting it all in terms of accuracy, systematic organization, and better performance monitoring.ome of the advantages of the double entry accounting system are as follows:

- When the credit and debit sides tally, it ensures that the recordkeeping is up to the mark.
- If there is a mismatch in the records, it is quick enough for accounting professionals to identify errors and rectify the same.
- This accounting system sets the recordkeeping standards for all financial firms and industries.
- There is a unique reporting structure, and, therefore, the records remain well-organized.
- All similar types of information are put together, making it easier for people to create a balance sheet.
- As the liabilities are well mentioned, it is easier to identify the financial obligations.
- When the overall financial scenario is crystal clear, making financial decisions is easier as decision-makers remain well informed.

Example

Let us consider the following example to understand the double entry bookkeeping process:

Dan booked an office table for his new set up at $2,000. He paid $1,000 in advance, and $1,000 was due upon delivery after the table was ready. Here is how the entries were posted in the double entry system of accounting on that particular date:

To	Furniture A/c	$2,000 Dr.
By	Cash	$1,000 Cr.
By	Accounts Payable A/c	$1,000 Cr.

The first case denotes a debit record and a corresponding credit, indicating a net effect, which comes to zero. Although three accounts were given effect in the second case, the net entry between debit and credit is 0. Hence, the double-entry system of accounting suggests that every debit should have a corresponding credit.

When Dan booked his office table, he paid only $1,000. As a result, the unpaid amount for the day becomes accrued in Accounts Payable A/c (which means it is supposed to be paid later).

On delivery of the table, the payment is made, and the effect of entries looks like this:

To	Accounts Payable A/c	$1,000 Dr.
By	Cash	$1,000 Cr.

Single Entry Accounting vs Double Entry Accounting System

Recordkeeping is handled as single entry accounting and double entry accounting. The former deals with making a one-time entry into an account, be it an expense or income. On the contrary, the latter is about making two entries simultaneously to two different accounts and marking both the debit and credit sides.

The double entry system is more organized and helps assess the overall financial scenario of a company. Hence, the tax authorities trust and accept the method for tax purposes. However, a single entry accounting method is less trusted and not acceptable for tax computation by the authorities.

With single entries, fraudulent activities become common, and tampering with the record is usual for companies. On the other hand, it's easy to track accounting errors and issues in a double-entry bookkeeping system when the credit and debit sides don't tally.

The single entry accounting system is suitable and could be recommended for only small businesses, while the other one is suitable for companies of all types and sizes.

Revenue Accounts: With Definition, Types And Examples

Businesses are required to earn good revenue to remain competitive and pay for their operational expenses. They receive the revenue income in specific accounts called revenue accounts and maintain credit balances in them. Knowing about such accounts can help you with the management of your company's revenues. In this article, we describe what revenue accounts are, how they work, the different types of such accounts and provide examples of them.

What Are Revenue And Revenue Accounts?

Revenue is the money that an individual or a business earns from selling products or services to their customers. Revenue accounts are financial accounts that contain the receipts of the income or revenue that the individual or company receives through their business transactions. All income statements include revenue information, and it is a good indicator of how well the individual or business is doing on the commercial front. A high revenue turnover indicates business success, and a low revenue turnover typically means there are issues.

A business can earn a profit by increasing its income and lowering its production costs and other business expenses. The revenue can come from a single source or multiple business sources, and you can calculate it by adding together the price of a product or service and the number of units the company sells. All businesses try to increase their revenues by streamlining production to decrease costs, finding new customers and markets and using various marketing strategies to boost sales.

How Revenue Is Classified?

The classification of revenue in an income statement is as follows:

Gross revenue

The total amount of money that a business makes by selling products or services is its gross revenue. So, if a company spends ₹50 on a product and sells it for ₹200, then ₹200 is its gross revenue. It is also known as gross sales. The gross revenue calculation can be at the end of a monthly reporting cycle or after an annual reporting cycle. So, the monthly gross revenue gives the total number of sales that the company generated in a specific month. The annual gross revenue is the total number of sales it generated in one year.

Net revenue

A company's net revenue is the revenue that remains after deducting all its business expenses and the costs of goods sold from its gross revenue. The deductions can include employee salaries, material costs, equipment costs, product discounts and product returns. So, if a company has a gross revenue of ₹50,00,000 and spends ₹25,00,000 on running its business operations, its net revenue is ₹50,00,000 -₹25,00,000 = ₹25,00,000.

How Does Revenue Work?

The revenue generation process includes the following elements:

Top line

When a business earns money by selling products or services, the revenue is known as top line. The term comes from the fact that the top line income appears at the top of the income statement. The reported top line revenue may be for a month, a quarter, a half year or a year. It is the total sales amount or gross revenue of the company before making deductions for operational costs. The top line is useful for measuring business growth and assessing the company's ability to stay competitive in its specific market.

Calculating revenue

A company may calculate its revenue monthly, quarterly, half-yearly or yearly. It would add the number of sales it had in each period and report the income it earned in its financial statement for that period. The company may use the accrual accounting method or the cash accounting method to calculate its revenue. In the accrual accounting method, the company records its revenue when the transaction takes place, not when it receives money for the transaction. In the cash accounting method, the company records the income when it collects the transaction money.

The accounting method that a company selects has an impact on its income statement and balance sheet.

Balance sheet

A balance sheet is a financial summary of all the business assets of a company or everything it owns. It also includes all the business liabilities of the company or everything it owes. It would also show the owner's equity, which is the resulting amount after subtracting the liabilities from the assets.

Types Of Revenue Accounts

An income statement can include the following types of revenues:

Operating revenues

The revenue that a company earns from its principal business operations is its operating revenue. It generally forms a greater part of the company's total income. Operating revenues for companies can vary according to their business type and industry. Some common examples of operating revenues are:

- Sales: When a business sells products or services to customers and receives money in exchange, it records the transaction as its sales revenue.
- Rents: When property owners rent out houses, apartments, buildings and land to tenants, the income they earn from the rental contract is their rental revenue.
- Professional services: When professionals in any field provide consultancy services to clients, the payments they receive for these services are the professional service revenues.

Non-operating revenues

When a company earns an income from business activities aside from its main business operations, the income counts as a non-operating revenue. Such revenue includes the following:

- Interest revenue: The income that a business earns from investments, bank deposits and the repayments and interest from loaned money is known as interest revenue.
- Asset sales: When a company sells its assets and equipment, the one-time proceeds it gets from the sale are known as asset sales revenue.

Related: Gross Income: What It Is and How To Calculate It per Month

Examples Of Revenue

The following are some examples of revenue:

- Government revenue: It is the revenue that the government collects from income taxes, property taxes, sales taxes, fines and penalties, securities sales, intergovernmental transfers, rental fees and corporate payroll contributions.
- Non-profit organisation revenue: It is the revenue that comes from membership fees, individual donations, fundraiser collections, fees from hosted events, foundation grants and government grants.
- Real estate investment revenue: It is the revenue that a property generates from renting rooms, conference halls, banquet halls, wedding halls, facilities for recreation centres, shops, spaces for ATMs and parking spaces.

Revenue Recognition Methods

Businesses may collect revenue directly after delivering or providing products or services and submitting an invoice or based on the percentage of completion. To prevent businesses from changing what can qualify as revenue for their gains, regulators and analysts aim to standardise revenue recognition policies industry-wise. These can depend on how a business operates in a specific industry and under what circumstances. Some well-known revenue recognition methods applicable across business sectors are as follow:

Completed contract method

As per this accounting method, companies are required to report all the revenue they earn and the expenses they incur only after they complete the project contract. Companies generally adopt the completed contract method of revenue recognition if they are not sure about the exact completion date for the project and when they would get paid for the work. It is possible to postpone tax liabilities by postponing revenue recognition. However, that can also delay expense recognition and impair tax reduction. An example of a completed contract method is a construction project that can take two or more years to complete.

Related: Basics of Accounting - Terminology, Principles and Concepts

Cost recovery method

The cost recovery method involves recovering the total costs accrued by a business in creating the services or goods it sells to its customers. It would record the generated income and gross profit from the sales only after it has earned back the entire amount it spent. An example of the cost recovery method is when a company records its profit only after it has recovered the capital it used to finance its business operations.

Installment method

In the installment method of revenue recognition, after a business makes a sale, the buyer pays for it with periodic payments spread out over a specified time given in the installment sales contract. The business can calculate the gross profit percentage of the total price and consider that it has received the entire gross profit only after the buyer has completed the total installment payments. Installment payment methods are for big purchases, such as machinery, consumer appliances, property and land, where buyers cannot pay the substantial amounts upfront.

Percentage of completion method

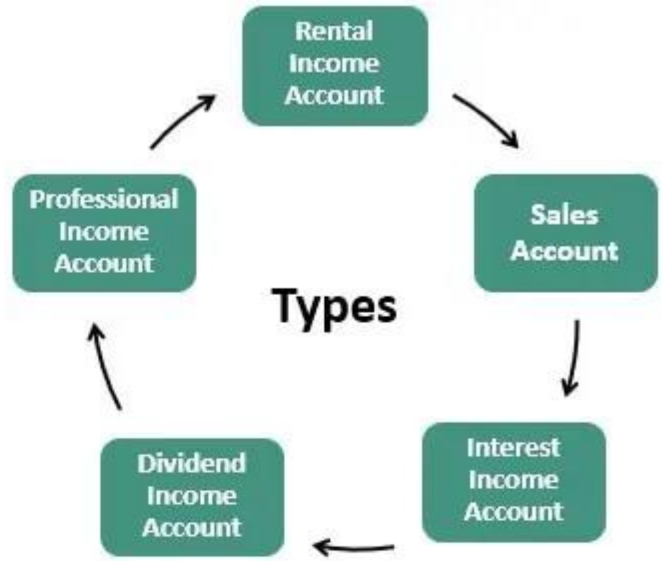
Businesses that undertake projects spanning over months or years use the percentage of completion method of revenue recognition. The companies can include the estimated costs, revenues and phases for work completed in the work contract and determine the completed work percentage. They are required to report their revenues and expenses as the clients pay them for completed milestones on a phase-by-phase basis. This type of accounting method is usually in the construction industry where clients pay when the work starts, when it is partially complete and after it is over.

Sales-basis method

Revenue recognition happens at the time of the sale in the sales-basis method of accounting. It is common in businesses where the buyer pays upfront for goods or services and takes them away directly after payment. An example of a sales-basis method is when a customer walks into a shop, pays in cash for a purchase and takes it away.

Types of Revenue Accounts

1. There are various Operating & Non-Operating accounts such as:-



Sales Account

2. Interest Income Account
3. Rent Income Account
4. Dividend Income Account
5. Professional Income Account

Now let us discuss these accounts in details:-

#1 – Sales Account

Under this account, the Income from main activities known as Operating Activities, is recorded. The various ratios such as Turnover ratio, Gross profit ratio, and Net profit ratio is calculated, taking the figure of this account as the base amount for all the ratio calculations of any entity.

#2 – Rental Income Account

If a company has the main object of its business as renting activities, this rental income account would be called an Operating Income Account/ Sales account. But if renting is not the primary activity of the business, then it would fall under the Non-Operating Revenue Accounts. Under this account, all the debits and credits only relate to income from rental activities.

#3 – Interest Income Account

Interest in Capital. Under this account, the Revenue earned by the entities from interest is recorded, such as Interest on Fixed Deposits, Interest on Income Tax Refund. These incomes are earned from the saving activities performed or undertaken by the entities during the year.

#4 – Dividend Income Account

This is another Non-Operating Revenue account, under which income earned from dividends is recorded. These are generally incomes earned on Investments in Indian Companies or Foreign Companies by the entities.

#5 – Professional Income Account

Under this, the Income from professional activities such as Commission Income, and Service Fees for Services provided, are recorded. This is also the Income from the main operations of the entity and is recorded under this head, therefore known as Operating Revenue Account.

Examples of Revenue Accounts

Example #1

Amit owns a shop that deals in the trading of goods. He also provides repair service for a few of the goods he deals in. He also has income from Fixed Deposits made by him in the banks. The income of Amit from various activities he is involved in are Turnover from the trading activity of $ 450,000/-; Interest Income of $ 8,000/-; Service Receipts of $ 150,000/-.

Prepare Revenue Account for the above question and draft a Profit & Loss Account to show these entries.

Solution

Following are the Revenue Accounts of Amit:

Sales Revenue Account					
Date	**Particular**	**Amount($)**	**Date**	**Particular**	**Amount($)**
			XX/XX/20XX	By Bank/Debtors A/c	450,000
31/03/20XX	To Profit & Loss A/c	450,000			
		450,000			**450,000**

Interest Revenue Account					
Date	**Particular**	**Amount($)**	**Date**	**Particular**	**Amount($)**
			XX/XX/20XX	By Bank A/c	8,000
31/03/20XX	To Profit & Loss A/c	8,000			
		8,000			**8,000**

Service Receipts Account					
Date	Particular	Amount($)	Date	Particular	Amount($)
			XX/XX/20XX	By Bank/Debtors A/c	150,000
31/03/20XX	To Profit & Loss A/c	150,000			
		150,000			**150,000**

Draft Profit & Loss Account					
Date	Particular	Amount($)	Date	Particular	Amount($)
			31/03/20XX	By Sales Revenue Account	450,000
			31/03/20XX	By Interest Revenue Account	8,000
			31/03/20XX	By Service Revenue Account	150,000
31/03/20XX	Net Profit	608,000			
		608,000			**608,000**

Important Points

Various points must be kept in mind to pass entries in a Revenue Account. The main points are discussed below:-

- It is the income earned by a business from Operating & Non-Operating Activities.
- It is also termed as Sales, Turnover, and Receipts, etc.
- Revenue is the income received from a business in cash or cash equivalent.
- They are General Ledger accounts that are prepared periodically for any business.
- Revenue account names describe the type of revenue. There are many accounts out of which a few important are explained above.
- Donations, Voluntary Contribution, is also part of these accounts, mainly in Non-profit organizations.

In the Books of "________________ "

Incomes and Expenditure Account

As of____ June, 20__

Expenditures		Amount	Incomes		Amount
To "____"	____		By' "____"	____	
Add: Outstanding at the end	____	-	Add: Outstanding at the end	____	
	____		Advance in the beginning	____	-
Less: Outstanding in the beginning	____		Less: Outstanding in the beginning	____	
To "____"	____	-	Advance at the end	____	
Less: Advance Insurance at end	____		By' "____"	____	
To "____"	____		Add: Outstanding at the end	____	
Add: Outstanding at the end	____	-	Advance in the beginning	____	-
	____		Less: Outstanding in the beginning	____	
Less: Outstanding in the beginning	____		Advance at the end	____	
To "__________" A/c		-	By "__________"		-
To "__________"		-	By "__________"		-
To "__________"		-	By "__________"		-
Less: Outstanding in the beginning		-	By "__________"		-
		-			-
		-			-

Example of an Account and Its Balance Sheet

Suppose we have basic expenditures and incomes for an Income-Expenditure Account. Also, we have additional information regarding entries. The additional information indicates different phases of a transaction. The additional information is:

(i) Employees' **Salary Outstanding** at the end of the month is **$2,000**.

(ii) Employees' **Salary Outstanding,** in the beginning of the month, is **$10,000**.

(iii) **Advance Office Maintenance** payment is **$2,000**.

(iv) **Office Rent Outstanding** at the end is **$5,000**.

(v) **Office Rent Outstanding**, in the beginning, is **$1,500**.

(vi) **Revenue Outstanding** at the end of the month is **$2,000**

(vii) **Revenue Outstanding** in the beginning of the month is **$15,000**.

viii) **Revenue Advance**, in the beginning, is **$10,000**.

(ix) **Revenue Advance**, at the end, is **$3,500**.

(x) **Fees' Outstanding**, at the end of the month is **$5,000**.

(xi) **Fees' Outstanding**, in the beginning of the month is **$5,000**.

(xii) **Fees' Advance**, in the beginning, is **$1,000**.

(xiii) **Fees Advance**, at the end, is **$2,500**.

Using this additional information, you can create an Income and Expenditure and Balance Sheet in Excel as depicted below.

In the Books of "________________"

Incomes and Expenditure Account

As of____ June, 20__

Expenditures		Amount	Incomes		Amount
To Employee Salary	$35,000		By Revenue	$50,000	
Add: Outstanding at the end	$2,000		Add: Outstanding at the end	$2,000	
	$37,000	$27,000	Advance in the beginning	$10,000	$43,500
				$62,000	
Less: Outstanding in the beginning	$10,000		Less: Outstanding in the beginning	$15,000	
To Office Maintenance	$6,500	$4,500	Advance at the end	$3,500	
Less: Advance payment at end	$2,000		By Fees	$50,000	
To Rent	$3,500		Add: Outstanding at the end	$5,000	
Add: Outstanding at the end	$5,000	$7,000	Advance in the beginning	$1,000	$48,500
	$8,500			$56,000	
Less: Outstanding in the beginning	$1,500		Less: Outstanding in the beginning	$5,000	
To Operating A/C		$10,000	Advance at the end	$2,500	
To Catering		$10,000	By Interest		$5,000
To Surplus (Balance Figure)		$38,500			
		$97,000			$97,000

Income and expenditure account

The income and expenditure account **is an account prepared by [non-trading concerns](#) to ascertain surplus or deficit of income over expenditures for a particular period. It is prepared as a part of final accounts of non-trading concerns and is equivalent to profit and loss account prepared by for-profit business enterprises. The [accrual concept](#) of accounting is strictly followed while preparing income and expenditure account of non-trading entities. Surplus or deficit balance**

If revenues of a non-trading concern exceed its expenditures during the year, the income and expenditure account shows a surplus balance; and if, on the other hand, the expenditures exceed income, the account shows a deficit balance. The surplus balance is also expressed as "excess of income over expenditure" and deficit balance as "excess of expenditure over income".

Format

Like any other account, income and expenditure account consists of two sides – a debit side to enter expenditures and and a credit side to enter revenues or incomes of non-trading concerns. A simple format of this account is shown below:

INSTITUTION NAME
INCOME AND EXPENDITURE ACCOUNT
For the year ended_________

Expenditure	$	Income	$

Characteristics of income and expenditure account

You should keep in mind the following important characteristics of an income and expenditure account:

1. Income and expenditure account prepared by non-trading concerns is very much like the profit and loss account prepared by trading concerns.
2. It is always prepared at the end of the period which usually (but not always) consists of one year.
3. It is prepared by strictly following the principles of double entry system of accounting or bookkeeping.

4. The incomes and expenditures of only revenue nature are included in this account. Any income and expenditure of capital nature is not included.
5. It determines the surplus or deficit of income over expenditures of the non-trading concerns for the year.
6. The surplus or deficit from the income and expenditure account is transferred to the *capital fund account.*
7. It does not start with an opening balance; it reflects incomes received and expenditures incurred by non-trading concerns during the year.
8. The accrual concept of accounting is strictly followed while its preparation.
9. It is prepared by accountants appointed by the entity's management and is audited by an independent auditor.

Steps for preparing an income and expenditure account from a receipt and payment account

Follow the following steps for preparing an income and expenditure account from a receipt and payment account:

1. Obtain the receipt and payment account of non-trading concern for which you want to prepare an income and expenditure account.
2. Ignore the beginning and ending balances of receipt and payment account.
3. Remove all the payments relating to previous years' expenditures, future years' expenditures and capital payments for the current year.
4. Remove all the receipts relating to previous years' income, future years' income and capital revenue for the current year.
5. Include current year's incomes and revenue expenditures including depreciation on all fixed assets of the entity.
6. Find the balance of the account which may be a surplus or a deficit balance.

Example

The following receipts and payments account was prepared by Zeenat Golf Club for the year ended December 31, 2017:

ZEENAT GOLF CLUB
RECEIPTS AND PAYMENTS ACCOUNT
For the year ended December 31, 2017

Receipts	$	Payments	$
Balance b/d	7,600	Supports equipment (purchased on Oct. 1, 2017)	20,000
Subscriptions:		Tournament expenses	4,000
2016	4,000	Electricity	1,000
2017	37,000	Printing	600
2018	1,800	Salaries and wages	6,800
Entrance fees	1,600	Exhibition expenses	4,200
Interest on investment	3,000	Balance c/d	18,400
	55,000		55,000

Characteristics of income and expenditure account

You should keep in mind the following important characteristics of an income and expenditure account:

1. Income and expenditure account prepared by non-trading concerns is very much like the profit and loss account prepared by trading concerns.
2. It is always prepared at the end of the period which usually (but not always) consists of one year.
3. It is prepared by strictly following the principles of double entry system of accounting or bookkeeping.
4. The incomes and expenditures of only revenue nature are included in this account. Any income and expenditure of capital nature is not included.
5. It determines the surplus or deficit of income over expenditures of the non-trading concerns for the year.
6. The surplus or deficit from the income and expenditure account is transferred to the *capital fund account.*
7. It does not start with an opening balance; it reflects incomes received and expenditures incurred by non-trading concerns during the year.
8. The accrual concept of accounting is strictly followed while its preparation.
9. It is prepared by accountants appointed by the entity's management and is audited by an independent auditor.

Steps for preparing an income and expenditure account from a receipt and payment account

Follow the following steps for preparing an income and expenditure account from a receipt and payment account:

1. Obtain the receipt and payment account of non-trading concern for which you want to prepare an income and expenditure account.

2. Ignore the beginning and ending balances of receipt and payment account.
3. Remove all the payments relating to previous years' expenditures, future years' expenditures and capital payments for the current year.
4. Remove all the receipts relating to previous years' income, future years' income and capital revenue for the current year.
5. Include current year's incomes and revenue expenditures including depreciation on all fixed assets of the entity.
6. Find the balance of the account which may be a surplus or a deficit balance.

Balance sheet of non-trading concerns

The basic principles for preparing the balance sheet of non-trading concerns are same as of trading concerns. The balance sheet of non-trading concerns may be prepared either in the order of permanence or in the order of liquidity. Some specific items that usually become the part of the balance sheet of non-profit organizations have been discussed here.

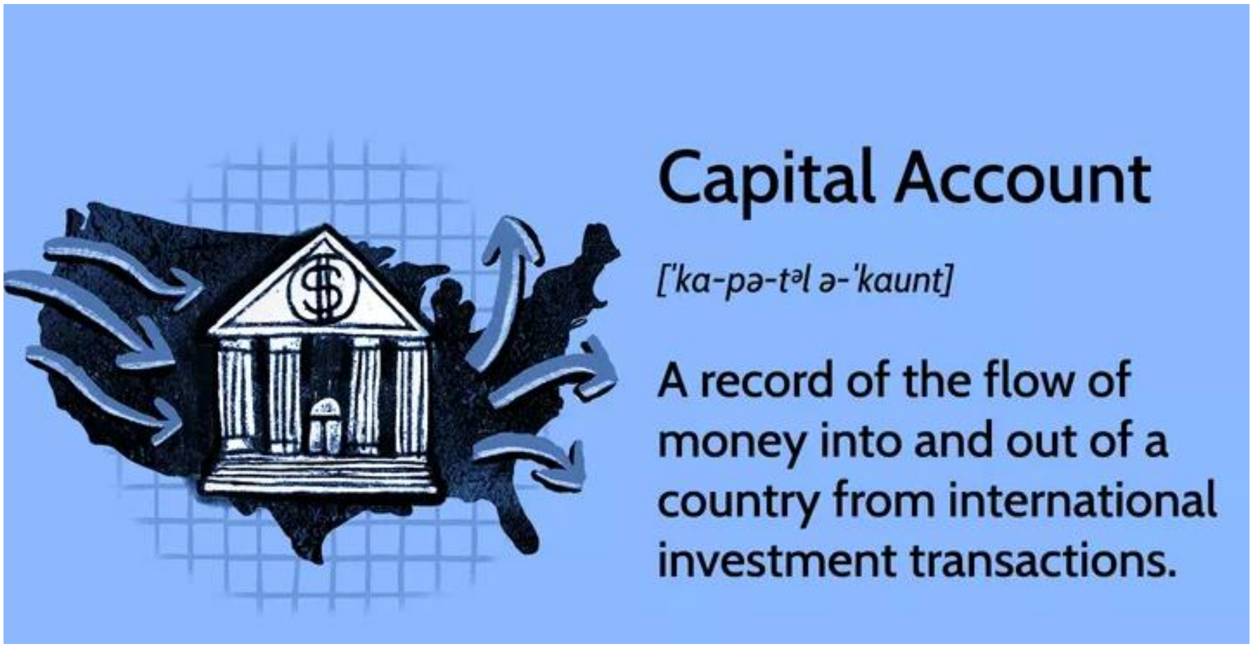
Format

A simple format/specimen of balance sheet of non-profit organization is given below:

NAME OF THE ORGANIZATION
BALANCE SHEET
-----Date-----

Liabilities		$	Assets		$
Capital fund	XXXX		Building	XXXX	
Add: Surplus	XXXX	XXXX	Less: Depreciation	XXXX	XXXX
Subscription received in advance		XXXX	Furniture	XXXX	
Outstanding wages		XXXX	Less: Depreciation	XXXX	XXXX
Outstanding salaries		XXXX			
			Sports equipment	XXXX	
			Less: Depreciation	XXXX	XXXX
			Subscription receivable		XXXX
			Prepaid rent		XXXX
			Cash		XXXX
Total liabilities		XXXX	Total assets		XXXX

Notice that the sample balance sheet of non-trading concerns given above is similar to that of trading concerns with the exception of capital fund in place of owner's capital or owner's equity. This sample only presents the format and does not depict the complete list of items that should appear on the balance sheet of a non trading concern. The items appearing on an actual balance sheet of a non-trading concern may be more or less than the items in above sample.



What Is a Capital Account?

The capital account, in international macroeconomics, is the part of the balance of payments which records all transactions made between entities in one country with entities in the rest of the world. These transactions consist of imports and exports of goods, services, capital, and as transfer payments such as foreign aid and remittances. The balance of payments is composed of a capital account and a current account—though a narrower definition breaks down the capital account into a financial account and a capital account. The capital account measures the changes in national ownership of assets, whereas the current account measures the country's net income.

In accounting, the capital account shows the net worth of a business at a specific point in time. It is also known as owner's equity for a sole proprietorship or shareholders' equity for a corporation, and it is reported in the bottom section of the balance sheet.

Key Takeaways

- The capital account, on a national level, represents the balance of payments for a country.
- The capital account keeps track of the net change in a nation's assets and liabilities during a year.
- The capital account's balance will inform economists whether the country is a net importer or net exporter of capi

Capital Account vs. Financial Account

In recent years, many countries have adopted the narrower meaning of capital account used by the International Monetary Fund (IMF). It splits the capital account into two top-level divisions: the *financial account* and *capital account*. The capital and financial accounts measure net flows of financial claims (i.e., changes in asset position).2 3

An economy's stock of foreign assets versus foreign liabilities is referred to as its net international investment position, or simply net foreign assets, which measures a country's net claims on the rest of the world. If a country's claims on the rest of the world exceed their claims on it, then it has positive net foreign assets and is said to be a net creditor. If negative, a net debtor. The position changes over time as indicated by the capital and financial account.

The financial account measures increases or decreases in international ownership of assets, whether they be individuals, businesses, governments, or central banks. These assets include foreign direct investments, securities like stocks and bonds, and gold and foreign exchange reserves. The capital account, under this definition, measures financial transactions that do not affect income, production, or savings, such as international transfers of drilling rights, trademarks, and copyrights.

Current vs. Capital Account

The current and capital accounts represent two halves of a nation's balance of payments. The current account represents a country's net income over a period of time, while the capital account records the net change of assets and liabilities during a particular year.

In economic terms, the current account deals with the receipt and payment in cash as well as non-capital items, while the capital account reflects sources and utilization of capital. The sum of the current account and capital account reflected in the balance of payments will always be zero. Any surplus or deficit in the current account is matched and canceled out by an equal surplus or deficit in the capital account.

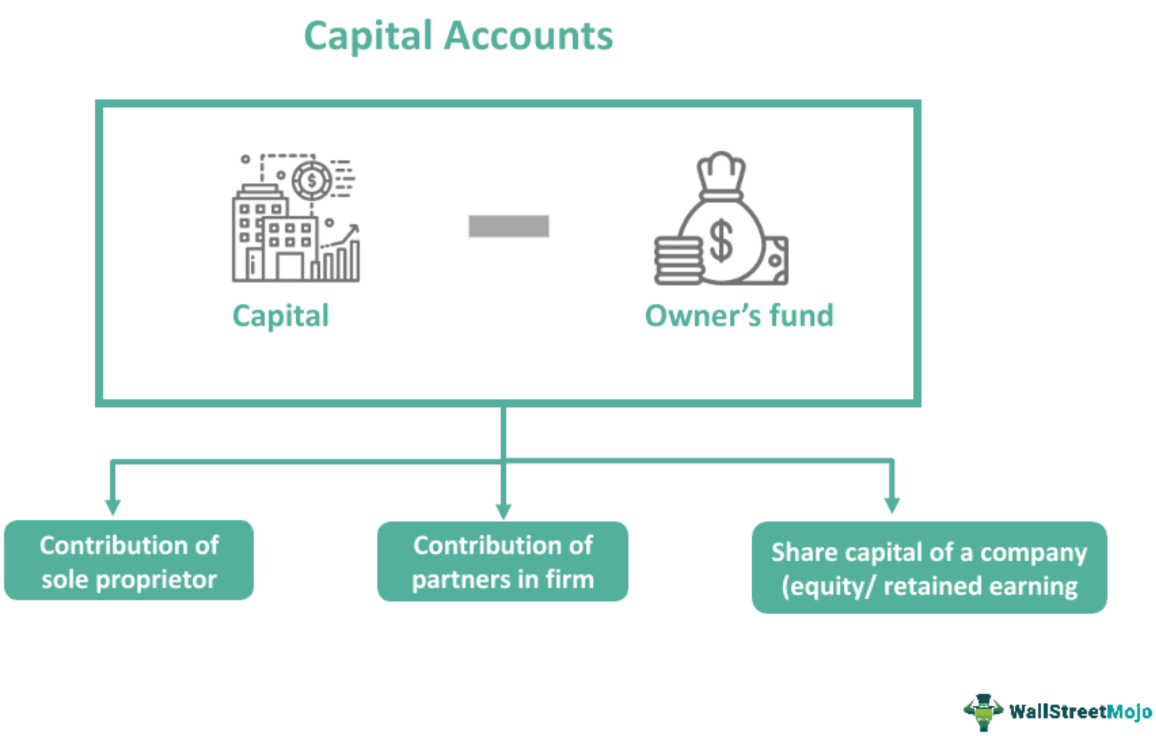
The current account deals with a country's short-term transactions or the difference between its savings and investments. These are also referred to as actual transactions (as they have a real impact on income), output, and employment levels through the movement of goods and services in the economy. The current account consists of visible trade (export and import of goods), invisible trade (export and import of services), unilateral transfers, and investment income (income from factors such as land or foreign shares).

The credit and debit of foreign exchange from these transactions are also recorded in the balance of current account. The resulting balance of the current account is approximated as the sum total of balance of trade.

Capital Accounts in Accounting

In accounting, a capital account is a general ledger account that is used to record the owners' contributed capital and retained earnings—the cumulative amount of a company's earnings since it was formed, minus the cumulative dividends paid to the shareholders. It is reported at the bottom of the company's balance sheet, in the equity section. In a sole proprietorship, this section would be referred to as owner's equity and in a corporation, shareholder's equity.

In a corporate balance sheet, the equity section is usually broken down into common stock, preferred stock, additional paid-in capital, retained earnings, and treasury stock accounts. All of the accounts have a natural credit balance, except for treasury stock that has a natural debit balance. Common and preferred stock are recorded at the par value of total shares owned by shareholders. Additional paid-in capital is the amount shareholder's have paid into the company in excess of the par value of stock. Retained earnings is the cumulative earnings of the company overtime, minus dividends paid out to shareholders, that have been reinvested in the company's ongoing business operations. The treasury stock account is a contra equity account that records a company's share buybacks.



- The Capital Account records all the transactions related to the capital invested in an organization. It maintains all the transactions of capital reinvestment, the balance of money, and any withdrawal or adjustment.
- The sum in this account for a sole proprietorship would be the proprietor's payments less any sums taken or draws and current earnings.
- The capital account of a business organization consists of the stock capital, additional paid-in capital, other capital contributions, and retained earnings.

- Moreover, this account is essential to identify the number of assets funded with capital and the number of investments in debt finances.

Capital Account Explained

For a sole proprietorship, the amount in this account would consist of the proprietor's contributions net of any amounts withdrawn, i.e., drawings and accumulated profits to date.

Similarly, for a **capital account in partnership**, this account would include the outstanding balances of capital contributions of the partners after accounting for drawings made by them and profit distributions done to them by the profit-sharing ratio. While drawings would reduce the capital balance, the profit appropriation to partners would increase their **capital account components**.

Talking about the company, it includes share capital (both equity and preference capital), additional paid-in capital, retained earnings and any equity reserve.

Formula

The formula for a **capital account balance** can easily be derived using the accounting equation. So let us first have a look at the accounting equation.

Assets = Liabilities + Capital

As we can see, the amount of assets in any business at any point in time is the sum of its liabilities and capital. Thus, if we want to calculate the amount in the **capital account on balance sheet**, we need to use the below formula:

Capital = Assets – Liabilities

We can derive the amount of capital by reducing the number of liabilities from the number of assets reflected on the balance sheet of any business.

attribution link

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1. **Stock Capital:** This includes the amount of equity and preference stock. It represents the amount invested by the stockholders against which they have been issued units of stocks.
2. **Additional Paid-in Capital:** It represents the amount received from the stockholders over face value. It is also known as "stock premium."
3. **Other Capital Contributions:** For sole proprietors and **capital account in partnership**, they would include the owners' capital account, i.e., the capital balance of the sole proprietor and the partners, respectively.
4. **Retained Earnings:** This represents the accumulated profits of a business on a particular date. Also, any reserves created out of such accumulated profits shall also be taken into account.

Importance

- The **capital account balance** becomes an essential part of the financial statements of any business because it represents the amount that remains invested in the business by the owners on a particular day.
- We can use this amount to identify how much assets have been financed with capital, i.e., owners and how much portion is debt-financed.
- This account can be used to calculate different financial ratios such as debt-equity ratio, and so on.
- It helps the banks and other financial institutions decide whether to grant further loans to such a business or not.

Limitations

- This account alone is not decisive for reaching any conclusion; if investors want to analyze the financial position of a business, they need to look at the entire balance sheet.
- The calculation of **capital account components** can vary slightly from one business form to another.

Capital Account Vs Current Account

- The former records all the owner's capital contributed by owners less any drawings, whereas a current account shows the revenue income and expenses.
- The former records the investments heavy expenditure but the latter records inflow and outfow of funds related the the operations of the enterprize.
- The amount in the capital account is usually larger than the current account

Particulars	Rs.	Particulars	Rs.
To Balance from last year's Account		By Balance from last years Account	
To Interest on loans		By Balance brought from Revenue Account	
To Contingency reserve		By Interest on Bank Account	
To Interest on debentures		By Balance carried to General Balance Sheet	
To Dividends			
To Balance carried to General Balance Sheet			

Particulars	Rs.	Particulars	Rs.
(A) **Generation**		By Sale of energy for lighting	
To Fuel			
To Oil wastage, water		By Sale of energy for power	
To Salary of engineers			
To Wages and gratuities		By Sale of energy under	
To Repairs and maintenance		special contracts	
(B) **Distribution**		By Public lighting	
To Salary of engineer			
To Wages and gratuities		By Rental of meters	
To Repairs			
		By Rent receivables	
(C) **Public Lamps**			
To Attendance and repairs		By Transfer fees	
To Renewals			
		By Other items	
(D) **Rent, Rates and Taxes**			
To Rents payable		By Miscellaneous receipts	
To Rates and taxes			
		By Sale of ashes	
(E) **Management Expenses**			
To Director's remuneration		By Reconnection and	
To Management		disconnection fees	
To General establishment			
To Auditor of the company			
(F) **Law Charges**			
To Law charges			
(G) **Depreciation**			
To Lease			
To Buildings			
To Plant			
To Mains			
To Meters, etc.			
(H) **Special Charges**			
To Bad Debts			