

Query No. 21

Subject: Accounting treatment of Admission Fee.¹

A. Facts of the Case

1. An Association (hereinafter referred to as 'Association' or 'club') was registered under the Karnataka Societies Registration Act, in the year 1973 and regulated by the Memorandum of Rules and regulations framed thereunder (a copy of which has been supplied by the querist for the perusal of the Committee). Association is promoting golfing activities and is also registered under section 12A of the Income-tax Act.

2. The Association receives applications for membership along with 'one-time payment' of entrance fee. The membership is confirmed in due course subject to availability/vacancies with the Association.

3. Total number of members is defined in the Memorandum of Rules (MoR) and the selection of membership is also regulated on periodical rests. Till the application is converted to confirmation of membership, the entrance fee received is treated as liability under the head 'Returnable Advance-Entrance Fee'. Upon confirmation of membership, this amount is capitalized and transferred to Capital Fund.

4. The querist has informed that on confirmation of membership, the entrance fees received in advance is transferred to the Capital Fund and declared in the return of income as capital receipt for the relevant assessment year. The return of income indicates the sources of income including capitalisation of advance entrance fee along with the Certificate in Form 10B. Further, the income tax is calculated on the income from non-members which is mainly interest income from fixed deposits which are ancillary to the main objects.

5. The querist has also informed that the financial statements are prepared in accordance with Accounting Standards, issued by the Institute of Chartered Accountants of India (ICAI).

6. The querist has submitted the following information separately:

- (i) With regard to whether the membership fee is refunded in full to the applicant in case the membership is not accepted, Rule 15.1 of MoR states as follows:

“In the event of a Member Elect/ Associate Elect not being confirmed, the entrance fee collected will be refunded after deducting all amounts due to the Club”

- (ii) With regard to whether the entrance fee entitles to the members only admission/joining rights or it confers to the members, any other rights/services/privileges also, the querist has stated that the entrance fee entitles the applicant to be interviewed for the category to which he/she has applied. The candidate after the interview process elucidated in Rules 13.1 to 13.8 of MoR is either declared elected as Member Elect/Associate Elect or unconfirmed/ rejected. If the candidate is declared as Member Elect/Associate Elect, he has to fulfil the requirements under Rule 14 of MoR to be confirmed as a Member/Associate. If the candidate is unconfirmed/rejected, the entrance fee is returned under Rule 15. The candidate enjoys rights and privileges as per his category under Rule 16 only after final confirmation. The period of membership is as per the category to which the candidate is elected.

¹ Opinion finalised by the Committee on 29.10.2020 and 30.10.2020.

Further, Rule 16 of MoR states as follows:

“16. Rights, Privileges & Restrictions:

16.1 Members, Associates and all users of the Association shall be governed by the Rules, Bye-laws of the Association and the direction of the Committee from time to time.

16.2 No individual can be a Member/Associate under more than one category except as a nominee of a Corporate Associate. When elected to any other category he / she shall relinquish the existing Membership / Associateship. The entrance fee paid for the relinquished category shall not be refunded.

16.3 Members:

16.3.1 They are entitled to all rights of using the Club, credit facility, participation in the general meetings, management of the Association, proposing or seconding candidates and right to information including perusal of any documents including minutes except privileged information.

16.3.2 A member on completion of continuous membership of 10 years shall be entitled to propose one child, on completion of 15 years a second child and on completion of 20 years a third child for Permanent Membership. (See rule 12.6)

16.3.3 Founder Life Members and Honorary Life Members are exempt from payment of monthly subscription, course maintenance fee and minimum charges.

16.3.4 Life Members are exempt from payment of monthly subscription.

16.4 Permanent Associates / Permanent Service Associates

They are entitled to rights of using the Club and credit facilities.

16.5 Members – Elect or Associates-Elect, Temporary & NRI or OCI Associates

16.5.1 Member-Elect, Associate-Elect, Temporary Associates, Temporary Service Associates, Short Term Temporary Associates and Student Associates are entitled to the rights of using the Club facilities against a deposit determined by the Committee from time to time.

16.5.2 NRI or OCI Associates and Corporate Associates are entitled to the use of the Club and credit facilities.

16.5.3 They are not entitled to stand for election to the committee, to propose / second candidates and participate in general meetings.

16.6 Senior Dependant Associates:

16.6.1 Senior Dependant Associates and their spouses and children are entitled to all rights of using the Club and credit facilities under the account of the parent Member.

16.6.2 However, Spouse and Children of Senior Dependant Associate are not entitled to introduce guests.

16.7 Student Associates:

16.7.1 Student Associates are restricted only to the use of course and driving range facilities. They may avail catering and non-alcoholic beverages at the designated areas.

16.7.2 They shall settle their dues by cash coupons or smart cards.”

B. Query

7. The querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) Whether the one-time entrance fee received in advance from an applicant ‘before’ he is considered for membership (this is refundable in case the application is not considered for membership) be considered as an income of a revenue nature or a capital nature.
- (ii) Whether the one-time entrance fee received from an applicant ‘after’ he is considered for membership be considered as an income of a revenue nature or a capital nature.

C. Points considered by the Committee

8. The Committee notes that the basic issue raised by the querist relates to accounting treatment of one-time entrance fee received by the Association till the confirmation of membership and thereafter. The Committee has, therefore, considered only this issue and has not examined any other issue that may be contained in the Facts of the Case, such as, accounting for income from non-members, interest income from fixed deposits or any other income, any other type of fees such as, subscription fee, course maintenance fee, minimum charges etc. The Committee wishes to point out that the opinion expressed hereinafter is purely from the perspective of accounting principles and not from legal perspective, such as, Income-tax Act, Karnataka Societies Registration Act, etc. Further, as informed by the querist that the financial statements are prepared in accordance with the Accounting Standards, issued by the ICAI, the Committee has, hereinafter expressed its views, in the context of Accounting Standards, issued by the ICAI only.

9. At the outset, the Committee notes that there are two broad categories of membership to the Association/Club in the extant case, viz., associates and members and the entrance fee is received from both the categories. Further, within these two broad categories, there are various sub-categories of members/associates. Further, different entrance/membership fee is being received from these sub-categories of members/associates and they are also entitled to different rights/privileges.

10. The Committee notes that paragraph 49 (b) of the ‘Framework for the Preparation and Presentation of Financial Statements’, issued by the Institute of Chartered Accountants of India, defines the term, ‘liability’ as follows:

“(b) A *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.”

The Committee notes that in the extant case, the Association is under an obligation to refund the entrance fee received in advance in case the membership is not confirmed or rejected, resulting into outflow from the enterprise of resources embodying economic benefits. Therefore, the entrance fee received in advance meets the characteristics of liability till the decision whether to grant membership is taken.

11. With regard to accounting treatment of entrance fee, the Committee notes the following requirements of Accounting Standard (AS) 9, 'Revenue Recognition', issued by the ICAI:

“12. In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.”

Illustrations

B. Rendering of Services

“6. Entrance and membership fees

Revenue recognition from these sources will depend on the nature of the services being provided. Entrance fee received is generally capitalised. If the membership fee permits only membership and all other services or products are paid for separately, or if there is a separate annual subscription, the fee should be recognised when received. If the membership fee entitles the member to services or publications to be provided during the year, it should be recognised on a systematic and rational basis having regard to the timing and nature of all services provided.”

The Committee notes from the above that revenue recognition depends on the nature of the services being provided and the timing of the performance of the service. Accordingly, in the extant case also, accounting treatment of the entrance fee would depend on the nature of services, rights/ privileges etc. that the member/associate gets entitled to. Thus, it is necessary to determine whether member/associate receives goods and services or any other rights or privileges in the capacity of owner in consideration for the entrance fee paid. The rights in the capacity of owner are usually evidenced in a number of ways, including right to vote on association/club matters, election of its managing committee/ board, liquidation rights, etc. Further, in case members/associates receive other rights or privileges, it should also be considered as to whether the arrangement involves transactions with members in their capacity as customers or rather transactions in their capacity as owners. If it is determined that entrance fee is being received from members in their capacity as owners rather than customers, such amounts would be considered as contributions to capital from owners and would not be considered as 'revenue' from customers. However, sometimes, the member may be acting as a customer (e.g., purchasing a beverage in the club), as well as an owner (e.g., contributing capital to obtain a voting right in the club). In such cases, it should be evaluated and determined as to whether this arrangement is partly an ownership transaction and partly a revenue transaction with a customer.

Accordingly, in the extant case, the Club/Association should evaluate, by carefully examining its Rules, Bye-laws etc., as to what extent the entrance fee received from the various categories of members/associates provide rights/interests in the capacity as Owners. In case it is determined that entrance fee from any category of member/associate involves a combination of an ownership and revenue transaction, a portion of the entrance fee should be rationally and systematically recognized immediately as a contribution of 'Capital from an Owner' / 'Corpus' and a portion should be recognised as revenue on a systematic and rational basis having regard to the timing and nature of all services provided.

In this context, the Committee notes that entrance fee in the extant case entitles to the members all rights of using the Club, credit facility, participation in the general meetings, management of the Association, proposing or seconding candidates and right to information

including perusal of any documents including minutes except privileged information. Different categories of Associates are entitled to varying rights but limited to right of using Club and credit facilities. Thus, the Committee is of the view that in the extant case, for different categories of members/associates, it should be evaluated and determined as to whether the arrangement is an ownership transaction or a revenue transaction with a customer or both and accordingly recognize the same in its financial statements, as discussed above.

Further, it should also be evaluated as to whether a portion of fee covers charges in respect of fee for other rights/privileges. For example, it is observed in the extant case that a life member is charged a higher entrance fee as compared to the fees for other categories of members but a life member is not required to pay subscription/fee per month while the members in other categories are required to pay subscription fee. From this, it appears that the entrance fee of a life member may contain a portion of advance subscription fee. Accordingly, while allocating the entrance fee into various components as aforesaid, this aspect should also be taken into consideration.

D. Opinion

12. On the basis of the above, the Committee is of the following opinion on the issues raised by the querist in paragraph 7 above:

- (i) The admission fee received in advance is a liability as discussed in paragraph 10 above.
- (ii) An assessment is required to be made by the Club/Association by carefully examining its Rules, Bye-laws etc., as to what extent the entrance fee received from the various membership categories provide rights in the capacity as Owners. In case it is determined that entrance fee from any membership category involves a combination of ownership and revenue transaction, a portion of the entrance fee should rationally and systematically be recognized immediately as a contribution of 'Capital from an Owner' / 'Corpus' and a portion should be recognised as revenue on a systematic and rational basis having regard to the timing and nature of all services provided, as discussed in paragraph 11 above.
