

**CLUB ACCOUNTS**

**PAST QUESTIONS**

**PAST EXAM**

**60 Marks**

**QUESTIONS**

1. Distinguish between 'levy' and 'life membership'. Explain how both are treated in the accounts.  
(8)

2016

2. Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account. (3)
3. The club has decided to lay an all-purpose floor at a cost of €150,000. The Treasurer has proposed to increase the levy by €120 per annum and extend it for five more years. As an ordinary member what arguments would you make against this proposal? (7)

2013

4. Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.(3)
5. If it were proposed to introduce a further four year levy to fund a €250,000 extension what points would you as an ordinary member now make. (7)

2008

**ANSWERS**

**2016**

**Distinguish between 'levy' and 'life membership'. Explain how both are treated in the accounts. (8)**

**Levy**

1. This is a payment made to a club by its members to fund a special project such as a clubhouse extension. It must be used for the purpose for which it is collected.
2. It is a capital receipt (on a once off basis or for a specific number of years) and is credited to a reserve fund.
3. It is due to the members until it is used so it is treated as a long-term liability in the balance sheet.

**Life Membership**

1. This is where a club member pays a fee that entitles her/him to use the facilities of the club for the rest of her/his life.
2. 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.

**2013**

**Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account. (3)**

1. Sometimes non-profit making organisations such as a club prepare a profit and loss account for activities that are carried out to make a profit e.g. running a club lotto, dances, bar, restaurant etc.
2. All expenses and revenues relating to the particular activity are entered in a special purpose profit and loss account and the profit/loss is then transferred to the income and expenditure account.

**The club has decided to lay an all-purpose floor at a cost of €150,000. The Treasurer has proposed to increase the levy by €120 per annum and extend it for five more years. As an ordinary member what arguments would you make against this proposal? (7)**

The proposed levy would raise €150,000 over the next 5 years [200 x 150 x 5]

The club has funds amounting to:

Investments      30,000

Building society   28,000

## Club Accounts

Cash                    4,310  
                              62,310

As a member I would make the case:

1. The proposed levy of €200 [120 +80] amounts to 66% of the annual subscription.
2. An increased levy would discourage new members and perhaps cause a drop in membership.
3. The club is capable of generating enough income from within as it has a surplus of income amounting to €69,099 and it is financially sound as it has a cash balance of €4,310, building society investment of €28,000 and 4% government investments €30,000 totalling €62,310.
4. Although a sizeable proportion of the surplus is provided by sponsorship of €73,000 and it cannot be guaranteed in future years it should be noted that this figure is well below the non-recurring capital amounts paid during the year i.e. equipment €41,000 and loan €44,800 amounting to €85,800.
5. The club should use the cash and investments totalling €62,310 and borrow the remainder of €90,000 or continue with current levy of €80 for 5 years plus use current funds and borrow €28,000
6. The improved facilities could: Increase the rent earned from the arena Increase membership
7. Encourage increased advertising income

### 2008

**Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.(3)**

1. Sometimes non profit making organisations such as a club prepare a Profit and Loss account for activities that are carried out to make a profit e.g. running a club lottery, dances, bar, restaurants etc.
2. All expenses and revenues relating to that particular activity are entered in a special profit and loss account and the profit is then transferred to the income and expenditure account.

**If it were proposed to introduce a further four year levy to fund a €250,000 extension what points would you as an ordinary member now make. (7)**

1. The proposed levy would raise €200,000 over 4 years [250 x 200 x 4]
2. Yes/No
3. As a member I would make the case that
4. the club is capable of generating enough income from within as it has a surplus of income of €63,180.

## Club Accounts

5. The club is financially sound as it has cash of €13,960, building society investment of €60,000 and 5% government investments €24,000 totalling €97,960 even after it has paid off a loan and interest of €33,600 and had purchased equipment for €45,000.
6. However a sizeable proportion of the surplus is provided by Entrance Fees of €15,000 and Sponsorship of €25,000. This income cannot be guaranteed in future years.

**CLUB ACCOUNTS**

**PAST QUESTIONS**

**PAST EXAM**

**100 Marks**

**QUESTIONS**

1. The club would like to build a new driving range at a cost of €350,000. Outline the options available to the club in funding this project with reference to the accounts.

2019

2. State and explain two limitations of a Receipts and Payments Account. (6)
3. The club is considering the installation of floodlights at a cost of €70,000. What advice would you give to the Treasurer of the club? (9)

2011

**ANSWERS**

**2019**

**The club would like to build a new driving range at a cost of €350,000. Outline the options available to the club in funding this project with reference to the accounts. (10)**

They could fund it as follows:

Sales of investments	€67,500
Bank balance	<u>€83,300</u>
Total	€150,800
Less levy	<u>(€60,000)</u>
Net available	€90,800

1. Investments can be sold which would realise €67,500.
2. They have a very healthy bank balance of €83,300 and would have no problem meeting interest repayment. They could fund this extension by borrowing the remainder of €259,200 without having to touch their levy reserve fund. A loan could be obtained as the club is a profitable concern with more than adequate security in the form of its clubhouse and course.
3. Based on the financial results for the year 2018, the club had a surplus of income of €65,180 when this is added to the depreciation of €18,450, a non-cash item. It would indicate a cash inflow from operating activities in the region of €83,630. This shows that the club, based on existing performance is very capable of repaying a loan. They have also repaid a loan with interest of €20,900 and bought equipment of €15,000, and transferred €10,000 from their building society.
4. A sizeable part of their surplus, €34,900 of the income is coming from annual sponsorship, entrance fees and lottery funding. These are not guaranteed as a source of income.

**2011**

**State and explain two limitations of a Receipts and Payments Account. (7)**

1. does not show whether the club is raising enough funds to cover its running costs
2. amounts due but unpaid at the end of the accounting period are not included
3. only shows an increase or decrease in cash although there could be outstanding bills
4. does not take into account losses such as depreciation x does not show whether the club bar or restaurant are profitable
5. does not distinguish between receipts for the current year and other years

**The club is considering the installation of floodlights at a cost of €70,000. What advice would you give to the Treasurer of the club? (9)**

1. Yes I would advise the treasurer to go ahead and install the floodlights.
2. The improved facilities would allow longer use of club courts resulting in added income from usage. This could enable the club to increase its membership and thereby increase the annual surplus of income as well as greater usage of restaurant and bar.
3. The club is in a strong financial position: It has a surplus of income over expenditure of €34,894 in the current year. At this rate of surplus enough funds would be generated in little over two years. The club has increased its bank balance to €45,180 after paying off a loan of €30,000 during the year. [includes levy €20,000] To fund the expenditure of €70,000 the club could use the cash balance of €45,180, the prize bonds of €4,400 and withdraw €20,420 from the investment fund.
4. The club should avoid using any of the funds raised through the levy as this is more than likely earmarked for other purposes and these funds may be needed for future capital expenditure.

Funds available without Reserve

Fund Investments	50,000
Prize bonds	4,400
Bank balance	<u>45,180</u>
	99,580
Less Levy	<u>(40,000)</u>
Net available	59,580

Borrow the remainder in the short term as the club is capable of paying back quickly through its regular income sources.