Brief Knowledge on Audit of School Educational Institution

Statutes Applicable to Educational Institutions

Statutes Governing Creation of the Institutions

1. Societies Registration Act, 1860

The educational institutions are generally registered as societies under the Societies Registration Act, 1860. In addition to the Central Act, various states have framed their respective Acts and Rules for example, The West Bengal Societies Registration Act 1961, The Andhra Pradesh Societies Registration (Validation) Act,1959, The Karnataka Societies Registration Act,1960, etc. Registration is as such done both under the Central Act as well as State enactments and in cases where the State Act exists registration is done by the State Governments in whose territories the society is located. The societies to be registered must have been established for literary, scientific or charitable purposes. Section 20 further elaborates to include for this purpose "Societies established for the promotion of science, literature or the fine arts, for instruction, the diffusion of useful knowledge…"

2. Public Trusts Act [State enactment]

The institutions may also be established as Public Charitable Trusts. To create a trust, there must be few essential elements present. These are namely an author, the trustees, property to be held under the trust, purpose of the trust, beneficiaries and objects with which the trust is to be administered. The Charitable Endowment Act, 1890 defines charitable purpose as a purpose for "relief of the poor, education, medical relief and advancement of any object of general public utility" but excludes a purpose exclusively to religious teachings. The Central legislation governing trusts is the Indian Trust Act, 1882. It, however, does not govern public trusts.

Registration of a Trust is made as per the provisions of the Indian Trust Act, 1882 and the trust deed (and not the trust) has to be registered with the registration department of the respective State Governments. In some of the states, such as state of Maharashtra and Gujarat, where public trust acts have been passed, all the societies registered.

3. Companies Act, 1956

The educational institutions may also be incorporated as a Company under section 25 of the Companies Act, 1956. Such institutions may be given a license by the Central Government when it is incorporated as a company with the limited liability. Section 13(1)(a) makes it necessary that the name of a limited company must end with the word 'limited' in the case of a public company and with the words 'private limited' in the case of private company. However, section 25 permits the registration under a license granted by the Central Government to all 'associations not for profit with limited liability' without being required to use the word 'limited' or the words 'private limited' at the end of their names. Such license may be granted, if the Central Government is satisfied that the company is to be formed for promoting commerce, art, science, religion, charity or any other useful object and it intends to apply its profit, if any, or other income in promoting its objects and to prohibit the payment of any dividend to its members. Such a company is registered without payment of any stamp duty on its Memorandum or Articles. Further, such companies are also allowed numerous exemptions from the provisions of the Companies Act, 1956.

Laws Governing Tax Exemptions

Income Tax Act, 1961

The income of an educational institution is subject to income tax, except where the provisions for grant of exemption are applicable. Such provisions are contained in Chapter III of the Income Tax Act, 1961. A special set of provisions governing the taxability of income from property held under trust for charitable purpose is contained in Section 11 to 13 of the Income Tax Act, 1961. Section 10(23C) also provides exemption to educational institutions under certain circumstances, not necessarily being trusts or societies, provided however that such institution exists solely for the purpose of education and not for the purpose of profit. Institutions having receipts more than the prescribed limits have to specifically apply for such exemption.

Section 2(15) of the Income Tax Act, 1961 defines charitable purpose to include 'education'. It was held by the Supreme Court in the case of Sole trustee; **Loka Shikshana Trust V. CIT (1975) 101 ITR** 234 that term 'education', for the purpose of Income Tax Act, 1961 should be in the nature of systematic instruction, schooling or training given to the young in preparation for the work of life. It also connotes the whole course of scholastic instruction that a person has received. Similar view has been taken in the following two cases:

• CIT Vs. Oxford University Press (Bom) (1996) 221 ITR 77

• Samaj Kalyan Parishad Vs. ITO (2007) 107 TTJ 302

Approved charitable institutions whose income is not liable to be taxable under the provisions of section 11 to 12 or 10(23C) are also eligible for further benefits in the shape of deduction available to donors to such societies. The donors upon making donations to such institutions can claim deductions from their income at the prescribed rates, from their taxable incomes, subject to other provisions contained in section 80G. The done institutions have to apply for this benefit to the Commissioner of Income Tax.

Wealth Tax Act, 1957

Similarly, the Wealth Tax Act, 1957 is equally applicable to any charitable or religious trust as to any other assessee. However, Section 5 of the Act allows exemption from wealth tax to such trusts subject to certain conditions. These conditions are identical to the conditions prescribed under section 11 to 13 of the Income Tax Act, 1961.

Customs Duty

The Government is empowered under section 25(2) of the Customs Act, 19626 to allow exemption to charitable institutions that are providing their services free or on 'no profit no loss' basis. Such institutions include educational institutions. The exemption is granted subject to the condition that the institution should be certified by the concerned district authorities.

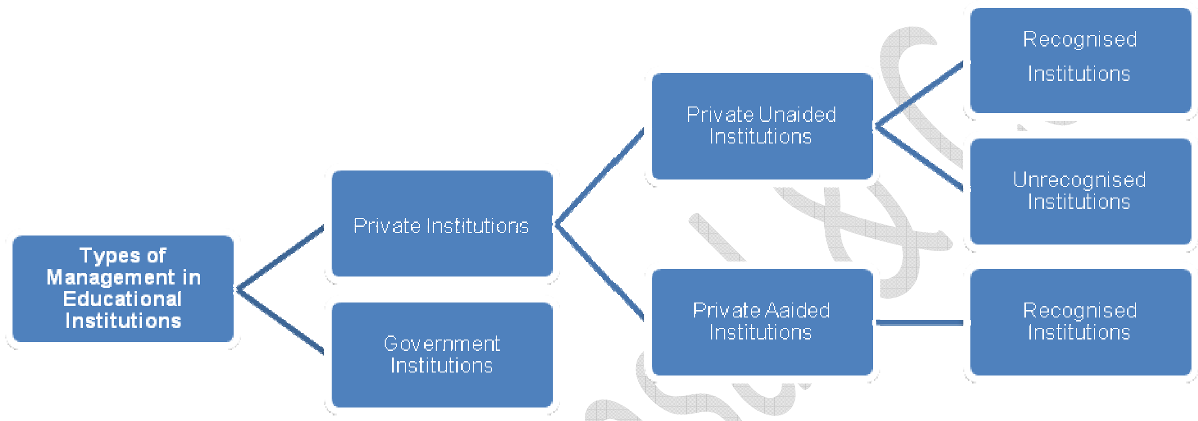
Further, the imported goods should not be put to any commercial use and the same should be available for charitable purposes without any distinction on account of caste, creed, religion, race or gender. The exemption is not available on the items of general use and the imported goods should not be sold, gifted or exchanged without prior permission of the Ministry of Finance.

Service Tax

Service Tax exemption for providing training or coaching under section 65(105) (zzc) is available for pre-school coaching and training centres and those awarding legally recognised certificates/diploma/degree or any educational qualification, i.e., the certificates/diploma/degree should be 'recognised by the law for the time being in force'.

Further, the vocational training institutions are exempted from service tax. The institutions offering general course on improving communication skills, personality development, how to be effective in group discussions or personal interviews, general grooming and finishing, etc., are not covered under the said exemption.

Types of Management in Educational Institutions



The different types of management in educational institutions are as follows:

(a) **Government Institutions** – Government institutions are also known as state institutions or public institutions. These institutions are run by the Central or State Government or Local Government bodies like, Municipality Council. These types of institutions are 100% funded and managed by some level of Government, state or local. In these institutions, the respective state board syllabus is adopted.

(b) **Private Institutions** – These types of institutions are not run by the Central Government, State Government, a local authority or any other authority designed or sponsored by the Central Government, State Government or a local authority.

(c) **Private Aided Institutions** – These types of institutions are in receipt of recurring financial aid or assistance in the form of maintenance grant from the Central Government, State Government, a local authority or any other authority designed or sponsored by the Central Government, State Government, or a local authority. Though, these institutions are privately managed, they are funded by the government. They are entitled to financial aid only if they are recognised by the appropriate authorities.

(d) **Private Unaided Institutions** – These institutions does not receive any aid and are entirely privately managed and privately funded. Private unaided institutions are of two types, recognised and unrecognised.

(i) **Recognised Institutions** – These are those institutions which are recognised by the appropriate authority. The appropriate authority is the Central Government or State Government or a local authority. These institutions have to meet the regulatory requirements of the Central or State Government.

(ii) **Unrecognised Institutions** – These are those institutions which are not recognised by any appropriate authority. They are in effect operating in the informal sector of the economy. Unrecognised institutions can offer only certificate and diploma courses, unlike recognised institutions, which in appropriate cases, can also be authorised to grant degrees.

Organisational Structure of an Educational Institution

Generally, the educational institutions are registered as public trust or societies. The trust is created through endowment of property by the founder trustee and is managed by a Board of Trustees, out of which some trustees may be designated as office bearers.

Societies are autonomous bodies, generally, incorporated with minimum of seven founder members, out of which typically four members may be appointed as office bearers such as President, Vice President, Secretary and Treasurer. They together with other three members normally constitute the first executive committee. Subsequently, more members may be inducted in the general body of the society and such general body shall be comprised of all the members of the society. The executive committee may also take members from the general body from time to time and shall be responsible for managing day-to-day affairs of the society. The executive committee of the society is empowered to appoint separate governing bodies for managing the affairs of each school, college etc. run by it. Normally, the academic head/senior teachers of such educational institutions are inducted as members of the governing body. The governing body is entrusted with the responsibility of managing the affairs of each such individual educational institution. Such governing bodies are in themselves supported in their functioning by various committees, such as the finance committee, sports committee, academics committee, building committee, etc. The composition of these committees consists of members from the governing body, teaching faculty and administrative staff as well as students.

Students

There are normally following types of students:

(a) General/Normal/Ordinary Students – Those students who do not fall under any of the other categories mentioned hereunder are considered as general category students.

(b) Concessional Students – The educational institutions may allow concession to certain students based on certain criteria like, sibling concession, staff concession, meritorious student's concession, and need based concession, concession for the disabled, armed forces concession, management concession, etc.

(c) SC/ST/OBC Students – This category normally comprises of students that are to be admitted based on certain quotas fixed by the State or Central Government. Apart from the preference to the vacancies, such students are also allowed concessions by certain institutions.

(d) Donor/HNI Students – Under this category, fall such students whose family members have been contributing to the development of the infrastructure of the educational institution or fall under a prospective list of such family members.

(e) Sports Quota Students – Under this category are mainly students who are admitted due to certain statutory regulations.

All the above type of students can be further classified as follows:

(a) **Day Scholars** are students who normally attend the educational institution during the normal academic hours but do not live in its premises.

(b) **Day Boarders** are students whose timings are extended as compared to the day scholars and who have their afternoon meals in the educational institution, and stay back for extended coaching hours, games, etc. The fees paid by them covers the cost of these items as well. However, such students do not stay in the hostel at night.

(c) **Boarders** are students who avail the hostel facilities of the educational institutions for residential purposes. The fee paid by them includes their boarding as well as lodging costs. The accounting in respect of such students has to be more detailed as the educational institutions are supposed to keep track of various expenses incurred on them throughout the year on heads such as uniform, housekeeping, medical expenses, pocket money, etc.

(d) **Staff Wards** are those who attend the educational institutions like day scholars and enjoy boarding and lodging facilities at the institution's premises with their parents.

Billing Procedure

Once a student has been granted admission and has been allotted an ID, the wards of the student are intimated the fee to be deposited by them. The fee is normally collected in advance for the term, which might be monthly, quarterly, half yearly or yearly. Intimation of fee due may be done in various manners such as, printed fee schedules for that academic term, fee bills, fee cards, etc. Fee bills are made term wise and contain details of all fees due from that student. Fee Cards are printed for the entire academic year and are updated term wise for the fees due under various heads. The detail of fee deposited such as, amount, date and mode of payment are also recorded in these cards. Some institutions retain these cards as part of their records whereas others allow the wards of the students to retain them as acknowledgement of the fee deposited by them. A duplicate card or other record may in such cases be kept by the institution to keep track of fees due.

In case of boarding institutions, the procedure becomes more elaborate and, normally, takes shape of bills raised in the beginning of the term. These bills contain two types of amounts due. One is the advance fee due for the following term and the second part consists of the imprest to be deposited for the expenses which may have to be incurred during the following term such as on uniform, infirmary, housekeeping, etc. A lumpsum amount of the imprest is normally fixed on the basis of expenses estimated to be incurred during the term. The imprest takes the shape of a revolving fund and the amount charged in each term bill is calculated to maintain the imprest at the fixed amount at the beginning of each term. A single imprest account may be maintained for all expenses or different imprest accounts may be maintained for expenses such as infirmary, uniform, pocket money, etc. Receipts are issued for the amount received from the students where such receipt are collected in-house and not outsourced to a collection agency.

Procedure for Fee Collection

With the rapid advent of technology, most of the large institutions prefer to outsource the collection and accounting of the fees through their designated bankers. This results in considerable reduction of risks and documentation on the part of the institution. The collection may be limited to a single branch of the agent. In such a case, generally the bank opens its extension counter within the institution's premises to provide dedicated services. However, with rapid inroads of the foreign and private banks, a new dimension to banking has been added with constant up gradation of the facilities with use of the latest technology. Now, the concept of 'anywhere' banking is the in-thing. This facility has revolutionised the concept of the fees collection through authorised banks. Now institutions of middle to large scale, prefer to appoint collection banks having branches all over the country with the facility of anywhere banking. Under this facility, the students/parents may remit the fees at any of the bank's branch anywhere in the country or at the designated branches. The fee is credited to the centralized account of the institution instantly or after the realisation of the cheques/demand draft as the mutually agreed terms may be. The information as to the remittance is available to the institution in 'real time'. The procedure, generally, followed by the institution for outsourcing the fees collection is given hereunder:

(a) A collection agent is identified. The choice of the banker to act as a collection agent, generally, depends on a number of factors such as the network of the banker, the service charges (generally, these services are provided free of cost, with a rider that the institution shall maintain a predetermined minimum balance with the bank), the reporting procedure, the scale of the institution, etc.

(b) Designated bank accounts are opened. These accounts may be different for different types of fees receipts. For example, separate bank accounts may be opened for the caution money, tuition fees, hostel fees, miscellaneous fees, etc.

(c) Each student who is granted admission to the institution is allotted enrolment number that is a unique student identification number.

(d) The pay-in-slip (which is, generally, customised for the institution) bears this unique student identification number mandatorily and the same is used for remitting the fees into the bank account of the institution.

(e) Generally, the pay-in-slip has three copies, one each for the student, the bank and the institution. The institution's and the banker's copy is retained by the bank and it is handed over to the institution after appropriate intervals. However, with the concept of the paper less offices catching the imagination in today's high-tech world, the pay-in-slip methodology is getting outdated and now the fees can even be remitted through the ATMs of the banks in which no such physical documentation is generated except for acknowledgment to the remitter.

(f) The bank reports the collection on daily basis to the institution through conventional methods or online.

Charge Out of Expenses to the Students

As discussed above, a number of expenses are incurred by the institution for the students such as, cost of uniform, stationery, medical expenses, picnic expenses, housekeeping items, cost of tokens, etc. In all such cases, the expenses, which can be identified directly to a particular student account, are charged to that student based on charge slips, which contain the description of such expenses, the amount of expenses, and the name and ID no. of the students on whose behalf this expenditure was incurred. The charge slips are also countersigned by the concerned incharge, under whose authority such expense was incurred. The original bills for expenses incurred together with the charge slips are forwarded to the accounts section, which debits the account of the student with that amount.

At times, certain recoverable expenses are incurred for example expenses on picnic for a class. The recoverability of such expenses is worked out by distributing the cost on to the number of students on whom it was incurred and charging it to their individual accounts. Sometimes, a lump sum estimated amount is recovered from each student for the expense incurred on their account. In such cases, the total cost is first debited to the expenditure account of the institution. Subsequently, the recoveries on that account are credited to the income account by passing a corresponding debit to the individual accounts of the students, for example, in case of supply of books to the students, the institution may debit the total cost of the books supplied to the expenditure account and the amount recovered from the students to the income account.

To ensure integrity of the matching principle, it must be ensured that the expense must be charged to the income and expenditure account in the period in which such expenditure is incurred. Given these peculiar characteristics of an educational institution, special precautions needs to be taken at the end of the financial period while preparing the financial statements.

Capital Expenditure in an Educational Institution

Fixed Assets in an educational institution primarily consists of:

(a) Land

(b) Buildings/Building Renovations (Classrooms, Hostels, Cafeterias, Labs, Administrative Building, Staff Quarters, etc.)

(c) Infrastructure (Roads, Parking Lots, Outside Lighting, Sidewalks,etc.)

(d) Plant and Machinery (Office Equipment, ACs, Power backup units, etc.)

(e) Furniture and Fixture

(f) Computers, printers, servers, etc.

(g) Vehicles.

Fixed assets may further be grouped into movable and immovable assets.

With regard to the movable assets, assets should be capitalised as soon it is installed at the premises. All incidental costs incurred with respect to put the asset ready to use should be capitalised.

With regard to the immovable assets, the cost of asset and initial acquisition shall include all expenses related directly to the acquisition or construction. Construction costs include materials, labour, overhead directly related to the construction, interest on loans, building permits, and fees, i.e. attorney and architecture. The amount of borrowing costs eligible for capitalisation should be determined in accordance with Accounting Standard (AS) 16, “Borrowing Costs”.

A separate Capital Work in Progress (CWIP) account for each project should be opened to track the cost incurred in a specific project. Further, this account should be segregated to track the cost of assets in the block of assets as specified.

For example, construction of a student lab will involve civil and sanitary work, electrical fittings, furniture and fixture, installation of computers, wires and servers, etc. Different ledger accounts should be opened to segregate the costs under a group account Student Lab-CWIP so that it is easy to capitalise the value of total assets on a given date. Accounting Standard (AS) 10, “Accounting for Fixed Assets and Guidance Note on Accounting by Schools” should be referred for accounting and disclosure requirements of the fixed assets. In case any grant is received for the fixed asset acquired, Then Accounting Standard (AS) 12, “Accounting for Government Grants” should be referred.

The educational institution is responsible for maintaining appropriate records of control and accountability of its capital assets. All records in regard to additions and deletions of fixed assets should be maintained. Further, the institution must perform a periodic physical verification of fixed assets and reconcile any differences to the fixed asset records. Generally, the storekeeper maintains stock registers of the construction material containing the details of receipts of material and issues of material to construction sites. The item-wise details of materials are recorded in the stock registers. The consumption of materials made by various departments/ construction sites is assessed through these stock registers. Then, the store keeper periodically submits the consumption of materials to the accounts department.

Principal Books of Accounts Maintained by an Educational Institution

An educational institution, normally, maintains the books of accounts similar to those maintained by other enterprises. However, some additional records to address its specific requirements are also maintained, and to this end, the conventional accounting records may also be appropriately modified.

The type of students may also dictate the requirements. The accounting records for residential institutions are more elaborate than those that provide education only to day scholars. The following is an illustrative list of books of accounts/records, normally, maintained by an educational institution:

• General Ledger

• Day books such as cash books, bank books, expense register, cheques in hand register

• Journal (if the books are maintained on accrual basis)

• Creditors Ledger

• Stock Register (for stationery, books, uniform, eatables, prospectus, etc.)

• Payroll Summaries

• Fixed Assets Register

• Investments Register

• Minutes Book

• Library Registers

• Vehicle Log Records

The books/records typically maintained only by an educational institution has been discussed in the following paragraphs:

Students Ledger (to record outstanding of students)

This record is, normally, maintained to keep track of the fees and other dues to be received from the boarders/residential students. An account/ ledger folio is allotted to each student immediately after admission. The admission fees, tuition fee for the ensuing academic session, the expenses incurred from time to time such as uniform, stationery, and infirmary are debited to this account and the fee received together with imprest is credited to this account. The student accounts are, normally, expected to have a credit balance in the shape of unutilised imprest received for making expenses.

In a computerised environment, normally, the billing as well as accounting record is integrated through single software. Once a bill is generated through the software, it automatically results in debit to the account of the student and a corresponding credit to the various revenue accounts of the institution. In institutions where manual records are maintained, control on all transactions relating to a student is kept in the shape of columnar ledger, with columns on the left hand side recording receipts of fees and columns allocated on the right hand side recording different expense heads. Column for balance outstanding is also included to keep track of the amounts due from or payable to the student. This register is usually called as 'Charging Register' or 'Students Register' and is, normally, made to keep track of the financial transactions pertaining to residential students, such as fee due, charge out of various expenses incurred or items issued from stores, etc., during the stay of such students in the institution. For day scholars, the control is normally exercised through fee collection register.

The institutions often follow an accounting system where a control account is opened in the main ledger for the receivable/dues to the students and a subsidiary ledger is maintained for individual accounts of the students. The reconciliation of both these records on periodic basis is essential to determine the accuracy of the accounting transactions. Fees Collection Registers (for keeping track of fee collection)

This register is used for recording the names and roll numbers of the non-residential students and against their names, columns are allocated for the period for which fees is to be received (monthly, quarterly, etc.). The fees received for a particular month is entered under that column and the blank entries enable the accountant to keep track of the outstanding dues.

Caution Money Registers (for recording security deposit from students)

This is a ledger in which an individual account is opened for security received from each student including details of cheque no. and date of receipt, etc. Similarly, when the security is refunded, the full details of refund are entered in that account.

Fund Ledgers (for keeping track of fund balances)

This ledger is used for recording fund balances of building, library, laboratory, games, furniture, equipment, endowment, provident fund, poor students fund, etc.

Financial Reporting Requirements

Financial Statements

As discussed in detail earlier, educational institutions are expected to provide education on charitable basis. As such, the provisions discussed here are in the context of not-for-profit institutions. In view of the absence of the profit motive, the trusts/society is not supposed to draw up financial statements such as profit and loss account normally prepared by a commercial enterprise. However, absence of profit motive does not mean absence of deficit or surplus. It has been upheld in a number of judgments delivered by various high courts and the apex court that the charitable institutions have a right to earn surplus, so long as such surplus is utilised for the charitable purpose for which such institution exists and has not been distributed to the trustees or members of the trust/society. Further, no charitable institution can ever continue to exist solely on its dependence on grants and donations and should, therefore, generate enough surpluses so as to sustain its organisational objectives. Thus, as a measure of accountability and performance, they will be preparing an Income and Expenditure account and a Balance Sheet. This Income and Expenditure account is essential to calculate the deficit/surplus resulting from the activities carried out by the trust/society during a financial year. The balance sheet will reflect the state of asset and liabilities as on the date of balance sheet.

Such financial statements should be accompanied with notes to accounts, significant accounting policies and other statements and explanatory material that are an integral part of the financial statements. Such statements should disclose every material transaction of an exceptional and extraordinary nature. The financial statements should be prepared in conformity with relevant statutory requirements, the accounting standards and other recognised accounting principles and practices, the basic objective being to give a true and fair view of the surplus or deficit in the case of income and expenditure account and the state of affairs in the case of balance sheet.

Reporting Requirements Dictated by Law

At times, financial reporting requirements may be dictated by law, or even by donors such as in the case of Government aided institutions. For e.g., the financial year can be a period other than ending on 31st of March each year, but in view of the income tax provisions, for tax purposes, the accounts in such a case, will have to be prepared for a period of 12 months ending 31st March every year. Another example is the case of educational institutions incorporated under Section 25 of the Companies Act, 1956. In such cases, the reporting has to comply with the formats set out in Schedule VI, to the extent possible. Similar reporting requirements are prescribed by the Bombay Trusts Rules, 1951, as well as the Gujarat Grants in Aid Code.

Apart from serving as a tool of measurement of performance, such statements serve another very important objective, i.e., to verify as to whether the institution utilised its funds for the charitable objective for which it exists and that no part of its funds were distributed for the personal benefit of members or trustees, etc. The donors of endowment funds scrutinize them to verify as to whether the funds were spent for the purposes for which they were granted or donated. Often such donors or government agencies prescribe additional reporting formats that need to be certified by auditors with a view to being assured about the utilisation of funds. Such reporting may be annual or for periods less than that. In case of a society registered under the Societies Registration Act, 1860, it is mandatory to submit annually, the audited financial statements and list of governing bodies along with the requisite fees. Under the Foreign Contribution (Regulation) Act, 1976, if the educational institutions are in receipt of donations from foreign sources, Form FC-3, Yearly account of foreign contribution received and utilised has to be submitted every year.

The illustrative cases in respect of which disclosure as per Accounting Standard (AS) 1, “Disclosure of Accounting Policies”, is required for accounting policies in case of educational institutions will be in respect of recognition of income such as, endowment grants, various fees from students, treatment of deferred expenses, valuation of inventories, investments, fixed assets, classification of liabilities such as endowment funds, capital reserves, treatment of contingent liabilities, etc.

Basis of Accounting

The societies /trusts can follow a method of accounting of their choice. Normally, the cash system is adopted by smaller trusts/societies in view of the simplicity involved in maintaining the accounts. Under cash basis of accounting, transactions are recorded when the cash receipts or cash payments take place. At the end of a period, a statement of receipt and payment is drawn, which reflects the total receipts and payments under different heads during that period with opening and closing balances of funds such as cash and bank balances.

Under accrual basis of accounting, also known as 'mercantile' basis of accounting, the transactions relating to assets, liabilities, revenues and costs are recorded and reflected in the accounts in the period in which they accrue. However, at times this choice is not available to the assessee and may be dictated by legal requirements as may be applicable to the institution.

The Income Tax Act, 1961, restricts the method of accounting to be employed to mercantile or cash basis in all cases. As a result, institutions required to file returns under the Income Tax Act, 1961 will have to prepare their accounts for income tax purposes keeping this in mind. Further, in case of educational institutions registered under Section 25 of the Companies Act, 1956, the books of accounts of the companies are required to be maintained by following accrual basis of accounting only.

The entities to which Accounting Standards are applicable are also required to maintain accounts on accrual basis. The Accounting Standards issued by ICAI are based on the fundamental assumption of accrual. These standards, thus, reflect what can be construed as the appropriate application of accrual accounting to different types of transactions and events. In application of the accrual basis of accounting, it is extremely important for the educational institutions to follow the guidelines laid down in Accounting Standard (AS) 9, "Revenue Recognition" issued by ICAI which deals with issues relating to revenue recognition for items such as, income from other sources, viz., interest, sale of products, franchisee and affiliation fees, etc.

Fund Accounting

The educational institution, generally, follow fund accounting concept while preparing the financial statements. Fund Accounting is a method of accounting and presentation whereby assets and liabilities are grouped according to the purpose for which they are to be used. A fund is either created by law or by management or by donor. Funds are represented by the assets whether in the form of Fixed Assets, Investments, Inventory, Bank account, etc. Fund Accounting does not necessarily involve opening of a new bank account for its operations. Funds are just the restriction imposed for utilisation of asset.

Fund based accounting essentially involves preparation of financial statements fund-wise and consolidation of those statements to represent the financial results/position of the institution as a whole. This is quite similar to the fund accounting for government institutions. The basic difference between the fund accounting for the government and private institutions is that in the case of the government institutions, most of the funds are earmarked, and as compared to this, in a private institution the funds may be restricted or free depending upon the source.

The educational institution may maintain separate ledgers for each fund. An educational institution may receive funds the use of which is unrestricted, i.e., these funds can be used for the general purposes of the institution or the use of which is subject to the restrictions imposed by the contributors, i.e., the funds can only be used for specific purposes. An educational institution may, on their own, earmark certain funds for specific purposes. The different types of fund are as under:

(a) Restricted Funds - When the donor or the governing body restrict the usage of the funds or income earned from the funds or both and the funds can be used only as per the instruction of the donor, then those funds are known as restricted funds.

(**b) Endowment Funds** – They are a form of restricted funds which have been received from the donor with a stipulation that the amount received should not be used for any purpose and only the income earned from investments of these funds can be utilised for general or specific purposes.

There may be two types of endowments – perpetual endowment and term endowment.

i. **Perpetual Endowment**, such endowments are given in perpetuity and the fund principal is never spent or repaid. Interest earned on Perpetual Endowment Fund may be transferred directly to the Endowment fund, if specified.

ii. **Term endowments** are gifts for which the donor has specified a date or event after which the funds may be spent.

(c) Unrestricted Funds - It refers to funds contributed to an institution with no specific restrictions. The unrestricted fund is augmented by the income from the operations of the institution, such as tuition fees, income from investments, besides unrestricted donations/gifts/grants from individuals/government or income from auxiliary services such as, canteen, bookstores, etc. The Unrestricted funds are utilised for the day-to-day operations of the institution. The Unrestricted funds are further classified into following two categories:

(i) Designated Funds – These are unrestricted funds which have been set aside by the institutions for specific purposes or to meet future commitments e.g., library fund for purchase of books, Development funds for acquiring building and equipment, etc. The designated funds are self imposed and not legally binding.

(ii) General Fund - Unrestricted funds other than the designated funds are a part of the General fund. It represents the Corpus of the Society and is not subject to any restrictions on its utilisation.

Inter-Fund Transfers

Educational institutions may make inter-fund transfers subject to certain conditions. The legal agreements or grant agreements may force the institutions to make transfers from the revenue funds mandatorily. Similarly, the Governing Body also transfers funds from revenue fund to special funds to undertake some specific activities. There is a peculiar practice on the treatment of capital expenditure in case the educational institution's income is exempt under Section 11(1) of Income Tax Act, 1961. As per this practice, many societies and trusts transfer from the income and expenditure account, an amount equal to the cost of fixed asset purchased during the year, to the fixed asset fund account. Income Tax Act, 1961 requires that the society should utilise a minimum prescribed percentage of income during the year so as to fulfil conditions for exemption of income from income tax. Purchase of fixed assets is also considered as one of the modes of utilisation of funds.

The practice of transferring the amount from the income and expenditure account to the fixed asset fund account is often followed to ensure that the end surplus reflected in the accounts is arrived at after reflecting such utilisation. Even though this practice is followed, the concept of fund accounting requires earmarking of the funds with the objective of identifying funds as may be required for specified purposes or projects. In such cases, the underlying idea is to park these funds in investments/specific bank accounts for subsequent utilisation for the earmarked purposes.

In transferring the amount from the Income and Expenditure account to fund accounts, whether to fixed asset fund or other earmarked funds, the correct method is to do it from the income and expenditure appropriation account, i.e., below the line and not above the line. In cases where the practice of transferring to the fixed asset fund account, an amount equal to the amount of addition to the fixed assets during the period is followed, the following procedure is followed for ensuring that the balance of the fixed asset fund matches with the value of the fixed assets. Where the institution is following the procedure of reducing the value of depreciation from the gross value of the fixed assets, an amount corresponding to the depreciation charged during the year is credited to the income and expenditure appropriation account by debiting the fixed asset fund account with the same amount. In case the institution is following the procedure of crediting the depreciation charged during the period to the depreciation fund account, then no adjustment is required.

It is hereby apprised that, accounting is governed by the Accounting Standards and the expenses in the nature of capital expenditure need to be capitalised under fixed assets and not charged to the revenue accounts. To comply with the requirements of Income Tax Act, 1961, for working out the utilisation of income for charitable purposes, a separate working sheet may be attached with the computation of income in which the cost of fixed assets purchased may be reduced for working out the end surpluses left after making such utilisation. The balances of earmarked funds should always tally with the balances of bank accounts in which such funds are retained or with the value of fixed assets/investments that have been acquired against such funds.

Sources of Income and Expenditure

Sources of Income from Students

Tuition Fees

The major source of revenue of the educational institution is the tuition fees. Tuition fees is recognised on the due date for the receipt of fees and apportioned over the term of the student on a time proportion basis. Generally, tuition fees are received on a periodic basis, i.e. monthly, quarterly, half yearly or annually, in advance as per the semester period followed by the institution. In case of day scholars, it may be received on monthly basis, while in the case of boarders, it may be received half yearly. Therefore, at the end of the financial year, there is always a portion of the fees, which may pertain to the period falling in the next financial year. The fees pertaining to the next financial year should not be booked as income during the year, but should be shown as Advance Fees received from students under the head 'Current liabilities' and should be charged off to Income and Expenditure Account in the next financial year.

One Time Charges

The following are one time charges received from the students:

(i) Registration Fees - Registration fees is received from the students who wish to apply for admission in the institution and is generally charged to cover the costs involved in taking admission, examinations, etc. It is booked as income in the year in which it is received.

(ii) Admission Fees - The admission fee is paid by the students at the time of initial admission to the institution. Generally, admission fees is booked as an income of the year in which it received, since it does not pertain to a specific academic year, but is in the nature of onetime fee paid at the time of admission into the institution.

(iii) Affiliation and Development Fees - The educational institutions may be charging the students affiliation and development fees, which may have to be paid to the University/Affiliation body. Such fees is generally collected on actual basis and paid in full to such authorities. The fees collected must be reconciled with the fees paid/payable to such authorities.

Other Periodic Charges

The following are other periodic charges received from the students:

(i) Examination Fees - The examination fee is, generally, collected in advance for the year. This fee has to be paid to the exam conducting authority in parts at the time of conducting exams or before that. Hence, the fees collected can easily be reconciled with the fees paid/payable to such authority. The examination roll list may prove to be a reliable record for the verification of fees paid/payable.

(ii) Sports Fees – It is received from the students for the purpose of making expenditure on sports material, practice schedules, safety, medical facilities, team meetings, etc.

(iii) Income from Transportation Facility - Transportation income may be received by the educational institution by one of the following methods:

• Transportation fees received from students where the transportation facility is provided by the institution itself,

• Contract charges where the contract of providing transportation facility has been given to an outside party.

Fines

Another source of income for an educational institution is from the collection of fines from the students. List of fines due from students is made by each Department-in-charge and communicated to the Accounts Department for charging the fines to the respective student's account. The fines are booked in the income and expenditure account on accrual basis.

An illustrative list of fines imposed on the students is as under:

• **Fees Fine –** for non-deposit or deposit of fees after the prescribed due date.

• **Library Fine** – for non-return or late return of books and periodicals.

• **Laboratory Fine** – for breakage or mis-utilisation of laboratory equipment.

• **Dress Fine** – for non-adherence to dress code of the institution.

• Fine for non-submission of leave application by students.

• Fine for ragging students.

• Fine for use of mobile phones in the institution's premises.

Income from Seminars, Workshops, Consultancies and Management Development Programmes

Educational institutions, imparting higher and technical education, engage in conducting seminars, workshops, on-the-spot events, competitions, exhibitions management development programs, technical festivals and also undertake industrial and other consultancies. For example, IIMs actively carry out research and consultancy for various industries, including the needs of non-corporate and under-managed sectors such as agriculture, rural development, public systems management, energy, health education, habitat, etc. These may form significant part of revenue of the institution.

These activities are essentially in the nature of services rendered by the institution and the revenue there from is to be recognised accordingly. In case performance consists of the execution of more than one act, revenue should be recognised proportionately by reference to the performance of each act. If performance consists of the execution of a single act, or if it consists of performance of more than one act and the acts yet to be performed are very significant in relation to the transaction as a whole, revenue should be recognised only on the completion of the performance of the sole or the final act.

If an educational institution provides service in relation to the ‘Intellectual Property Service’, it will be liable to charge service tax on the value of taxable service. The educational institution may also get covered under the ‘Consulting Engineer Services’ or ‘Management Consultants Services’.

Sponsorship Fees

Sponsorship fees are received by an educational institution from the outside parties for sponsoring the institution’s functions or display of banners. The educational institutions will be liable for service tax for sponsorship fees received under the “Sponsorship Services”.

Other Miscellaneous Receipts

The following are other miscellaneous receipts of an educational institution:

(a) Sale of Prospectus - The sale proceeds of the prospectus are booked as income of the year in which it is received. Some of the prospectus are also distributed free of cost as promotional material by the institution.

(b) Premises given on rent to outside parties - Income of the educational institutions may arise from renting of premises to outside parties for holding examinations, functions, running coaching institutions on part-time basis, etc. The educational institution, in such cases, will be liable for service tax on the services of ‘Event Management’ and ‘Renting of Property Services’. The educational institutions may also earn income for providing Guest House accommodation to the parents or relatives of staff.

(c) Other sources of income for an educational institution may arise from sale of handicraft items, paintings, drawings, etc., made by the students. Educational Institutions may earn income from sale of scrap which should be accounted on the actual receipt basis.

Recognition of Other Receipts

Grant in Aid

It will be pertinent to refer to Accounting Standard (AS) 12, “Accounting for Government Grants” issued by the Institute. Since there are a number of educational institutions that are substantially or partially dependent on government grants and from other agencies, it is desirable even in cases where the AS 12 is not mandatory that they should follow the Standard. Even though the Standard refers only to government grants, the principles enunciated therein can serve as a guide for grants from other donor agencies as well.

AS 12 states that the donee should not recognise the grant until there is reasonable assurance that the donee will comply with the conditions attached thereto and that the donations and grants will be received, as ascertained on the basis of all available evidence in that respect. In case such reasonable assurance is attained only when cash is received, then recognition in such case on cash basis will not vitiate the accrual basis of accounting.

AS 12 states that grants received to meet the cost of non-depreciable fixed assets should be credited to capital reserve. In case of depreciable assets, it requires the grant to be treated as deferred income, which should be recognised in the profit and loss account by allocating it over the periods and in proportions in which depreciation on the asset concerned is charged. AS 12 states that grants in the form of non-monetary assets should be recorded based on their acquisition cost (in case received at concessional rates) and at a nominal value (e.g. rupee one) in case of assets received free of cost.

The grant-in-aid may be received from the Central or State Government or from any other non-profit organisation. If the educational institution receives grant from foreign sources; it will be treated as 'foreign contribution' under the Foreign Contribution (Regulation) Act, 1976 and the educational institution will be required to comply with the statutory provisions of the said Act. The grant-in-aid, whether capital or revenue in nature, is always granted for certain earmarked purposes. Examples of revenue grants could be for salary of staff, or special literacy projects, etc. Usually such grant comes with a number of conditions attached, which need to be fulfilled by the institution.

The concept of fund accounting comes into play in case of such grants. The unutilised grants are shown as liabilities in the balance sheet of the institution. Unutilised grants often have to be refunded back in case the conditions for utilisation have not been met by the grantee. At times, the grants are released according to a specific period of the project. In such cases, there might be a difference between the amount of grant actually released according to the project timeframe and the actual execution of the project activities. In such cases, for example, if the project has been completed for 9 months, but the grant has been released only for 6 months, then to follow the matching concept, 3 months grant shall have to be booked as receivable in the balance sheet. It is important that the grants are recognised as receivable and consequently as income only on the fulfilment of the conditions with which the donors sanction them. Voluntary contribution may be received in either cash or kind. Such contributions, unless earmarked for a specific purpose are taken to the income account of the institution.

Expenditures

Educational and Academic Expenditure

An educational institution incurs expenditure on educational and academic expenditure which includes all costs of providing the faculty with the physical supplies for imparting education to students, such as stationery, teaching aids, computer rentals, laptops, travelling, field trips, laboratories, equipment repair and maintenance, scholarships, medical facilities, fees to visiting faculties and consultants, sports expenses, recreational facilities, celebration expenses for Founder's Day, Annual Day, etc.

Library

An educational institution incurs heavy expenditure on the library for purchase of books, magazines, journals, periodicals, CD-Rom, etc. It may also install the library software for managing issue and returns of books, advance search options, automatic creation of dues, etc., as the library is required to be constantly maintained and updated. Educational institutions are required to purchase new books every year and pay annual subscriptions for periodicals. An educational institution may also receive a library grant for setting up library for a particular course.

Discount and Scholarships

The fees waiver and scholarships to the students should be booked under separate head in the Income and Expenditure account and should not be netted off against the Fee receipts. This method of accounting will be beneficial as a control tool in two ways. Firstly, it will enable the accountant to generate the percentage of fee waivers granted against the total fee receipts during the year, which in turn will highlight any excessive expenditure incurred on this account. Secondly, it will enable the gross fees receipts to be recorded without any distortions. These gross fee receipts then can be cross verified by analytical procedures such as by dividing the gross fees with the per head fees to arrive at the number of students and then comparing the same with the muster roll.

Extra Coaching

Accounting records by way of registers will have to be maintained to keep track of the extra hours/classes taken by the teachers so as to arrive at the remuneration to be given to them on this account.

Salary and Allowances to Staff

A substantial portion of the revenue of an educational institution is applied towards the payment of salaries, allowances, etc., to staff. The institution may also be allowing its employees to take advances/loans against salary. The advances/loans/reimbursements are generally paid based on the standard operating policies formulated by the HRD department of the institution and approved by the Governing Body. The revenue items such as, salaries/allowances/reimbursement must be booked as expenditure in the period in which the employee renders service. Further, the payments to the employees may be subject to various statutory/voluntary deductions such as Provident Fund, Income Tax deducted at Source, Loan repayment instalment, etc. Usually, the educational institutions prefer to use the payroll bank account for making the payment of remuneration to the employees, whereby standing/monthly instructions are given to the bank to credit the employees with the monthly remuneration.

Retirement Benefits to Staff

For the accounting treatment, valuation and disclosure of the retirement benefits, an educational institution should follow Accounting Standard (AS) 15, "Employee Benefits". Similarly, the advances/loans etc., should be reflected as Loans and Advances in the Balance Sheet. In case of claiming deduction of expenses incurred on the retirement benefits under Section 36(1)(iv) of Income Tax Act, 1961, the employer must contribute to the recognised provident fund or an approved superannuation fund.

Similarly, under Section 36(1)(v), employer's contribution is an allowable deduction only if the contribution is made to the approved gratuity fund created exclusively for the benefit of employees under an irrevocable trust. Therefore, an educational institution must create a trust for providing retirement benefits to the employees and get it recognised from the Income Tax department for claiming deduction of expenses.

Other Staff - Related Expenses

Other staff-related expenditure in an educational expenditure may comprise of:

(i) Expenditure on staff uniforms

(ii) Laundry expenditure

(iii) Staff recruitment expenses.

Utilities

The educational institution may incur expenditure on utilities in nature of electricity charges, power, fuel, generator running and maintenance, telephone expenses, etc. The purposes for which the expenditure of this nature is incurred may be multiple and the classification of expenses in the income and expenditure account is often done in accordance with the purpose for which it was incurred. For example, fuel consumption may be reflected under the head Mess Expenses. Similarly, power consumption for academic block and administrative block may be reflected under the group head 'Educational Expenses' and 'Administrative Expenses' respectively.

Promotional Expenses

The educational institutions, normally, incurs heavy expenditure during the initial years of set-up in order to promote themselves which can take shape of road shows, advertisements in print and electronic medias, etc.

Repair and Maintenance

The running of an educational institution involves substantial investment in infrastructure such as, buildings, equipment, vehicles, etc. All these items are subject to constant wear and tear and as such expenditure on repair and maintenance constitutes a major outflow of funds. The estate maintenance forms a huge expenditure for an educational institution. The repair and maintenance expenditure may be classified under various group heads in the income and expenditure account in accordance with the functional purpose of the asset in respect of which such expenditure was incurred.

Expenditure incurred in replacement of capital assets and which do not result in any incremental benefit may be classified under this head and should not be capitalised. An example could be replacement of damaged roof of the institution's gym. Estate maintenance in an educational institution comprises of the following types of expenses:

• Maintenance of school campus

• Maintenance of equipment

• All maintenance expenses pertaining to civil, electrical, plumbing work, effluent treatment plant, water treatment plant, generators, swimming pools, carpentry work, etc.

Financial Expenses

As the educational institution incurs a huge amount of expenditure on the acquisition and construction of fixed assets, it obtains the required funds from the construction of fixed assets from the financial institutions. The borrowing costs that are directly attributable to the acquisition or construction of the asset should be capitalised as part of the cost of that asset, and other borrowing costs should be recognised as an expense in the income and expenditure account in the period in which they are incurred. The amount of borrowing costs eligible for capitalisation as well as to be recognised as an expense should be determined in accordance with Accounting Standard (AS) 16, "Borrowing Costs".

Depreciation

Accounting Standard (AS) 6, "Depreciation Accounting" enunciates principles, which can also serve as a useful guide in cases of not-for-profit organisations. It is often seen that the charitable institutions do not charge depreciation in their accounts, when the capital expenditure has been considered as application of income. As per section 11(2), in order to claim full tax exemption, a charitable trust or institution has to apply at least 85% of the income to charitable or religious purposes. The application of income can be for revenue as capital expenditure. The income of the trust has to be understood in its commercial sense. Depreciation on assets is allowed even if the costs of the assets have been fully allowed as application of income under section 11.

As per the "Guidance Note on Audit of Public Charitable Institutions under the Income Tax Act, 1961" issued by the ICAI, even when the whole of the capital expenditure may be treated as an application of income towards charitable or religious purposes for the purposes of section 11, the depreciation is allowed in respect of the assets used by it for its purposes on the basis of normal commercial principles. Merely because the cost of acquisition of an asset has been applied as an application of income for charitable purposes in the year of acquisition, a charitable trust cannot be denied depreciation in respect of such asset. The expenditure should be understood as necessary outgoing. The depreciation is nothing but decrease in value of property through wear, deterioration or obsolescence and allowance is made for the purpose in book-keeping and accountancy.

The educational institutions may calculate the cost of depreciable asset over its useful life and accordingly charge depreciation to the income and expenditure account. The depreciation rates to be applied may be taken as those specified under the Income Tax Act 1961 or that under the Companies Act, 1956. Section 349(4)(k) read with Section 350 of the Companies Act 1956 requires public limited company and private limited company being a subsidiary of a public company to follow rates not less than those prescribed in Schedule XIV of the Companies Act, 1956. The rates prescribed under the Income Tax Act, 1961 are in the nature of allowances available to a person while computing taxable income under that Act. Since, the charitable organisations are also expected to calculate their income and expenditure based on normal commercial principles, they may adopt rates specified in schedule XIV of the Companies Act 1956 as a general guide to depreciate their fixed assets, in absence of any exercise carried out by them to calculate the useful life of the assets independently.

It is important to note that the "Guidance Note on Accounting by Schools" published by the ICAI prescribes the depreciation rates to be charged in case of the schools.

Rates of depreciation

Fixed Asset	Rate of depreciation (on written down value basis)
Buildings	5%
Furniture and fixtures	25%
Scientific equipments	40%
Computers	40%
Library books	50%
Buses, vans, etc.	30%
Cars, scooters, etc.	25%
Plant and machinery including Air-conditioners, generators, fire extinguishers, telephone, television sets, etc.	20%
Musical Instruments	50%
Sports equipments	50%

Utilisation of Grant in Aid

The Grant-in-aid received from the Government Bodies or other agencies has conditions attached for the utilisation of the same. The Grant in- aid may be for specific purpose or for meeting the regular expenditure of the educational institution. The grant-in-aid received for the specific purpose would have to be reflected as liability till such time the conditions attached at the time of sanction is fulfilled. The correct procedure for accounting of utilisation of grants is to charge the expenditure incurred against the grant to the appropriate head for which the grant was sanctioned in the Income and Expenditure account. A corresponding amount should be transferred from the grant received account to the credit of the Income and Expenditure account being grant utilised. It must be recognised that there is no possibility of earning any surplus out of funds received on account of restricted grants. This is because the balance left in the grant account will have to be reflected as unutilised grant in the balance sheet. On the other hand, the possibility of incurring a deficit is very much there on account of excess expenditure incurred by the recipient out of own resources for the purpose for which the grant was sanctioned.

Donations Given to Other Societies/Trusts

Sometimes, an educational institution makes donation to a trust having the same set of objectives. The donations made are to be utilised for specific purposes. These donations are to be recognised as an expense in the Income and Expenditure account of the educational institutions. If the donation has not been fully utilised, then it is to be shown as advances in the Balance Sheet

FINANCIAL STATEMENT PRESENTATION

Name of Educational Institutions ______________________________________
BALANCE SHEET AS AT ____

(`...............)

SOURCES OF FUNDS	Schedule	Current Year	Previous Year
UNRESTRICTED FUNDS			
Corpus	1		
General Fund	2		
Designated/Earmarked Funds	3		
RESTRICTED FUNDS	4		
LOANS/BORROWINGS	5		
Secured			
Unsecured			
CURRENT LIABILITIES & PROVISIONS	6		
TOTAL			
APPLICATION OF FUNDS			
FIXED ASSETS	7		
Tangible Assets			
Intangible Assets			
Capital Work-In-Progress			
INVESTMENTS	8		
Long Term			
Short term			
CURRENT ASSETS	9		
LOANS, ADVANCES & DEPOSITS	10		
TOTAL			
Notes on Accounts	22		

Name of Educational Institution ____

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/YEAR ENDED

(`...............)

Particulars	Schedule	Current Year					Previous Year
		Unrestricted Funds			Restricted Fund	Total	Total
		Corpus	Designated fund	General fund			
INCOME							
Academic Receipts	11						
Grants & Donations	12						
Income from investments	13						
Other Incomes	14						
TOTAL (A)							
EXPENDITURE							
Staff Payments & Benefits	15						
Academic Expenses	16						
Administrative and General Expenses	17						
Transportation Expenses	18						
Repairs & maintenance	19						
Finance costs	20						
Other Expenses	21						
TOTAL (B)							
Balance being excess of Income over Expenditure (A- B) Transfer to/from Designated fund Building fund Others (specify)							
Balance Being Surplus (Deficit) Carried to General Fund							
Notes on Accounts	22						

Name of Educational Institution
Cash Flow Statement for the year ended ________

		(`…………..)
<u>Cash Flow from Operating Activities:</u>		
Surplus/(deficit) for the year		**xxx**
Adjustments for the non-operating incomes/expenses		
Depreciation	xx	
Write offs	xx	
Interest expenses on loans	xx	
(Interest Income)	xx	
(Dividend Income)	xx	
(Grants relating to assets to the extent recognised as income in the Income & Expenditure Account)	xx	
Surplus /(deficit) before changes in the Current		**xxx**
Assets/Current Liabilities		**xxx**
(Increase)/Decrease in Current Assets	xx	
Increase/(Decrease) in Current Liabilities	xx	
		xxx
Net Cash from Operating Activities		**xxx**
<u>Cash Flow from Investing Activities:</u>		
(Purchase)/Sale of fixed assets	xx	
(Purchase)/Sale of investments	xx	
Interest received	xx	
Dividend received	xx	
Net Cash from Investing Activities		**xxx**
<u>Cash Flow from Financing Activities:</u>		
Additions to general fund during the year	xx	
Grants/funds in nature of founders'/promoters' contribution	xx	
Grants/funds related to assets not requiring fulfilment of any obligation	xx	
Endowment fund (principal sum)	xx	
Proceeds from long term borrowings	xx	
(Repayment of long-term borrowings)	xx	
Interest paid on loans	xx	
Net Cash Flow From Financing Activities		**xxx**
Net Increase /Decrease in Cash equivalents		**xxx**
Cash and Cash equivalent at the beginning of the period		**xxx**
Cash and Cash equivalent at the end of the period		$\boxed{\textbf{xxx}}$

General Instructions

1. The financial statements of educational institutions (viz., Balance Sheet and Income and Expenditure Account) should be prepared on accrual basis.

2. A statement of all significant accounting policies adopted in the preparation and presentation of the Balance Sheet and the Income and Expenditure Account should be included in the educational institution's Balance Sheet. Where any of the accounting policies is not in conformity with Accounting Standards, and the effect of departures from Accounting Standards is material, the particulars of the departure should be disclosed, together with the reasons therefore and also the financial effect thereof except where such effect is not ascertainable.

3. Accounting policies should be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

4. The accounting treatment and presentation in the Balance Sheet and the income and expenditure account of transactions and events should be governed by their substance and not merely by the legal form.

5. In determining the accounting treatment and manner of disclosure of an item in the Balance Sheet and/or the Income and Expenditure account, due consideration should be given to the materiality of the item.

6. Notes to the Balance Sheet and the Income and Expenditure Account should contain the explanatory material pertaining to the items in the Balance Sheet and the Income and Expenditure Account.

7. If the information required to be given under any of the items or sub-items in these formats cannot be conveniently included in the Balance Sheet or the Income and Expenditure Account itself, as the case may be, it can be furnished in a separate schedule or schedules to be annexed to and forming part of the Balance Sheet or the income and expenditure account. This is recommended where items are numerous.

   a) The schedules referred to above, accounting policies and explanatory notes should form an integral part of the financial statements.

   b) The corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet and the Income and Expenditure Account should also be given in the Balance Sheet or Income and Expenditure Account, as the case may be.

8. A cash flow statement should be annexed to the Balance Sheet, wherever applicable, showing cash flows during the period covered by the income and expenditure account and during the corresponding previous period.

9. Disclosures as suggested in the formats are minimum requirements. An educational institution is encouraged to make additional disclosures.

10. The figures in the Balance Sheet and Income and Expenditure account, if rounded off, shall be rounded off as below:

Amount of Gross Revenue (in Rs.)	Rounding off to (Rs.)
Less than One lakh	No rounding off
Ten lakh or more but less than ten lakh	Hundred
One lakh or more but less than one crore	Thousand
One crore or more but less than one hundred Crore	Lakh / Million
One hundred crore or more but less than one thousand crore	Crore / Billion

(Certificate to be given by Chartered Accountant if there is foreign remittance)

I/We have audited the account of ____ ____________________ (name of association and its full address including State, District and Pin Code, if registered society, its registration number and State of registration) for the year ending 31st March____________ and examined all relevant books and vouchers and certify that according to the audited account:

(i) The brought forward foreign contribution at the beginning of the year was Rs _______;

(ii) Foreign contribution of/worth Rs_________ was received by the Association during the year ________;

(iii) The balance of unutilised foreign contribution with the Association at the end of the year________ was Rs _________________;

(iv) Certified that the Association has maintained the accounts of foreign contribution and records relating thereto in the manner specified in Section 13 of the Foreign Contribution (Regulation) Act, 1976 read with sub-rule (1) of rule 8 of the Foreign Contribution (Regulation) Rules, 1976.

(v) The information is this certificate and in the enclosed Balance Sheet and Statement of Receipt and Payment is correct as checked by me/us.

Signature of Chartered Accountant With Seal, Address and Registration number.

Place:

Date:

Sample Internal Control Checklist

An Illustrative Checklist Covering Aspects Important to Functioning of Educational Institutions

S.No.	Particulars	Remarks
1	**General**	
1.1	Obtain and document an understanding of the internal controls present in the organisation.	
1.2	Obtain and document an understanding of whether the internal controls present in the organisation have been effective throughout the year.	
1.3	Are there any significant changes to internal control?	
1.4	If yes, obtain the evidence about the nature and extent of any changes and consider the significance and impact of changes.	
1.5	Perform additional tests of controls and assess risk.	
1.6	Obtain and document an understanding of any department's separately maintained records if they are of a significant amount and outside the normal transaction cycle.	
2	**Control Environment**	
2.1	Review the following documents: • Mission/vision statement of the organisation • Strategic planning documents • Manual for policies and procedures • Organisational chart • Current delegations of authority • Recent job descriptions for key managerial personnel • Training records for key employees and listing of training programs • Performance targets • Chart of funds • Management reports • Business continuity plans • List of key contacts for major activities	
2.2	Are there any significant changes in the operations of the organisation during the last year (for example, turnover in key managerial personnel, new developments in information systems, changes to policies and procedures, etc.)?	
2.3	Are all key managerial personnel, faculty and staff members familiar with the policies, finance and accounting guidelines and procedures, and other relevant operating and compliance requirements?	
2.4	Does the management express the importance of integrity and ethical values including the statement of core values to all the faculty and staff members and do they follow the code of ethics?	
2.5	Does the management express the importance of good communication, collaboration, and team effort?	
2.6	Has the management established a mission statement, set goals, and	

	developed plans to meet its objectives?	
2.7	Are all goals and plans periodically assessed?	
2.8	Does the management prepare performance targets?	
2.9	Are the prepared performance targets realistic and attainable?	
2.10	Are the performance targets periodically assessed?	
2.11	Do all the faculty members understand the organisational structure and lines of authority?	
2.12	Is there proper segregation of duties in all departments of the Institution?	
2.13	Are all transactions approved by the appropriate level of management as per Institution's policy?	
3	**Governance/Performance Review**	
3.1	Do the executive management in each department perform a regular review of academic and administrative are source inputs and outputs to ensure intended quality and value for money is obtained?	
4	**Conflict of Interest**	
4.1	Is there formal policy of not purchasing goods or services from vendors where there is a personal interest?	
4.2	Does the institution ensure that no staff member supervises or controls the work of a close relative in accordance with institution's policy regarding nepotism?	
4.3	Does the institution inform employees of the conflict of interest implications of receiving gifts personally from vendors?	
5	**Reconciliations**	
5.1	Are all financial reports prepared on a periodic basis and reviewed by management?	
5.2	Are all significant accounts (in quantum or sensitivity) reconciled to supporting documentation and from external confirmations on a periodic basis?	
6	**Budget Status/Detail Activity Reports**	
6.1	Does the Financial manager review monthly reconciliation in sufficient detail to assure himself of the reasonableness and appropriateness of the income and expenses reported?	
6.2	Is the budget status/detail activity reports reconciled at least monthly by an individual who is adequately knowledgeable of institution's policies and ideally who does not - • Have access to cash or checks, • Make purchases, or • Authorise payments.	
6.3	Is comparison of source documents to detail activity reports, including personnel and operating expenses made?	

6.4	Identify transactions not yet recorded in the budget status/detail activity report to determine current funds available.	
7	**Information Technology**	
7.1	Does the institution take back up of critical information on a regular, periodic basis and store the backup media offsite?	
7.2	Is computer virus protection software on every machine installed and updated on a regular, periodic basis?	
7.3	Are appropriate licenses for each installation of a software package obtained?	
7.4	Is system access necessary for employees to perform required job duties granted to them?	
7.5	Does the system access ensure separate incompatible functions of custody, recordkeeping, and authorisation?	
7.6	Are passwords used to protect access to systems and applications?	
7.7	Are passwords changed frequently, at minimum every 90 days or when password has been compromised?	
7.8	Is there a prohibition of sharing of passwords?	
7.9	Is there a policy of logging off the system prior to leaving your workstation or utilise password protected screen savers with workstations that are logged in and unattended?	
7.10	Is the system access for terminated employees removed promptly?	
8	**Record Retention**	
8.1	Are all departmental financial records, including all reports, reconciliations and supporting transaction documentation retained for the required number of years in accordance with institution's policy?	
8.2	Are institutions' policies and procedures for record retention followed?	
8.3	Are departmental records stored in a secured area?	
9	**Physical Access Controls**	
9.1	Are keys controlled to allow employees access to only the areas required to perform their job duties?	
9.2	Are locks changed if terminating employees do not return keys?	
9.3	Are combinations and pass codes changed when employees with access terminate employment or when the combinations and pass codes have been compromised?	
10	**Signature Authority**	
10.1	Is signature authority delegated only to the supervisory level?	
10.2	Is every person prohibited from authorising his/her own payroll, procurement,	

	travel reimbursement, or requisition documents?	
10.3	Are delegations of signature authority, including limitations of scope and duration documented?	
10.4	Determine which employees are authorised to sign- • Payroll documents, • Procurement documents, • Travel reimbursements, and • Material and supply requisitions.	
10.5	Is list of the department's authorised signers maintained and periodically updated?	
10.6	Do all employees with signature authority understand their responsibility?	
11	**Fixed Assets**	
11.1	Are all purchases of fixed assets made in accordance with institution's policy?	
11.2	Is there a proper utilisation of appropriate account codes for Fixed Assets purchases? • Capital expense account codes for Fixed Assets with a useful life of more than one year. • Operating expense account codes for non-capital Fixed Assets with a useful life of more than one year.	
11.3	Are all Fixed Assets tagged with a permanent and easily visible Institution's property tag?	
11.4	Are all Non-capital Fixed Assets tagged at the department's request, particularly items that are vulnerable to theft or misappropriation, e.g., computer equipment, audio-visual equipment, cameras, etc.	
11.5	Are all moveable equipment secured to prevent theft or misappropriation?	
11.6	Is annual inventory of all fixed assets performed?	
11.7	Is document in writing equipment removed from campus by employees, maintained acknowledging receipt and responsibility for return of the equipment?	
11.8	Are all fixed assets lost or stolen notified to the Fixed Assets Manager?	
11.9	Are all obsolete fixed assets disposed of in accordance with institution policy?	
11.10	Document the transfer of custody of equipment when fixed assets are moved into or out of your unit.	
12	**Procurement**	
12.1	Are all purchases - • Properly authorised, • Sufficiently documented, and • Appropriate for institution purposes.	
12.2	Are competitive prices for purchases obtained, where applicable?	

12.3	Follow Purchasing policies and procedures for procuring goods and services via- • Obtain Purchase Order for goods and services • Obtain Quotations for goods or services • Direct Pay for small purchases • Petty Cash Reimbursement for expenses incurred on behalf of the institution by an employee.	
13	**Safeguarding of Assets**	
13.1	Are all assets purchased by the department- • Safeguarded • Reviewed to ensure proper insurance cover is maintained	
14	**Independent Contractors**	
14.1	Is the Human Resources director contacted before hiring the services of any individual?	
14.2	Is Personal Services Contract purchase order made for independent contractors?	
14.3	Are Human Resources procedures followed to employ individuals who do not meet the criteria for an independent contractor?	
15	**Cash Handling (Including Checks and Credit Card Payments)**	
15.1	Are there separate duties of preparing invoices from collecting cash?	
15.2	Do the supervisors monitor employees who handle cash?	
15.3	Is there a method to secure cash and checks received at all times?	
15.4	Does the institution provide pre-numbered receipts to all remitters of cash?	
15.5	Is there a prohibition of payments from funds collected?	
15.6	Does the person-in-charge deposit all cash daily at Billings & Collections?	
15.7	Is there a creation of following supporting documentation of cash collected- • Copy checks. • Maintain a cash receipt log with name of payer, amount, and purpose of payment.	
15.8	Is cash received reconciled daily (cashier closeout) by - • Dual count cash in the presence of the individual who collected the cash and another independent individual. • Ensure that the change fund is intact (if applicable). • Account for all pre-numbered receipts. • Prepare a reconciliation worksheet signed by both the counters that details the cash received, change fund, and pre-numbered receipts used.	
15.9	Are deposits reconciled to the monthly budget status/detail activity reports by- • Compare source documents—check copies, cash receipt log, reconciliation worksheet, and billings & collections deposit receipt—to the deposits recorded in the detail activity report. • Investigate immediately any differences noted during reconciliation. • Monitor over/short trends.	

15.10	Is there rotation of duties among other staff?	
16	**Personnel/Payroll**	
16.1	Does the Financial manager review labour distribution reports following each payroll to ensure that individuals and amounts listed are correct?	
16.2	Are all Human Resources procedures relating to employment followed before committing to hire an individual?	
16.3	Are references checked and education of candidates verified prior to offering employment?	
16.4	Are the duties of hiring, terminating, and approving promotions separate from preparing and submitting time records.	
16.5	Are confidential personnel and payroll records, especially those containing names, social security numbers, and dates of birth documented and secured?	
16.6	Is Pre-approval of overtime in writing in accordance with institution's policy obtained?	
16.7	Are actual hours worked and actual leave taken reported? • Approval of hours worked for employees by having both the employee and the supervisor best able to verify the hours worked sign the time card. • Approval of leave taken by employees by having both the employee and the supervisor sign the leave request.	
16.8	Are time records to Payroll delivered in a sealed envelope?	
16.9	For terminating employees, does the institution - • Notify Human Resources to remove the employee from payroll. • Notify the appropriate person to remove computer system access. • Collect keys and other access devices. • Change combinations or pass codes used by the employee. • Account for all institution's assets assigned to the employee.	
17	**Donations/Gifts**	
17.1	Is the appropriate authority notified when monetary and non-monetary gifts are received or anticipated?	
18	**Entertainment**	
18.1	Are only guests external to the institution entertained for Business purposes, in accordance with institution's policy?	
18.2	Are the documentation of all entertainment expenses maintained in accordance with the - • Name and title of person with authority to incur and assuming responsibility for the expense, • Nature of the activity and business purpose, • Names, official titles, and affiliations of all persons for whom the expenses are incurred, and Original itemised receipts.	

19	Travel	
19.1	Are all required travel authorisation obtained for out-of state travel from the traveller's supervisory authority prior to committing any funds?	
19.2	Are all Travel Expense Vouchers submitted for all reimbursable expenses in accordance with institution policy?	
19.3	Are all travelling reimbursement authorised with signatures of the traveller, financial manager, and supervisory authority?	

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