

**GN(A) 21 (Issued 2005)**

## **Guidance Note on Accounting by Schools**

### **Foreword**

Education is one of the most important aspects of our national life. Needless to mention, education holds the key to the development and progress in every sphere of our existence. From an integrated and synergic viewpoint, educational system constitutes the foundation of the legal, administrative, civic and other domains of India of tomorrow. Schools, undoubtedly, form the foundation of the entire education system.

For carrying out their activities, schools receive large amount of funds from Government and other sources. In various segments of the society, a concern was being expressed for greater accountability of the financial resources used by the schools. Financial reporting provides information to present and potential resource providers in making rational decisions about the allocation of resources to various organisations. Keeping this in view, a need was being felt for developing an accounting and financial reporting framework for schools based on sound accounting principles. To fulfill that need I am happy that the Research Committee of the Institute has formulated this Guidance Note on Accounting by Schools which has been approved by the Council of the Institute.

I am confident that this Guidance Note would be extremely helpful not only to the members of the Institute but also to others concerned.



New Delhi  
July 21, 2005

Kamlesh S. Vikamsey  
*President*

## **Preface**

Education is an investment in the human capital of a country as it fosters growth, social equality and technological progress. Globalisation and the emergence of a new society more dependent on knowledge and information technology, have further underlined the importance of education in pursuing developmental goals. At present, innumerable schools are running in the country to impart education at primary and secondary level. The issues involved in accounting and financial reporting of schools are more or less common. This 'Guidance Note on Accounting by Schools' primarily focuses to address the various issues by establishing sound accounting practices and recommending uniform formats of income and expenditure account and balance sheet.

The Guidance Note deals with specific issues relating to accounting by schools and is applicable to all non-governmental schools whether Government aided or not and whether established by a trust or a society or by any other form of organisation. The Guidance Note specifically deals with accounting issues related to fees and other charges received from students; salaries, allowances and retirement benefits; grants and donations; depreciation of assets; related party disclosures and transition to the accrual basis of accounting which is a scientific method of accounting. It is expected that the implementation of this Guidance Note will impart greater transparency and uniformity in the financial statements of schools thereby increasing accountability of the financial resources used by the schools.

The representatives of Ministry of Human Resource Development, Council of Indian School Certificate Examinations and Central Board of Secondary Education were involved in the formulation of the Guidance Note. The draft of the Guidance Note had also been circulated among various associations of schools and also hosted on the web site of the Institute for comments.

I would like to take this opportunity to place on record my sincere appreciation for the contribution made by Shri Vivek Bharadwaj (Ministry of Human Resource Development), Ms. Rita Wilson (Council of Indian School Certificate Examinations), Shri Sanjay Garg (Central Board of Secondary Education), Shri Virender Kalra, a practising Chartered accountant and other experts for giving their invaluable comments and suggestions on the draft Guidance Note.

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I sincerely appreciate the efforts put in by Dr. Avinash Chander, Technical Director, Ms. Anuradha Jain, Secretary, Research Committee, and Ms. Jyoti Singh, Technical Officer, of the Institute of Chartered Accountants of India, in preparing the draft of the Guidance Note.

I firmly believe that this publication would prove useful in establishing sound accounting and reporting system in schools and would be immensely helpful to the members of the Institute and others concerned.



New Delhi  
July 21, 2005

Pankaj I. Jain  
*Chairman*  
*Research Committee*

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# **Guidance Note on Accounting by Schools**

*(The following is the text of the Guidance Note on Accounting by Schools, issued by the Council of the Institute of Chartered Accountants of India.)*

### **Introduction**

1. Schools form the foundation of the entire education system of a country. The quality of education imparted in schools, therefore, is of prime importance in determining the quality of manpower which a country has. Keeping in view the significant role played by schools in development of qualitative manpower in a country, the Government provides resources, particularly in the form of concessions and incentives, to schools. Apart from the Government, education being considered as a noble activity since ages, various philanthropists, including various industrial houses, have contributed to the cause of education, particularly at school level. Thus, school as an institution has developed primarily as a not-for-profit activity.

2. Given the historical background of development of schools primarily as a not-for-profit activity, accounting and financial reporting practices followed by non-governmental schools have been oriented towards meeting the needs of the governing bodies running the schools. However, in recent years, with increase in government aid to schools particularly in the form of concessions and incentives, increased fees charged from the students and increased donations by certain donor-agencies, greater need is being felt for accountability of the financial resources used by the schools. A sound accounting and financial reporting framework acts as an important ingredient for promoting accountability of an organisation. It has, however, been found that the present system of accounting and financial reporting followed in schools does not adequately meet the accountability concerns of the donor-agencies, including Government, and other stakeholders such as the parents of the students who provide funds to the schools in the form of fees and donations<sup>1</sup>. The basis of accounting being followed in schools is generally

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<sup>1</sup> Such concerns have been expressed, for example, by the Supreme Court in *Modern School Vs. Union of India and Ors.* (2001) and the Report of the Committee on Fee Hike and Other Charges in Recognised Unaided Private Schools in Delhi (1999)

not based on scientific accrual basis of accounting and also the accounting practices which are being followed are diverse.

## **Objectives**

3. The objectives of this Guidance Note are to recommend -
- (i) application of sound accounting principles pertaining to recognition, measurement and disclosure of various items of income and expenses, assets and liabilities in the financial statements of schools keeping in view the peculiarities of the activities of the schools, and
  - (ii) formats of financial statements keeping in view not-for-profit being the objective of the school,
- with a view to harmonise the diverse accounting practices being followed in the schools.

## **Scope**

4. This Guidance Note is applicable to all non-governmental schools whether Government aided or not, whether established by a trust or a society or by any other form of organisation<sup>2</sup>.
5. For the purpose of this Guidance Note, a school is considered as the reporting entity and, therefore, it has to keep separate books of account and has to prepare separate financial statements. Thus, if a society or a trust runs two schools, each school should maintain its separate books of account and prepare separate financial statements as recommended in this Guidance Note. This, however, does not preclude the society or the trust from preparation of the financial statements of the society or the trust as a whole, including therein income, expenses, assets and liabilities pertaining to the school(s) established by it, as per the requirements of any statute or a regulator or otherwise.

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constituted by the Government of National Capital Territory of Delhi pursuant to the judgement of the Hon'ble High Court of Delhi, dated 30/10/1998 in C.W. No. 3723 of 1997.

<sup>2</sup> Other types of educational institutions like colleges may also apply the principles laid down in this Guidance Note to the extent applicable.

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6. This Guidance Note is applicable not only to educational activities of the schools but also to other activities which are incidental to the educational activities such as provision of hostel facilities, canteen facilities, transportation, books and stationery, etc.

## **Definitions**

7. For the purpose of this Guidance Note, the following terms are used with the meanings specified:

*Accounting period* means the period of 12 months commencing on the first day of April every year.

*Accounting policies* are the specific principles, bases, conventions, rules and practices adopted by a school in preparing and presenting financial statements.

*Accrual basis* means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, revenue and expenses.

*Assets* are resources controlled by a school as a result of past events and from which future economic benefits or service potential are expected to flow to the school.

*Designated funds* are unrestricted funds which have been set aside by the school management for specific purposes or to meet specific future commitments.

*Endowment funds* are restricted funds received with the stipulation of keeping the principal intact and to use for a specified purpose the income derived from investing the principal.

*Expenses* are decreases in economic benefits or service potential during the accounting period in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in general fund/corpus of school, other than those relating to distributions/transfers to the trust or society or any other body managing the school.



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*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

*Financial statements* include income and expenditure account and balance sheet and other statements and explanatory notes which form part thereof.

*Income* is the increase in economic benefits or service potential during the accounting period when that increase results in an increase in general fund/corpus of school, other than increases relating to contributions/transfers from the trust or society or any other body managing the school.

*Liabilities* are present obligations of the school arising from past events, the settlement of which is expected to result in an outflow from the school of resources embodying economic benefits or service potential.

*Restricted funds* are contributions received by the school, the use of which is restricted by the contributors.

*School* includes a pre-primary, primary, middle and higher secondary school, and also includes any other institution which imparts education or training below the degree level, but does not include an institution which imparts technical education.

*Unrestricted funds* are contributions received or funds generated by the school, the use of which is not restricted by the contributors.

## **Accounting Framework for Schools**

8. The Framework is concerned with general purpose financial statements (hereafter referred to as 'financial statements'). Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. These users have to rely on the financial statements as their major source of financial information and cannot prescribe the information they want from an organisation. The general purpose financial statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, computations prepared for taxation purposes or specialised needs of regulatory bodies, donor agencies, or others having the authority to obtain the type of information they need are outside the scope of this Framework. For instance, a statute/regulation in a state applicable to schools may prescribe certain specific requirements, e.g., utilisation of funds in a particular manner or statement of

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fees to be charged in each academic year, etc. Where the general purpose financial statements prepared in accordance with the recommendations contained in this Guidance Note do not provide such requisite information, it would be appropriate to prepare a separate statement for the specific purpose envisaged in the relevant statute/regulation. The recommendations contained in this Guidance Note may be applied to such specific purpose statements to the extent appropriate.

9. It is often argued that since profit is not the objective of schools, the accounting framework, which is relevant for business entities is not appropriate for schools. With a view to recommend suitable accounting system for schools, it would be imperative to understand the major ingredients of an accounting framework. An accounting framework primarily comprises the following:

**(a) Elements of financial statements basically comprising income, expenses, assets and liabilities**

The framework aims to identify which items should be considered as income, expenses, assets and liabilities, for the purpose of including the same in the financial statements by defining the aforesaid terms.

**(b) Principles for recognition of items of income, expenses, assets and liabilities**

These principles lay down the *timing* of recognition of the aforesaid items in the financial statements. In other words, these principles lay down *when* an item of income, expense, asset or liability should be recognised in the financial statements.

**(c) Principles of measurement of items of income, expense, assets and liabilities**

These principles lay down at *what* amount the aforesaid items should be recognised in the financial statements.

**(d) Presentation and disclosures principles**

These principles lay down the manner in which the financial statements are to be presented and the disclosures which should be made therein.

10. It may be noted that what is considered as an asset, e.g., land and furniture, by a business entity is an asset for a not-for-profit organisation

also. Same is the case for items of income, expenses and liabilities. Similarly, insofar as the recognition principles are concerned, it is felt that there is no difference in preparing the financial statements of business entities and not-for-profit organisations such as schools. For example, the timing of the recognition of a grant as an income in the financial statements of an organisation does not depend upon the purpose for which the organisation is run. A grant is recognised as income in the financial statements, under accrual basis of accounting, when it becomes reasonably certain that the grant will be received and that the organisation will fulfill the conditions attached to it, and under cash basis of accounting at the time when the grant is actually received. Thus, a business entity and a not-for-profit organisation would follow the aforesaid criteria for recognition of grant as income depending upon the basis of accounting (i.e., cash or accrual basis, discussed hereinafter) followed by the respective organisation rather than the purpose for which the organisation is run. Similarly, principles for recognition of expenses, assets and liabilities would be the same for a business entity and a not-for-profit organisation.

11. Insofar as the measurement principles are concerned, the same principles are relevant to a not-for-profit organisation as well as to a business entity. For example, depreciation of an asset represents primarily the extent to which the asset is used during an accounting period by an organisation. Thus, whether an asset, such as a photocopying machine, is used by a school or a business entity, the measure of charge by way of depreciation depends primarily upon the use of the asset rather than the purpose for which the organisation is run, i.e., profit or not-for-profit motive. Accordingly, the measurement principles for income, assets and liabilities should be the same for business entities and not-for-profit organisations such as schools.

12. Insofar as presentation of financial statements is concerned, not-for-profit organisations generally follow what is known as 'fund based accounting' whereas the business entities do not follow this system. This is because the not-for-profit organisations are generally funded by way of grants, donations or similar contributions which may or may not impose conditions on their usage. In other words, the use of funds may be restricted by an outside agency such as a donor or self-imposed by the organisation. The restrictions can be temporary or permanent (e.g., in case of endowments). Certain contributions may not carry restrictions of usage, i.e., these are unrestricted. It is, therefore, felt that the financial statements of not-for-profit organisations should reflect income, expenses, assets and liabilities in respect of such

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funds separately so as to enable the users of the financial statements, such as the contributors, to assess the usage of funds contributed by them. It may, thus, be seen that the fund-based accounting is relevant primarily for the purpose of presentation of financial statements and not for the purpose of identification, recognition and measurement of various items of income and expenses, assets and liabilities.

13. It may, therefore, be concluded from the above that while the identification, recognition and measurement of elements of financial statements are sector-neutral, the presentation of financial statements may differ among different sectors, viz., for-profit sector and not-for-profit sector. Similarly, disclosure principles may differ among various sectors.

14. In the sections following hereinafter, first, the bases of accounting, viz., cash and accrual, are discussed, since recognition and measurement of elements of financial statements depends on it. Thereafter, the recognition and measurement principles with regard to items of income, expenses, assets and liabilities are discussed followed by the formats of financial statements under which the fund based accounting is discussed in detail.

## **Basis of Accounting**

15. The commonly prevailing bases of accounting are:

- (a) cash basis of accounting; and
- (b) accrual basis of accounting.

16. Under cash basis of accounting, transactions are recorded when the related cash receipts or cash payments take place. Thus, revenue (e.g., from fees, etc.) is recognised when cash is received. Similarly, expenditure on acquisition and maintenance of assets used in rendering of services by an organisation as well as on employee remuneration and other items is recorded when the related payments are made. No subsequent account is taken of whether the asset is still in use, has reached the end of its useful life, or has been sold. Thus, cash-based information fails to show a proper picture of financial position and performance. A cash-based system does not provide information about total costs of an organisation's activities.

17. Accrual basis of accounting is the method of recording transactions by which revenues, expenses, assets and liabilities are reflected in the accounts

in the period in which they accrue. Accrual basis of accounting attempts to record the financial effects of the transactions and other events of an enterprise in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the organisation. Accrual basis recognises that the economic events that affect an organisation's performance often do not coincide with the cash receipts and payments. The goal of accrual basis of accounting is to relate the accomplishments (measured in the form of revenues) and the efforts (measured in terms of costs) so that the reported net income measures an organisation's performance during a period rather than merely listing its cash receipts and payments. Apart from income measurement, accrual basis of accounting recognises assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in future. One of the resultant advantages is that it offers the opportunity to the organisation to improve management of assets. Similarly, accrual-based accounting provides useful information about the real level of an organisation's liabilities, relating to both debts and other obligations such as employee entitlements. Accrual is, thus, a scientific basis of accounting and has conceptual superiority over the cash basis of accounting. It is, therefore, recommended that all schools should maintain their books of account on accrual basis for all elements of financial statements.

## **Recognition and Measurement Principles**

18. As noted above, the recognition and measurement principles for elements of financial statements are sector-neutral. Thus, schools should follow recognition and measurement principles, within the framework of accrual basis of accounting, for the purpose of preparation of their financial statements. Sound accounting principles under accrual basis of accounting, albeit in the context of business, industrial and commercial enterprises, have been laid down in the Accounting Standards, issued by the Institute of Chartered Accountants of India (ICAI). Since the focus of this Guidance Note is, inter alia, to recommend accounting for various items of income and expenses, assets and liabilities for the purpose of preparation and presentation of financial statements with a view to reflect a true and fair view of the operating results and state of affairs of the schools under accrual basis of accounting, Accounting Standards issued by ICAI have been followed in this Guidance Note for suggesting the accounting treatment in respect of various items of income, expenses, assets and liabilities. With regard to detailed treatment and for items not specifically dealt with in the Guidance Note, the relevant Accounting

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Standards should be referred to and followed with appropriate modifications, where necessary. Thus, while applying the accounting standards certain terms used in the Accounting Standards may need to be modified in the context of the corresponding appropriate terms for schools, e.g., where an accounting standard refers to the 'Statement of Profit and Loss', it should be considered that the standard refers to the 'Income and Expenditure Account' in the context of schools.

19. So far, the Institute of Chartered Accountants of India has issued 29 Accounting Standards out of which one standard (viz., AS 8) is no longer in force. For the purpose of applicability of Accounting Standards, enterprises have been classified into three categories, viz., Level I, Level II and Level III depending upon their nature and size. [(Reference for this purpose may be made to Compendium of Accounting Standards (including Interpretations as on July 1, 2004) (page (lxvi))]³. Keeping in view the nature of activities carried on by the schools, some accounting standards may not be relevant to the schools unless events or transactions of the nature covered by the standard take place⁴. For example, Accounting Standard (AS) 22, Accounting for Taxes on Income, would be relevant only where the school is required to pay any tax under the provisions of the Income-tax Act.

20. The Accounting Standards are intended to apply only to items which are material. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the decisions of users taken on the basis of financial information. Materiality depends on the size and nature of the item or error, judged in the particular circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than being a primary

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<sup>3</sup> Reference for this purpose may be made to Appendix I to the Compendium of Accounting Standards (As on July 1, 2012) at page no. 639.

<sup>4</sup> Accounting Standards normally not relevant to schools are as follows:

- (i) AS 7, Construction Contracts
- (ii) AS 14, Accounting for Amalgamations
- (iii) AS 17, Segment Reporting
- (iv) AS 20, Earnings Per Share
- (v) AS 21, Consolidated Financial Statements
- (vi) AS 22, Accounting for Taxes on Income
- (vii) AS 23, Accounting for Investments in Associates in Consolidated Financial Statements
- (viii) AS 24, Discontinuing Operations
- (ix) AS 25, Interim Financial Reporting
- (x) AS 27, Financial Reporting of Interests in Joint Ventures

qualitative characteristic which the information must have if it is to be useful. For example, a calculator purchased by a school for its use, costing Rs. 100, can be recognised as an expense in the year of purchase, although it fulfils the definition of a 'fixed asset', in case, considering the value of its other assets, revenue and its surplus, the size of the amount of Rs. 100 is not considered material.

21. Accounting Standards generally relevant to schools have been discussed hereinafter while dealing with peculiar items of income, expenses, assets and liabilities.

## **Income**

22. Income is increase in economic benefits or service potential during the accounting period when the increase results either in the form of inflows or enhancements of assets or in the form of decreases in liabilities. The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of a school such as from receipt of tuition and other fees from the students, donations, sale of publications, prospectus, application forms, products in a canteen owned by the school, etc.

23. Gains represent other items that meet the definition of 'income' and may, or may not, arise in the course of the ordinary activities of a school. Gains represent increases in economic benefits and as such are no different in nature from revenue. Gains include, for example, those arising on disposal of fixed assets and sale of investments. When gains are recognised in the income and expenditure account, they are usually disclosed separately.

### ***Recognition Criteria for Items of Income***

24. An item that meets the definition of income becomes eligible to be recognised in the financial statements if -

- (a) it is probable that the inflow or other enhancement of future economic benefits has occurred; and
- (b) the inflow or other enhancements of future economic benefits can be measured reliably.

## **Revenue Recognition**

25. The criteria for recognition of income specified in the above paragraph have been applied for developing principles of recognition of revenue in Accounting Standard (AS) 9, Revenue Recognition, in respect of revenue arising from sale of goods, rendering of services and use of resources of the organisation by others. In the context of a school, the principles related to recognition of revenue from sale of goods may be relevant for the purpose of recognising revenue from sale of publications, prospectus, products sold in the canteen owned by the school, etc. Revenue recognition principles related to rendering of services would be relevant for the purpose of recognition of tuition and other fees received from the students, since a school renders the service of education. Revenue recognition principles related to revenue from use of organisation's resources by others are relevant for the purpose of recognition of income from interest, rent, etc. The principles related to the aforesaid aspects are as below:

- (i) Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs (ii) and (iii) below are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.
- (ii) In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:
  - (a) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
  - (b) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.
- (iii) 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



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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.

(iv) Revenue arising from the use by others of organisation's resources yielding interest, royalties and dividends should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following basis:

- (a) Interest            on a time proportion basis taking into account the amount outstanding and the rate applicable
  
- (b) Royalties            on an accrual basis in accordance with the terms of the relevant agreement.
  
- (c) Dividends            when the owner's right to receive payment is established.  
    from  
    Investments  
    in shares

26. The application of the above principles laid down in AS 9 to certain significant peculiar items of financial statements of schools are dealt with hereinafter.

#### *Tuition fees and fees received for pursuit of other curriculum activities*

27. A major portion of revenue for a school is tuition fees from students and fee for pursuit of other curriculum activities such as library fees, computer fees, science fees, etc. According to the Appendix to AS 9, revenue arising from tuition fees should be recognised over the period of instruction. Thus, if the academic year of the school and the accounting year are different then it is possible that some fees may be received in advance or is outstanding at the end of the accounting year. Any fees received in advance for next accounting year should not be recognised as income for the year in which it is received, but should be shown as a liability in the balance sheet of the school. Such fees should be recognised as income in the income and expenditure account of the next accounting year to which it relates. Similarly, fees relating to the current year, if any, due from the students at the end of the accounting year should be recognised as income of the year. In rare circumstances, it may be unreasonable to expect ultimate collection of the

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outstanding dues from the students at the balance sheet date. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made.

28. The fee received for pursuit of other curriculum activities is also of the same nature as that of tuition fees and, therefore, the same principles are applicable for its recognition.

#### *One time charges*

29. Schools normally receive one time charges, i.e., the charges which are paid only once during the tenure of the studentship in the school. These charges are usually in the form of fees for admission to school, registration fees, etc. and are generally non-refundable. Such charges should be recognised as income when received.

#### *Periodic charges*

30. In addition to tuition fees and fees for pursuit of other curriculum activities and one-time charges, schools also receive some other non-refundable charges from the students on periodic basis, for example, magazine/newspapers charges and other annual charges received from the students at the beginning of each academic year. Such charges should be recognised as income on a time proportion basis over the relevant period. In case, any student is admitted to the school during the session, then the relevant period for this purpose will be the remaining academic year from the date of admission of the student.

#### *Caution money*

31. At the time of admission of a student to a school, caution money is also received which is refundable to the student at the time the student leaves the school. Caution money is of the nature of a deposit and, therefore, should not be considered as income. It should be shown as a liability in the balance sheet of the school. The caution money should be recognised as income only when a student waives his right to receive the caution money or it is forfeited by the school as per the rules or a student does not claim the caution money after becoming entitled to receive the same within the period during which refund can be claimed as per the policy of the school. The amount of caution money refundable to students within 12 months of the balance sheet date should be reflected as a 'current liability' in the balance

sheet and the caution money refundable beyond 12 months of the balance sheet date should be shown separately as a liability of long-term nature in the balance sheet.

*Sale of prospectus, etc.*

32. Revenue arising from the sale of prospectus and admission forms should be recognised at the time when the sale takes place.

*Canteen Income*

33. Canteen income may fall in either one or more of the following categories:

- Sale of products where the canteen is owned and run by the school itself;
- Contract charges where contract of running the canteen has been given to an outside party;
- Mess charges received from the students living in the hostel who pay a fixed amount per month for supply of food, etc.

34. Revenue from sale of products from the canteen owned by the school should be recognised when the sale takes place. Revenue from contract charges of the canteen given on contract should be recognised on a time proportion basis over the relevant contract period. Revenue from mess charges received from the students living in the hostel should also be recognised on a time proportion basis over the period for which charges have been received.

*School premises given on rent to outside parties*

35. Schools may give their premises on rent to outside parties for various purposes, such as, holding examinations, marriages, etc., and/or for running management or coaching institutes on part-time basis after the school hours. If the premises given on rent are owned by the school, rental income arising therefrom is the income of the school and should be treated as such even if it is received directly by the trust or society running the school. Such rental income should be recognised on a time proportion basis over the period for which the rent is received.

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### *Hostel fees*

36. Hostel fees is the fees charged for boarding and lodging from the students who avail the hostel facility. Such fees may be charged on monthly, quarterly, half-yearly or even annual basis. Revenue from such fees should be recognised on time proportion basis over the period for which the fee is received. Thus, any fees received in advance or fees outstanding at the end of the accounting period should be accounted for in the same manner as discussed in paragraph 27 above for tuition fees and fees received for pursuit of other curriculum activities.

### *Revenue from provision of transportation facility*

37. Revenue from provision of transportation facility to the students may fall in either of the following categories:

- Transportation fees where the school itself owns the transportation facilities, e.g., buses and vans;
- Contract charges where contract of providing transportation facility has been given to an outside party.

38. Revenue from transportation fees where the school itself owns transportation facilities should be recognised over the period during which the concerned facilities are provided by the school. Thus, any fee received in advance or fee outstanding at the end of the accounting period should be accounted for in the same manner as discussed in paragraph 27 above. Revenue from contract charges where the contract of providing facility has been given to an outside party should be recognised on a time proportion basis over the relevant contract period.

### *Supply of books, uniforms, etc., to the students*

39. Schools generally enter into contracts, with outside parties, for supplying books, stationery, uniforms, etc., to the students. Such a party may pay to the school either a lump sum amount or a commission based on the value of the goods sold to the students. Where the party pays a lump sum amount to the school, revenue in this regard should be recognised on a time proportion basis over the period for which the amount is received, because, revenue is based on the period of contract and not on the value of goods sold by the contractor. However, where the school receives commission based on the

value of goods sold, revenue from the commission should be recognised at the time when sales are made by the contractor and an intimation to that effect is received.

*Sponsorship fees*

40. Some entities may place their banner(s) in the programmes or functions or may sponsor programmes or functions organised by the school. Any fees received from such entities is the revenue for the school and should be recognised in the income and expenditure account for the period in which the concerned programme or function is held.

*Advertisements for School Magazine*

41. The school magazine is, ordinarily, an annual feature and schools receive charges from various outside parties to publish their advertisements in it. As per the Appendix to AS 9, revenue in this regard should be recognised when the advertisement appears before the readers of the magazine, i.e., on publication and release of the school magazine to the students.

*Amount received from Board for payment to Exam Invigilators*

42. Schools receive amounts from the Education Boards for payment to the invigilators for conducting Board examinations. The amount received from the Board should be recognised as income and the amount paid/payable to the invigilators should be shown as an expense in the income and expenditure account. In case any amount received is lying with the school at the balance sheet date and has not been disbursed to the invigilators, it should be disclosed as a current liability of the school.

*Board Fee*

43. The Boards of Secondary Education like, CBSE, ICSE, etc., conduct examinations for Class X and XII in order to grant qualifying certificates to successful candidates of the affiliated schools. Schools collect the Board fee from the students and submit the same to the Boards. Board fee collected from the students should be recognised as income and the same paid/payable to the Board should be recognised as an expense in the income and expenditure account. In case a school receives Board fee from a student which is not remitted to the Board at the balance sheet date, the same should be shown as current liability in the balance sheet of the school.

### **Grants-in-Aid and Donations – Recognition and Measurement**

44. Grants are assistance by government/non-government agencies in cash or in kind to a school for past or future compliance with certain conditions. Schools receive grants from various sources for various purposes such as those stated below:

- Building grant;
- Staff grant;
- Pension and retirement benefit grant;
- Grants for the acquisition of essential equipments, furniture, games and sports materials, etc.;
- Grants for purchase of books for the library and for establishing a book bank;
- Contingent grant for meeting expenditure on repairs of furniture, stationery, electricity, water charges, postage, periodicals, etc.;
- Rent grant;
- Depreciation grant;
- Hostel maintenance grant and hostel building depreciation grant.

45. The receipt of grants by a school is significant in preparation of the financial statements for two reasons. Firstly, if a grant has been received, an appropriate method of accounting therefor is necessary. Secondly, it is desirable to give an indication of the extent to which the recipient school has benefited from such grant during the reporting period. Further, this will facilitate comparison of the school's financial statements with those of prior periods and with those of other schools, which are receiving similar types of grant.

46. Accounting Standard (AS) 12, 'Accounting for Government Grants', prescribes accounting for government grants. The accounting treatment prescribed in AS 12 is based on the nature of the grant and the purpose for which the grant is received. Accordingly, a school should follow the principles enunciated in the standard in respect of accounting for government grants as

also for the grants received from non-government sources, e.g., individual donors and corporate bodies.

47. Keeping in view the principles enunciated in AS 12, nature of activities carried on by schools and to maintain uniformity of accounting policies followed, a school should account for grants as follows:

- (i) A school should recognise a grant when and only when there is reasonable assurance that the grant will be received and the school will be able to comply with the conditions attached to it. A mere promise of a grant does not warrant its recognition in the books of the school; there has to be a reasonable assurance with regard to the above mentioned factors.
- (ii) Grant received or receivable for construction or acquisition of a specific fixed asset, such as, land, building, furniture, etc., should be accounted for as below:
  - (a) Grants received to acquire a non-depreciable asset, e.g., freehold land, should be recognised separately as a 'restricted fund' in the balance sheet. When the asset is acquired, the concerned restricted fund is transferred to the 'General fund' in the balance sheet. However, if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be treated as deferred income which should be recognised as income over the same period over which the cost of meeting such obligations is charged to income. As an example, where a grant is received for acquiring land conditional upon the erection of a building on the land, it would be appropriate to recognise it as income over the life of the building.
  - (b) Grants related to a depreciable fixed asset should be treated as deferred income which should be recognised in the income and expenditure account by allocating it over the useful life of the asset in proportions in which depreciation on the asset concerned is charged.
  - (c) The deferred income balance, if any, should be shown separately in the balance sheet.

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- (iii) Grants in the form of non-monetary assets (such as fixed assets) received at a concessional rate should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is received free of cost, it should be recorded at a nominal value of Re.1.
- (iv) Grants received for the purpose of meeting the revenue expenditure of the school such as, staff grant, pension and retirement benefits grant, contingent grant, rent grant, depreciation grant, hostel maintenance grant, etc., should be recognised on a systematic basis in the income and expenditure account over the periods necessary to match them with the related costs which they are intended to compensate.
- (v) Grants of the nature of promoters' contribution (e.g., the grant received from the trust owning the school) should be recognised separately as a part of the General Fund in the balance sheet.
- (vi) In some cases, a grant may be receivable by a school as compensation for expenses or losses incurred in a previous accounting period, or for providing immediate financial support to the school with no related further costs. Such grants should be recognised and disclosed in the income and expenditure account of the period in which they are receivable.
- (vii) The amount refundable in respect of grants received that relate to revenue as well as those that relate to specific fixed assets, should be applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to the income and expenditure account of the school.

48. The principles enunciated in respect of grants as dealt with in the above paragraphs also apply to donations.

49. The detailed application of the principles enunciated above in respect of grants and donations in the financial statements, in the context of fund-based accounting, has been dealt with subsequently.



## Expenses

50. The definition of 'expense' encompasses both expenses that arise in the course of the ordinary activities of the school as well as losses. Expenses that arise in the course of the ordinary activities of the school include, for example, salaries paid to teachers and other employees, retirement benefits to teachers and other employees, depreciation on fixed assets, repairs and maintenance of school building and furniture, electricity charges, stationery, etc. The expenses take the form of an outflow or depletion of assets or enhancement of liabilities.

51. Losses represent other items that meet the definition of 'expense' and may or may not arise in the course of the ordinary activities of the school. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of fixed assets. The definition of expenses also includes unrealised losses. These losses are generally recognised in the income and expenditure account, and are usually disclosed separately.

### ***Recognition Criteria for Items of Expenses***

52. An item that meets the definition of 'expense' becomes eligible to be recognised in the income and expenditure account when and only when:

- (a) it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred;
- (b) the consumption or loss of future economic benefits can be measured reliably.

53. Under accrual basis of accounting, expenses are recognised on the following bases:

- (i) *Identification with revenue transactions*

Costs directly associated with the revenue recognised during the relevant period (in respect of which whether money has been paid or not) are considered as expenses and are charged to income for the period.

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### *(ii) Identification with a period of time*

In many cases, although some costs may have connection with the revenue for the period, the relationship is so indirect that it is impracticable to attempt to establish it. However, there is a clear identification with a period of time. Such costs are regarded as 'period costs' and are expensed in the relevant period, e.g., salaries, telephone, travelling, depreciation on office building, etc. Similarly, the costs the benefits of which do not clearly extend beyond the accounting period are also charged as expenses.

54. Expenses relating to a future period are accounted for as prepaid expenses even though they are paid for in the current accounting period. Similarly, expenses of the current year, for which payment has not yet been made (outstanding expenses) are charged to the income and expenditure account for the current accounting period.

55. The application of the expense recognition criteria stated above, in the context of certain important expenses incurred by a school, are dealt with hereinafter.

### *Depreciation*

56. Most schools use buildings, computers, furniture and fixtures and other assets having long life. Such assets are used by the school over their useful life and, accordingly, depreciate over that period. Such assets are known as 'depreciable assets'.

57. Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Thus, the purpose of charging depreciation is to spread the cost of a depreciable asset over its useful life so as to charge it as an expense in the income and expenditure account. A corresponding depreciation fund may be created by a school, as a management decision or under a legal requirement, if any, to replace the asset on the expiry of its useful life. Thus, non-creation of a depreciation fund, if there is no legal requirement, does not adversely affect true and fair view of the financial statements even though it may be financially prudent to do so.

58. Accounting Standard (AS) 6, 'Depreciation Accounting', prescribes requirements for charging depreciation on various depreciable assets. Keeping in view the requirements of AS 6, nature of activities carried on by schools and to maintain uniformity of accounting policies followed by various schools, a school should provide for depreciation on its various depreciable assets as below:

- (i) A school should charge depreciation according to the written down value method at rates recommended in Appendix I to the Guidance Note.
- (ii) Any addition or extension which becomes an integral part of the existing asset should be depreciated at a rate that has the impact of writing-off 95% of the original cost of addition or extension over the remaining useful life of the existing asset. Alternatively, depreciation on such addition or extension may be provided at the rate applied to the existing asset. However, where an addition or extension retains its separate identity and is capable of being used after the existing asset is disposed of, depreciation on the same should be provided independently at the rate applicable to it.
- (iii) Where a depreciable asset is disposed of, scrapped, retired, etc., the net surplus or deficiency, if material, should be disclosed separately.

*Salaries, allowances and retirement benefits*

59. A substantial portion of the revenue of a school is applied towards payment of salaries, allowances and retirement benefits to teaching and non-teaching employees. The expenditure should be booked as expense in the period in which the employee renders service.

60. As far as accounting for retirement benefits is concerned, it is recommended that the principles laid down in Accounting Standard (AS) 15, 'Accounting for Retirement Benefits in the Financial Statements of Employers'(Issued 1995)<sup>5</sup>, should be followed, the salient features of which,

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<sup>5</sup> With regard to the applicability of the Standard to schools, the revised AS 15 (revised 2005) titled as 'Employee Benefits' may be referred to. The revised Standard comes into effect in respect of accounting periods commencing on or after April 1, 2006 (published in the March, 2006 issue of 'The Chartered Accountant').

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from the perspective of a school, are given below:

- (i) The cost of providing retirement benefits to employees should be allocated to periods during which the services are rendered by the employees. This is because a school assumes obligation to pay retirement benefits in respect of an accounting period in consideration of services rendered by the employees during that period. Accounting for retirement benefit costs on cash basis, i.e., only when employees receive payments (termed as pay-as-you-go method), is not appropriate.
- (ii) A *defined contribution scheme* is a scheme under which amounts to be paid as retirement benefits are determined by contributions to a fund together with earnings thereon. An example of a defined contribution scheme is contributory provident fund under which the employer's obligation is to contribute a certain specified percentage of salary of an employee as provident fund.

In respect of retirement benefits in the form of provident fund and other defined contribution schemes, the contribution payable by the school for a year should be charged to the income and expenditure account for the year.

- (iii) A *defined benefit scheme* is a scheme under which amounts to be paid as retirement benefits are determined usually by reference to employee's earnings and/or years of service. Examples of defined benefit schemes are pension and gratuity. Defined benefit schemes should be accounted for as follows:
  - (a) An appropriate charge to the income and expenditure account for a year should be made through a provision for the accruing liability. The accruing liability should be calculated according to actuarial valuation. However, if a school employs only a few persons, say less than twenty, it may calculate the accrued liability by reference to any other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.
  - (b) Actuarial valuations should normally be conducted at least once in every three years. Where the actuarial valuations are

not conducted annually, the actuary's report should specify the amounts to be charged to the income and expenditure account of each year during the inter-valuation period.

- (c) In case the liability for retirement benefits is funded through a scheme administered by an insurer (e.g., Life Insurance Corporation), an actuarial certificate or a confirmation from the insurer should be obtained that the contribution payable to the insurer is the appropriate accrual of the liability for the year. The contribution payable should be charged to the income and expenditure account for the year.

*Other expenses*

61. Other expenses such as, telephone, electricity, conveyance, etc., should be recognised in the income and expenditure account on the basis of the criteria for recognition of expenses as stated in paragraphs 52 to 54 above.

**Assets**

62. As per the definition, an asset is a resource controlled by a school as a result of past events and from which future economic benefits or service potential are expected to flow to the school. A resource should be considered to be controlled by a school if it is in a position to control the use of the asset, i.e., it is in a position to obtain all the rewards from the asset which means all the future economic benefits associated with it will flow to the school.

63. Many assets, for example, computers and buildings have a physical form. However, physical form is not essential to the existence of an asset. Hence, intangible assets such as copyrights and computer software are also assets, if they are controlled by the school and future economic benefits from their use are expected to flow to the school.

***Recognition and Measurement of Assets***

64. An asset should be recognised in the balance sheet when and only when:

- (a) it is probable that the future economic benefits embodied in the asset will be received; and
- (b) the asset possesses a cost or value that can be measured reliably.

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65. Assets can be classified into various categories depending on their nature and life such as, fixed assets – tangible and intangible; current assets such as stores, receivables; loans and advances; cash and bank balances; investments – both current and long-term, etc.

66. The recognition and measurement principles with regard to the aforesaid categories of assets are dealt with hereinafter in the context of the accounting standards where relevant from the perspective of schools.

*Fixed assets*

67. Accounting Standard (AS) 10, 'Accounting for Fixed Assets', lays down, inter alia, recognition and measurement principles with regard to tangible fixed assets, the salient features of which from the perspective of a school are given below:

- (i) A *fixed asset* is defined as “an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business”.
- (ii) The financial statements should disclose, *inter alia*, the historical cost of fixed assets.
- (iii) The cost of a fixed asset should be determined as below:
  - (a) The cost of a purchased fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use.
  - (b) The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset.
- (iv) Subsequent expenditure related to an item of fixed asset should be added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

- (v) Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.
- (vi) A fixed asset should be eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal.
- (vii) Losses arising from the retirement or gains or losses arising from disposal of a fixed asset should be recognised in the income and expenditure account.

68. All costs which are incurred in bringing an asset to its working condition for its intended use should be added to the cost of the fixed asset. Examples of directly attributable costs are, initial delivery and handling costs, site preparation, professional fees, for example fees of architects and engineers. In case of land, cost of any improvement to land such as filling cost, fencing cost, etc. should be capitalised as a part of the cost of land. In case any super-structure has been built on land, the cost of such super-structure should be capitalised separately under the head 'buildings'.

69. Where a fixed asset is obtained free of cost, e.g., land is provided by individuals or institutions for construction of schools etc., the cost of such an asset to the schools is nil. In substance, receipt of such an asset is a non-monetary grant and, accordingly, should be accounted for as per AS 12, which requires that non-monetary grants should be accounted for at a nominal value (e.g., rupee one). Any incidental costs of acquisition such as registration charges, transportation charges, etc., should be added to the cost of the fixed asset.

70. Where more than one asset, e.g., land and building, are purchased for a consolidated price, the consideration is apportioned to the various assets on a fair basis, e.g., as determined by a competent valuer.

#### *Intangible Assets*

71. Insofar as computer software acquired by a school for its internal use is concerned, it should be recognised at cost, i.e, purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities) and any directly attributable expenditure on making the software ready for its use. AS 26 lays down that

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only in those cases where the software is not an integral part of the related hardware, computer software should be treated as an intangible asset. Thus, software of the nature of operating system of a computer should not be separately recognised as an intangible asset. Cost of software capitalised should be amortised on straight-line basis over a period of about 3 to 5 years as per Appendix A1 to Accounting Standard (AS) 26, Intangible Assets. Other intangible assets, if any, should also be accounted for as per AS 26.

### *Investments*

72. As per Accounting Standard (AS) 13, investments are “assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise”. Schools may invest their funds in securities such as, government bonds and units. They may also invest monies received in respect of specific funds created by them with a view to liquidate them at the time of incurrence of the expenditure for the specified purpose.

73. Schools should account for investments in accordance with AS 13, the salient features of which, from the perspective of schools, are given below:

- (i) A school should disclose current investments and long term investments distinctly in its financial statements. A *current investment* is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. A *long term investment* is an investment other than a current investment.
- (ii) The cost of an investment should include acquisition charges such as brokerage, fees and duties. Where an investment has been purchased on cum-dividend or cum-interest basis, the interest or dividend received subsequently should be allocated between pre-acquisition and post-acquisition periods. The interest or dividend relating to the pre-acquisition period represents a recovery of cost and should, accordingly, be deducted in arriving at cost.
- (iii) Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value.
- (iv) The comparison of cost and fair value for determining the carrying amount of current investments should be made either on an



individual investment basis (i.e., cost and fair value should be compared separately for each investment) or by category of investment (i.e., cost of an entire category of investments such as government securities should be compared with its fair value).

- (v) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.
- (vi) Any reduction in the carrying amount and any reversals of such reductions should be charged to income.
- (vii) On disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to income. When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

*Current assets, loans and advances*

74. Current assets, loans and advances should be carried at the lower of cost and their net realisable value. In view of this, if there is a significant uncertainty about collectability of a loan or advance, e.g., loan given to employees, a provision to the extent of the amount considered uncollectable should be made by a charge to the income and expenditure account.

**Liabilities**

75. An essential characteristic of a liability is that the enterprise has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or a statutory requirement. This is normally the case, for example, with amounts payable for goods and services received and taxes to be paid. Obligations also arise, however, from normal practices followed by the enterprise, custom and a desire to maintain good relations or act in an equitable manner.

### ***Recognition and Measurement of Liabilities***

76. A liability should be recognised in the balance sheet when and only when:

- (a) it is probable that any future sacrifice of economic benefits will be required; and
- (b) the amount of the liability can be measured reliably.

77. The settlement of a liability usually involves the enterprise giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a liability may occur in a number of ways, for example, by:

- (a) payment of cash;
- (b) transfer of other assets;
- (c) provision of services;
- (d) replacement of that obligation with another obligation.

An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

78. In the case of schools, normally, the liabilities are in the form of payments due towards the suppliers of material and services or any income received in advance. These liabilities should be measured at the amount at which they are due for payment and recognised on the basis of the criteria specified above.

### **Provisions**

79. Some liabilities can be measured only by using a substantial degree of estimation. Such liabilities are commonly described as 'provisions'. Examples of provisions include provision for refund of fees paid by students.

### ***Recognition and Measurement of a Provision***

80. A school should recognise and measure provisions in accordance with Accounting Standard (AS) 29, 'Provisions, Contingent Liabilities and Contingent

Assets'. The standard requires that a provision should be recognised when:

- (a) there is a present obligation as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

As per AS 29, present obligation is an obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not. According to AS 29, the amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

#### *Contingent liabilities*

81. AS 29 defines the terms 'contingent liability' and 'possible obligation' as below:

***"A contingent liability is:***

- (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or***
- (b) a present obligation that arises from past events but is not recognised because:***
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or***
  - (ii) a reliable estimate of the amount of the obligation cannot be made.***

***Possible obligation – an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable."***

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82. Examples of contingent liabilities in the context of schools are suits filed by teachers in courts for increase in salary, suits filed by parents against increase in fees being charged by the school. There can be other such contingencies, the outcome of which will be known only on the occurrence or non-occurrence of uncertain future events.

83. As per AS 29, a school should not recognise a contingent liability on the face of financial statements, but it should make the following disclosures, for each class of contingent liability, in the notes to financial statements, unless the possibility of any outflow in settlement is remote:

- (a) a brief description of the nature of the contingent liability;
- (b) an estimate of its financial effect;
- (c) an indication of the uncertainties relating to any outflow; and
- (d) the possibility of any reimbursement.

84. Where any of the information required in paragraph 83 is not disclosed because it is not practicable to do so, that fact should be stated.

## **Books of Account to be kept by a School**

85. Every school should maintain proper books of account with respect to -

- (a) all sums of money received by the school and the matters in respect of which receipts take place, showing distinctly the amounts received from students and through grants and donations;
- (b) all sums of money expended by the schools and the matters in respect of which expenditure takes place;
- (c) all assets and liabilities of the school.

86. Proper books of account would not be deemed to be kept with respect to the matters specified therein, -

- (a) if such books are not kept as are necessary to give a true and fair view of the state of affairs of the school, and to explain its transactions;

- (b) if such books are not kept on accrual basis and according to the double entry system of accounting; and
- (c) if such books are not kept so as to reflect a true and fair view of various funds maintained by the school.

87. An illustrative list of books of account and records which may be generally maintained by a school is given in Appendix II.

## **Formats of Financial Statements**

88. The accounting process in an organisation culminates in the preparation of its financial statements. The financial statements are intended to reflect the operating results during a given period and the state of affairs at a particular date in a clear and comprehensive manner. The basic financial statements relevant to a school are income and expenditure account and balance sheet and the notes and other statements and explanatory material that are an integral part of the financial statements. They may also include supplementary schedules and information based on or derived from, and expected to be read with such statements. Such schedules and supplementary information may deal with, for example, movement in various funds. In addition, schools are encouraged to prepare a cash flow statement, in accordance with Accounting Standard (AS) 3, 'Cash Flow Statements', issued by the Institute of Chartered Accountants of India. Financial statements do not, however, include reports by the governing body, for example, the trustees, statement by the chairman, discussion and analysis by management and similar reports that may be included in a financial or annual report.

89. Income and expenditure account is prepared by a school in lieu of a profit and loss account. An income and expenditure account should contain all revenues earned and expenses incurred by a school during an accounting period. Since the purpose of fund-based accounting in a school, discussed in detail hereinafter, is to present income and expenses in respect of restricted funds as distinguished from unrestricted funds, it is recommended that the income and expenditure account should have three columns, namely,

- (i) 'Unrestricted Funds', further sub-classified into 'Designated Funds' and 'General Fund';
- (ii) 'Restricted Funds'; and

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- (iii) 'Total' column reflecting the total income and expenses of 'Unrestricted Funds' and 'Restricted Funds'.

90. For the preparation of income and expenditure account only revenue items are taken into consideration and capital items are totally excluded. Revenues received in advance and prepaid expenses at the end of the accounting period are also excluded while preparing this account and are disclosed as a liability and an asset, respectively, in the balance sheet. These are included as incomes and expenses in the accounting periods to which they relate.

91. Any transfer to a designated fund is an 'appropriation' of the 'surplus' (i.e., excess of income over expenditure) arising during the period and is not an expense for the period. Appropriations should, therefore, be made after determination of 'surplus' for the period.

92. A school should not present the balance sheet in multi-columnar form. An integrated balance sheet for the school as a whole should be presented. In the balance sheet, assets and liabilities should not be set-off against each other. Balance of various funds should be disclosed in the balance sheet under, 'Funds Employed'.

93. In the preparation and presentation of the financial statements, the overall consideration should be that they give a true and fair view of the state of affairs of the school and of the surplus or deficiency as reflected by the balance sheet and the income and expenditure account, respectively. The financial statements should disclose every material transaction, transactions of an exceptional and extraordinary nature.

94. The recommended formats of income and expenditure account and balance sheet are given in Appendix III.

## **Fund Based Accounting**

95. Schools may receive grants/donations and other forms of revenue the use of which is unrestricted, (i.e., these funds can be used for the general purposes of the school) or the use of which is subject to the restrictions imposed by the contributors (i.e., such funds can only be used for specific purposes and, therefore, are not available for the school's general purposes). Also, the schools may, on their own, earmark certain funds for specific purposes, e.g., library fund for purchase of books for the library. For the

purpose of appropriate presentation of these funds in the financial statements, it is necessary to understand their nature and characteristics, which are described below:

- (a) *Unrestricted funds*: Unrestricted funds refer to funds contributed to a school with no specific restrictions. These funds are used for the general purposes of the school. All revenues (donations, grants, investment income, fees, etc.) not subject to external restrictions are a part of 'unrestricted funds'. For the purpose of presentation in the income and expenditure account and the balance sheet the unrestricted funds are classified into two categories, viz., designated funds and general fund.
  - (i) *Designated funds*: Designated funds are unrestricted funds which have been set aside by the school for specific purposes or to meet future commitments, e.g., library fund and science fund. Unlike restricted funds, any designations are self-imposed and are not normally legally binding. The school can lift the designation whenever it wishes to and reallocate the funds to some other designated purpose(s).
  - (ii) *General fund*: 'Unrestricted funds' other than the 'designated funds' are a part of the 'General fund'.
- (b) *Restricted funds*: Restricted funds are subject to certain conditions set out by the contributors and agreed to by the school when accepting the contributions. The restriction may apply to the use of the moneys received or income earned from the investment of such moneys or both.

*Endowment funds* are a form of restricted funds. Endowment funds are those funds which have been received with a stipulation from the donor that the amount received should not be used for any purpose and only the income earned from investments of these funds can be used either for general purposes of the school or for specific purposes, depending on the terms of the contribution made. Usually, the amount received is invested outside the school as per the terms of the contribution, if any.

The manner of creation, utilisation of various types of funds, including income from investments of the funds, has been dealt with in the following paragraphs.

### **Designated Funds**

96. Designated funds are created by appropriation of the surplus for the year for meeting revenue expenditure or capital expenditure in future. When a revenue expenditure is incurred in respect of which a designated fund has been created, the same is debited to the income and expenditure account ('Designated Funds' column). A corresponding amount is transferred from the concerned designated fund account to the credit of the income and expenditure account after determining the surplus/deficit for the year since the purpose of the designated fund is over to that extent. Where the designated fund has been created for meeting a capital expenditure, the relevant asset account is debited by the amount of such capital expenditure and a corresponding amount is transferred from the concerned designated fund account to the credit of the income and expenditure account after determining surplus/deficit for the year. In respect of the assets, e.g., a building, being constructed by the school, on completion of the same, the entire balance, if any, of the relevant designated fund is transferred to the credit of the income and expenditure account after determining the surplus/deficit for the year.

97. In case the school is holding specific investments against the designated funds, income earned, if any, on such investments, is credited to the income and expenditure account for the year in which the income is so earned and is shown in 'Designated Funds' column. An equivalent amount may be transferred to the concerned designated fund account after determining the surplus/deficit for the year as per the policy of the school.

### **General Fund**

98. All items of revenue and expenses that do not relate to any designated fund or restricted fund are reflected in the 'General Fund' column of the income and expenditure account. The surplus/deficit for the year after appropriations is transferred and presented as surplus/deficit separately as a part of 'General Fund' in the balance sheet. Apart from such surplus/deficit, the 'General Fund' also includes the following which are separately presented in the balance sheet:

- (i) Grants related to a non-depreciable asset (see paragraph 47 (ii)(a)).
- (ii) Grants of the nature of promoters' contribution (see paragraph 47 (v)).



### ***Restricted Funds***

99. Restricted funds that represent the contributions received whose use is restricted by the contributors, are credited to a separate fund account when the amount is received and reflected separately in the balance sheet. Such funds may be received for meeting revenue expenditure or capital expenditure. Where the fund is meant for meeting revenue expenditure, upon incurrence of such expenditure, the same is charged to the income and expenditure account ('Restricted Funds' column); a corresponding amount is transferred from the concerned restricted fund account to the credit of the income and expenditure account ('Restricted Funds' column). Where the fund is meant for meeting capital expenditure, upon incurrence of the expenditure, the relevant asset account is debited which is depreciated as per the recommendations contained in this Guidance Note. Thereafter, the concerned restricted fund account is treated as deferred income, to the extent of the cost of the asset, and is transferred to the credit of the income and expenditure account in proportion to the depreciation charged every year (both the income so transferred and the depreciation should be shown in the 'Restricted Funds' column). The unamortised balance of deferred income would continue to form part of the restricted fund. Any excess of the balance of the concerned restricted fund account over and above the cost of the asset may have to be refunded to the donor. In case the donor does not require the same to be refunded, it is treated as income and credited to the income and expenditure account pertaining to the relevant year ('General Fund' column). Where the restricted fund is in respect of a non-depreciable asset, the concerned restricted fund account is transferred to the 'General Fund' in the balance sheet when the asset is acquired.

100. The restricted funds will normally carry a stipulation as to the use of income earned on investments made out of the contributions received. If the terms stipulate that the income earned should be used for the same purpose for which the contribution was made, the income earned should be credited to the concerned restricted fund account. Where the terms stipulate a general use of the income earned, the same should be credited to the income and expenditure account ('General Fund' column) of the year in which the income is so earned.

101. Income earned from investments of endowment funds is recognised in the income and expenditure account only to the extent of the expenditure incurred for the relevant purpose. Both the income and the expense should

be shown in the 'Restricted Funds' column. Any excess of the income not recognised as aforesaid would continue to remain part of the concerned fund.

## **Disclosures**

102. In respect of funds, schools should disclose the following in the schedules/notes to accounts:

- (a) In respect of each major fund, opening balance, additions during the period, deductions/utilisation during the period and balance at the end;
- (b) Assets, such as investments, and liabilities belonging to each fund separately;
- (c) Restrictions, if any, on the utilisation of each fund balance;
- (d) Restrictions, if any, on the utilisation of specific assets.

## **Related Party Disclosures**

103. Accounting Standard (AS) 18, 'Related Party Disclosures', issued by the Institute of Chartered Accountants of India, requires disclosures to be made in respect of related party transactions. Keeping in view the involvement of public funds, in the context of a school, the following disclosures should be made by way of a note to the financial statements of the school:

- (i) Transactions between the school and the trust or society managing the school.
- (ii) Transactions between the school and the trustees or the members of the governing body of the school.
- (iii) Transactions between the school and the author of the trust or the founder of the institution.
- (iv) Transactions between the school with another school or any other educational entity managed by the same trust or society, if permitted by the relevant legislation/bye-laws etc.
- (v) Transactions between the school and the relatives of the trustees, or members of the governing body managing the school or the

author of the trust or the founder of the institution. For this purpose, a relative, in the context of an individual, means “the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or influenced by, that individual in his/her dealing with the school”.

- (vi) Transactions between the school and its ‘key management personnel’ or the relatives of the key management personnel. Key management personnel would represent those persons in the school who have the authority and responsibility for planning, directing and controlling the activities of the school. In case of a school, an example of a key management personnel is the principal.

104. If there have been transactions between related parties, during the existence of a related party relationship, the school should disclose the following:

- (i) the name of the transacting related party;
- (ii) a description of the relationship between the parties;
- (iii) a description of the nature of transactions;
- (iv) volume of the transactions; either as an amount or as an appropriate proportion;
- (v) the amounts or appropriate proportions or outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
- (vi) amounts written off or written back in the period in respect of debts due from or to related parties.

105. The following are examples of the related party transactions in respect of which disclosures may be made by a school:

- purchases or sales of fixed assets;
- rendering or receiving of services;

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- leasing or hire purchase arrangements;

106. Items of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the school.

107. Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions, e.g., purchases or sales of books are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.

## **Transition to Accrual Basis of Accounting**

108. A major problem in transition from cash basis of accounting to accrual basis of accounting is determination of opening balances of assets and liabilities.

109. Many assets, e.g., those received by way of donations or gifts, may not have been recorded at the time they were acquired. It is necessary to identify such assets and account for them appropriately. In every case where the original cost cannot be ascertained, without unreasonable expense or delay, the valuation shown by the books should be considered. For the purpose of this paragraph, such valuation should be the net amount at which an asset stood in the school's books at the commencement of the application of this Guidance Note after deduction of the amounts previously provided or written off for depreciation. Similarly, the opening balances of current assets like, receivables and loans and advances, should also be determined.

110. In the case of liabilities, the school should make an assessment on the basis of records available of the amounts payable to creditors, suppliers and others in respect of expenditure incurred for acquisition of assets or to meet revenue expenses.

111. The difference, if any, between the total debit balances and the credit balances as determined on the basis of the paragraphs 109 and 110 above, should be taken as the balance of the 'General Fund'.

## Appendix I

### 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%

#### Notes

1. Where, during any financial year, any addition has been made to any asset, depreciation for the full year should be charged on such addition for that particular year. Similarly, where any asset has been sold, discarded, demolished or destroyed, no depreciation should be charged on such assets for that particular year.

2. In the case of small value assets, whose actual cost does not exceed five thousand rupees, depreciation should be provided at the rate of hundred per cent. However, where the aggregate actual cost of individual items of

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assets costing Rs. 5,000 or less constitutes more than 10 per cent of the total actual cost of the concerned category of assets, rates of depreciation applicable to such items should be the rates as specified in this Appendix.

3. The rates contained in this Appendix should be viewed as the minimum rates and, therefore, a school should not charge depreciation at rates lower than those specified in this Appendix in relation to assets purchased after the date of the applicability of the Guidance Note. However, if on the basis of a bona fide technological evaluation, higher rates of depreciation are justified, the same may be provided with proper disclosures by way of a note forming part of accounts.

4. As regards other tangible depreciable assets for which no rate of depreciation has been laid down in this Appendix, depreciation should be provided on a basis which has the effect of writing off by way of depreciation at least 95% of the original cost to the school of each such depreciable asset on the expiry of its useful life in accordance with the written down value method.

5. This Appendix also applies to the assets financed under a lease agreement.

## Appendix II

### Books of Account and Records

*(This Appendix is not a part of the Guidance Note and is illustrative in nature.)*

*Books of account*

1. Cash Book.
2. Bank Book.
3. Journal.
4. General ledger.
5. Subsidiary ledgers.

*Registers and other records so as to give information in relation to:*

1. Fees received from students (in respect of admission fee, tuition fee, library fee, examination fee, etc.).
2. Grants-in-aid received from various sources.
3. Scholarship and special stipends.
4. Funds such as building, library, laboratory, games, furniture, equipments, endowment, provident fund, poor students fund, deposits, etc.
5. Immovable properties and other fixed assets.
6. Investments.
7. Minutes of the meetings of the Managing Committee of the school.
8. Stock (for books, stationery, uniform, etc.).
9. Caution money received from students.

## **Appendix III**

### **Formats of Financial Statements of Schools**

#### **PART I – GENERAL INSTRUCTIONS AND ACCOUNTING PRINCIPLES**

1. The financial statements of Schools (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 School's Balance Sheet. Where any of the accounting policies is not in conformity with the recommendations contained in this Guidance Note, and the effect of departures therefrom is material, the particulars of the departure should be disclosed, together with the reasons therefor 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 only 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.

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

9. 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 the Income and Expenditure Account, as the case may be.

10. The disclosures suggested in the formats are minimum requirements. A school is encouraged to make additional disclosures.

## **PART II – BALANCE SHEET**

### **FUNDS EMPLOYED**

#### **UNRESTRICTED FUNDS**

##### **General Fund**

- |  |  |
|--|--|
| <b>(i) Funds contributed by promoters</b>  | General Fund includes all financial resources except those required to be accounted for in another fund, i.e., it includes funds which neither have any restriction on their use nor have been designated for any specific purpose. The balance, if any, in the income and expenditure account after appropriation, i.e., surplus/(deficit) is transferred to this fund. |
| <b>(ii) Funds related to non-depreciable assets not requiring fulfilment of any obligation</b> | Grants and donations relating to non-depreciable assets, e.g., freehold land, which do not require fulfilment of any obligation, are included under this head.   |
| <b>(iii) Surplus/(Deficit)</b>   | 'Surplus/(Deficit)' represents the balance of Income   |

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and Expenditure Account, after appropriations, if any.

**Designated Funds**

Designated/Earmarked funds are unrestricted funds set aside by the School for specific purposes or to meet specific future commitments.

**RESTRICTED FUNDS**

Restricted funds are funds subject to certain conditions set out by the contributors and agreed to by the School when accepting the contribution. This head includes:

- (i) Endowment funds.
- (ii) Funds related to depreciable/non-depreciable assets in respect of which assets are still to be acquired.
- (iii) Balances of deferred income, e.g., grants and donations in respect of which specific depreciable assets have been acquired.
- (iv) Funds related to specific items of revenue expenditure not yet incurred.

Each restricted fund should be reflected separately either on the face of the balance sheet or in the schedule(s) to the balance sheet.

**Notes:**

1. The following particulars should be shown in respect of Surplus/(Deficit):

Balance at the beginning of the year

*Add:* Excess of income over expenditure for the year after appropriations, if any.

*Less:* Excess of expenditure over income for the year after appropriations, if any.

Balance at the end of the year

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2. The following particulars should be shown in respect of each Designated and Restricted Fund:

- (a) Balance at the beginning of the year
- (b) Additions during the year
- (c) Deductions during the year
- (d) Balance at the end of the year

3. Designated/Restricted Funds represented by specifically earmarked bank balances/investments should be disclosed separately in respect of each fund.

**LOANS, if any**

**Notes:**

1. Loans, if any, should be classified as 'secured' and 'unsecured' on the basis of the fact whether these are secured or not, wholly or partly, against an asset of the School.

2. Interest free loans should be disclosed separately from interest bearing loans. Interest accrued and due on loans should be included under the appropriate sub-heads.

**Caution Money received from students**

The amount of caution money refundable to students beyond 12 months from the balance sheet date.

**REPRESENTED BY**

**FIXED ASSETS**

**Land**

Includes freehold land and leasehold land.

**Buildings**

Include school buildings, hostel and staff residential buildings, office buildings, temporary structures and sheds.

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<b>Plant and machinery</b>	Include air conditioners, generator sets, television sets, fire extinguishers, etc.
<b>Vehicles</b>	Include buses, lorries, vans, cars, scooters, etc.
<b>Office equipments</b>	Include such items as fax machines, photocopiers, EPABX, typewriters, duplicating machines, etc.
<b>Computers</b>	
<b>Furniture and fixtures</b>	Include such items as desks/benches, cabinets, almirahs, tables, chairs and partitions.
<b>Science Equipments</b>	Include such items as microscopes, telescopes, dissection equipment, glass apparatus, measurement instruments and other types of laboratory equipment, etc.
<b>Sports Equipments</b>	Include items such as table tennis table, gym equipment.
<b>Library books</b>	
<b>Livestock</b>	
<b>Intangible assets</b>	Include Computer Software.
<b>Other fixed assets</b>	

**Notes:**

1. Under each head, the original cost, the additions thereto and deductions therefrom during the year, depreciation written off or provided during the year, and the total depreciation written off or provided up to the end of the year should be stated.

2. Advance payments to contractors and suppliers should not be classified under the specific fixed assets but disclosed as a separate item.

3. Separate disclosure under each of the above heads should be made in respect of donated assets, i.e., assets that have been received free of cost as non-monetary grant/donation by the School as well as assets financed under a lease agreement.

4. Restrictions, if any, on the utilisation of each asset should also be disclosed in the notes to accounts.

**CAPITAL WORK-  
IN-PROGRESS**

Capital expenditure on incomplete construction work should be shown under this head

**INVESTMENTS**

**Long-term  
Investments**

'Long-term investment' means an investment other than a current investment.

Central Government securities

State Government securities

Other securities

**Notes:**

Aggregate amount of the School's long-term quoted investments and also the market value thereof should be shown. Aggregate amount of the School's unquoted investments should also be shown.

'Quoted investment' for this purpose, means an investment in respect of which a quotation or permission to deal on a recognised stock exchange has been granted, and the expression 'unquoted investment' should be construed accordingly.

**Current Investments**

'Current investment' means an investment that is by its nature readily realisable and is intended to

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be held for not more than one year from the date on which such investment is made.

Central Government securities

State Government securities

Other securities

**CURRENT ASSETS**

**Closing Stock**

Includes materials held by school canteen (where run by the school itself), publications held by the school for sale.

**Receivables**

Donations and grants receivable

Include donations and grants in respect of which there is reasonable assurance that (i) the School will comply with the conditions attached, and (ii) the donations and grants will be received.

Others (please specify)

**Balances with Banks and Post Office**

Particulars should be given of balances lying on current accounts, call accounts and deposit accounts.

with Scheduled Banks

with Non-scheduled Banks

with Post Office

**Cash Balances**

Include cheques, drafts and pay orders on hand.

**Other Current Assets**

Items such as interest accrued on investments should be included under this head.

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Where any item constitutes ten percent or more of total current assets, the nature and amount of such item should be shown separately.

**LOANS, ADVANCES  
AND DEPOSITS**

**Advances to staff**

Interest bearing

Non-interest bearing

**Advances to suppliers/  
contractors**

Advances in cash to  
contractors for capital  
works

Advances in cash to other  
contractors/suppliers

Material issued to  
contractors

Advances in cash for  
services

**Advances to Others**

Other amounts  
recoverable in cash or  
kind or for value to  
be received

Prepaid expenses

**Deposits (other than  
with banks)**

Telephone

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Electricity

Others

Where any item constitutes ten per cent or more of total loans, advances and deposits, the nature and amount of such item should be shown separately and the same should not be included under this head.

**LESS: CURRENT  
LIABILITIES AND  
PROVISIONS**

**Current Liabilities**

*Creditors*

For Goods

For Services

For Statutory Liabilities

*Expenses Payable*

*Caution Money  
received from  
students*

The amount of caution money refundable to students during 12 months from the balance sheet date.

From current students

From ex-students

*Other Current  
Liabilities*

Where any item constitutes ten per cent or more of total current liabilities and provisions, the nature and amount of such item should be shown separately and the same should not be included under this head.

**Provisions**

For retirement benefits

Others (specify)



**PART III – INCOME AND EXPENDITURE ACCOUNT**

INCOME	March 31, 20X5			March 31, 20X4
	Unrestricted Funds		Restricted Funds	Total
	General Funds	Designated Funds		Total

**Fees from students**

Tuition & other fees

Admission fees

Registration charges

Examination fees

Board examination fees

Transportation charges

Annual charges

Hostel fee

Fine

Others

**Fees from students for activities**

Sports fee

Library fee

Science fee

Computer fee

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Others

**Donations and Grants**

**Income from sale of items  
such as admission forms,  
prospectuses, magazines  
and other publications**

**Income from canteen  
contracts, cycle stand  
contracts, etc.**

**Rent (from letting out  
school premises)**

**Invigilation fees received  
from Board**

**Income from holding  
events, etc.**

- Gross Receipts from Annual  
Function/ Sports Carnival

Less: Direct expenditure  
incurred on the function/  
carnival

- Gross Receipts from fetes

Less: Direct expenditure  
incurred on the fetes

- Gross Receipts for  
educational tours

Less: Direct expenditure  
incurred on the tours

Others (net of the direct expenditure, separately disclosed)

**Interest and dividends**

**Profit on sale of fixed assets and investments**

**Income from estate (rent, sale of orchid produce, etc.)**

**Miscellaneous income**

**Excess of Expenditure over Income for the year**

**EXPENDITURE**

**Staff Payments & Benefits (Separately for teaching and non-teaching staff)**

Salaries and wages including allowances

Employee welfare including retirement benefits

Invigilation charges paid

Other employee costs

**Transportation expenses**

- In respect of vehicles owned by the School

- In respect of vehicles not owned by the School including

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rentals paid and other expense, if any.

**Affiliation charges**

**Board Examination fees paid/payable to the Board**

**Hostel running expenses**

**Administrative & General Expenses**

Rents, rates and taxes

Communication expenses

Printing & stationery

Electricity and Water charges

Travelling & conveyance expenses of teaching and non-teaching staff

Insurance charges

Promotional expenses

Remuneration to auditors (including expenses reimbursed)

Others

**Repairs & Maintenance**

Buildings

Furniture & Fixtures

Others

**Depreciation**

**Financial Expenses such  
as interest on loans**

**Loss on sale of fixed  
assets and investments**

**Other Expenses**

Write offs and provisions

Miscellaneous expenses

**Excess of Income over  
Expenditure for the year**

**Appropriations:**

Transfers to funds, e.g.,  
building fund, library fund,  
science fund, etc.

Transfers from funds

**PART IV – INSTRUCTIONS FOR PREPARING  
INCOME AND EXPENDITURE ACCOUNT**

1. The Income and Expenditure Account should disclose every material feature and should be so made out as to clearly disclose the result of the working of the School during the period covered by the account.
2. Any item under which income exceeds 1 per cent of the total fee receipts of the School or Rs. 5,000/-, whichever is higher, should be shown as a separate and distinct item against an appropriate account head in the Income and Expenditure Account. These items, therefore, should not be shown under the head 'miscellaneous income'.
3. Any item under which expenses exceed 1 per cent of the total fee receipts of the School or Rs. 5,000/-, whichever is higher, should be shown as a separate and distinct item against an appropriate account head in the Income and Expenditure Account. These items, therefore, should not be shown under the head 'miscellaneous expenses'.
4. The details of hostel running expenses should be disclosed separately in the notes to the Income and Expenditure Account.