

ACCOUNTS OF PROFESSIONALS

Professional persons like doctors, solicitors, chartered accountants etc. prepare Receipts and Expenditure Account and Balance Sheet. Receipts and Expenditure Account is prepared to find out profit or loss from professional activities and a Balance Sheet is prepared to know the financial position of the professional firm.

Receipts and Expenditure Account:

In Income and Expenditure Account both cash and credit transactions are recorded, but in Receipts and Expenditure Account mercantile system is followed in respect of expenses only that means both cash payments as well as outstanding expenses relating to that particular period are recorded. However cash system is followed in respect of incomes. Outstanding incomes are not taken into account. The reason is that it is considered imprudent and risky to recognize the outstanding income. This is based on the accounting principle that 'anticipated losses must be provided for but anticipated profits should not be taken into consideration'. There is one difference between Income and Expenditure Account and Receipts and Expenditure Account and that is provision of outstanding incomes.

Preparation of Receipts and Expenditure Account from Receipts and Payments Account:

1. Sides of both these accounts are opposite
2. Following items from Receipts and Payments Account are not to be taken:
 - Opening and Closing Cash/Bank Balances
 - Revenue incomes and expenses relating to last year or next year.
 - Capital receipts and payments
 - Revenue receipts to be capitalized

3. Following revenue incomes and expenditures are added from other information:
 - Outstanding incomes for current year
 - Outstanding expenses for current year
 - Incomes received in advance in the last year
 - Prepaid expenses in the last year
4. Depreciation, bad debts provisions
5. Profit/loss from sale of assets and payment of liabilities
6. Provision for outstanding incomes (Closing) to be made on Debit side of Receipts and Expenditure Account (If there is Opening provision for outstanding income it is recorded on Credit side of Receipts and Expenditure Account)