

Resource Sheet – Accounting

Club Accounts - Student Activity Answers

(Q1) State where each of the following is shown in the accounts:

- (a) Life membership 1/1
- (b) Subscriptions received in advance 1/1
- (c) Subscriptions due 1/1
- (d) Investment interest due 1/1
- (e) Levy reserve fund 1/1
- (f) Bank balance (cr) 1/1
- (g) Entrance fees
- (h) Annual sponsorship
- (i) Equipment grant
- (j) Prize bonds
- (k) Transfer to building society
- (l) Cheque received dishonoured
- (m) Cheque received dishonoured not subsequently recovered
- (n) Life membership 31/12
- (o) Levy reserve fund 31/12

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|--------------------------------------|---|
| (a) Life membership 1/1 | Statement of Accumulated Fund – liability |
| (b) Subscriptions in advance 1/1 | Statement of Accumulated Fund – liability |
| (c) Subscriptions due 1/1 | Statement of Accumulated Fund – asset |
| (d) Investment interest due 1/1 | Statement of Accumulated Fund – asset |
| (e) Levy reserve fund 1/1 | Statement of Accumulated Fund – liability |
| (f) Bank balance (cr) 1/1 | Statement of Accumulated Fund – liability |
| (g) Entrance fees | Income and Expenditure Account – income |
| (h) Annual sponsorship | Income and Expenditure Account – income |
| (i) Equipment grant | Balance Sheet – add to accumulated fund |
| (j) Prize bonds | Balance Sheet – current asset |
| (k) Transfer to building society | Balance Sheet – current asset |
| (l) Cheque received dishonoured | Balance Sheet – add to debtors |
| (m) Cheque dishonoured not recovered | Income and Expend. Account – bad debt (expense) |
| (n) Life membership 31/12 | Balance Sheet – long-term liability |
| (o) Levy reserve fund 31/12 | Balance Sheet – add to accumulated fund |

(Q2) Explain each of the following terms and state where each is shown in the accounts:

- (a) Levy.
- (b) Life membership.
- (c) Entrance fees.

- (a) Levy: A payment made by members to fund a special project e.g. clubhouse extension. It must be used for the purpose for which it is collected. It is a capital receipt (on a once off basis or for a specific number of years) and is credited to a Levy Reserve Fund.
- (b) Life Membership: A fee paid by a member entitling him/her to use the facilities of the club for the rest of his/her life. It is treated as a long-term liability in the balance sheet and can be written off to income over a stated number of years.
- (c) Entrance Fees: Fees paid by new members in the first year of membership in addition to the subscription paid for the year. These fees are treated as income in the year of receipt.

(Q3) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.

Special Purpose Profit & Loss Account: Sometimes non profit making organisations e.g. a club prepare a profit and loss account for profit making activities e.g. bar, restaurant, lotto. All related revenues and expenses are entered in a special purpose profit and loss account and the profit/loss is transferred to the income and expenditure account.

(Q4) Advise the treasurer of the club on whether the levy scheme in the question above should be continued. The levy scheme aims to fund an extension to the clubhouse costing €175,000. Use figures from this question to support your answer.

Advice to the Treasurer on whether the levy scheme in the question above should be continued

- (a) The balance in the levy reserve fund is now €70,000 needing a further €105,000. This requires €35,000 annually in each of the next three years.
- (b) The bank balance increased this year by €37,800 and could increase by a further €64,800 in each of the next three years since the loan has been repaid.
- (c) The annual levy can be discontinued and the €35,000 provided through the current account but only if the entrance fees €15,000 and annual sponsorship €19,500 continue.

(Q5) State what other financial advice you would give the treasurer. Use figures from this question to support your answer.

Other financial advice given to the Treasurer

- (a) Withdraw most of the large current account balance €42,050 and invest it to earn interest.
- (b) Investigate the catering which should not be making a loss of €2,300.

- (Q6) To fund the course improvements of €110,000 the treasurer has proposed that another levy of €105 be introduced for three years. As an ordinary member, what arguments would you make against this proposal? Use figures from this question to support your answer.

Arguments against a levy of €105 for three years to fund the course improvements of €110,000

- (a) The total levy of €205 would be 66.6% of the annual subscription €308 ($€107,800 \div 350$). This would result in some existing members leaving and some new members not joining. Subscriptions €107,800 and entrance fees €15,000 would both fall.
 - (b) Net funds of €51,850 are currently available [see (d) (ii)].
 - (c) The shortfall €58,150 can be borrowed and repaid within two years if the excess income remains at €31,310 but entrance fees €15,000 and annual sponsorship €19,500 are not guaranteed in the future.
 - (d) The financial position is strong – the bank balance increased by €37,800 to €42,050 having paid off €64,800 and although the equipment grant of €20,000 is a capital receipt, the purchase of equipment €19,000 is not an annual expense.
 - (e) Course improvements will increase membership leading to excess income, usage of the bar and catering increasing also.
- (Q7) Indicate the points that you, as treasurer, might make if the members at the AGM of the club proposed to reduce the annual subscription by 20%. Use figures from this question to support your answer.

Points made by the Treasurer if the members propose to reduce the annual subscription by 20%

- (a) A reduction of 20% would reduce the income by €21,560.
- (b) The new excess income of €9,750 includes entrance fees €15,000 and annual sponsorship €19,500 not guaranteed in the future.
- (c) The financial position is strong – net funds of €51,850 are currently available [see (d) (ii)] but these funds are set aside for future capital expenditure.
- (d) Annual subscriptions should remain at the present level and some of this money used to improve facilities and attract new members.