

Club Accounts Theory | Accounting

Explain Capital receipt and Revenue receipt with an example from each (2019 Examcraft Mock):

- Capital Receipt: Income received by enterprise which is non-recurring in nature. Generally, part of financing and investing activities rather than operating activities (long term...i.e. loan from bank // equipment grant).
- Revenue receipt: Arises from core activities of the enterprise and occur on a regular basis (short term... i.e. subscriptions // interest received).

Capital & Revenue expenditure can also be asked

- Capital expenditure: refers to expenditure on items where the benefit derived is expected to last a long time (longer than 1 year).
- Revenue expenditure: refers to expenditure where the benefit derived is of a temporary nature (less than 1 year).

Distinguish between a “levy”, and a “life membership”. Explain how both are treated in the a/c’s. (2016):

- Levy: Money collected from members to fund the buying of new fixed assets. It’s normally once off and must be used for the purpose it was collected. It’s treated as a long-term liability in the Financed by section of the balance sheet.
- Life membership: Fee paid by a member entitling him/her to use the club’s facilities for life. Treated as a long-term liability in the balance sheet and can be written off over a given number of years.

What is a receipts and payments a/c of a club? Outline any (2) of its limitations for the club’s members. (2015 Examcraft mock):

- A R&P a/c is a club’s cash book showing opening and closing cash/bank balance and all money in + out. It must be recorded by the club treasurer.

Limitations of a R&P a/c:

- Doesn’t show if a club is making enough funds to cover its costs.
- Amounts due at the end of the year are not included.

- Doesn't include non-cash items (i.e. depreciation).
- Doesn't highlight whether the club is profitable or not.

How might a club finance an extension?

- Attract new members.
- Raise subscription and levy fee.
- Sell investments.
- Arrange a loans and sponsorships...
- Run fundraisers (bingo, poker etc.)
- Get a grant from the national lottery.
- Organise a Life membership scheme.

What is the difference between a levy and a subscription?

- A *levy* is money collected from members which is used to finance the buying of new fixed assets. It's normally once off and must be used for the purpose it was collected for. A levy is recorded in the financed by section of the balance sheet.
- A *subscription* is a fee paid by the members which goes towards the day-to-day running of a club. It appears in the income of the income and expenditure a/c.

Duties of a Club Treasurer. (2004):

- Ensures that subscriptions and other funds are collected.
- Makes payments to cover the club's day-to-day running costs.
- Makes regular bank lodgements.
- Maintains proper records and produces receipts for money received.
- Produces a treasurers report at the AGM.
- Produces cash flow projections.
- Advises members of financial implications and any proposed expenditure.

Special purpose P&L a/c. (2008):

- This is a profit and loss account prepared by a club on a certain activity that is carried out in order to generate profit. E.g. lottery, bingo, poker...

The next 3 solutions cover a range of answers for more demanding theory questions which are generally found in any 100-mark club a/c

It is proposed to increase the levy by €x per annum over (5) years to fund the purchasing of new fixed assets. As a member, what would you say about this? (2013 + 2008):

- The levy would raise a total of € [total levy x total members x (5)].
- The club has funds amounting to: Investments + building society + cash = €Total.
- The club has a surplus of €x even after repaying the loan and purchasing equipment.
- However, a sizeable portion of the club's income is from sponsorships and entrance fees which cannot be guaranteed in future years.
- The club should use their cash and investments and borrow the remainder, or they could continue with their current levy for (5) years and borrow a smaller amount at the end of the (5) years.
- The new fixed assets could increase: rent received // membership // Advertising income.

Indicate the points you, as treasurer, would make if the members at the AGM proposed to reduce the subscription rate by 10% (2007 Examcraft mock):

- Surplus would be reduced from €x to €y.
- This suggests that the club is in a good financial position as it has also just paid off a loan of €x.
- They have €x closing bank balance.
- However, much of this income is from sponsorships and entrance fees which can't be guaranteed every year.
- Instead of reducing, they should use the extra funds to improve facilities.

The club is considering course improvements at a cost of €x. What advice would you give to the treasurer of the club? (2011):

Layout:

1. Overall:

- I would (/wouldn't recommend).

2. Benefits:

- Increase membership and therefore income.

3. Reasons (normally 2):

- The club is capable of generating income from within. This is clear as they have a surplus of €x.
- Positive trends can be seen as the club moved from a bank overdraft to a positive bank position whilst also repaying a loan and purchasing equipment in the same accounting period.

4. Scenarios:

- To fund the extension of €x, they should use the bank balance and withdraw from the investment fund.
- Funds available = Bank balance + investments -levy reserve fund.
- The remainder should be borrowed and repaid quickly, which the club have clearly shown they are capable of doing.

5. Caution:

- They should avoid using the levy reserve fund which has already been set aside for future capital expenditure.