

ACCOUNTING PRACTICES AND FINANCIAL MANAGEMENT IN HIGHER EDUCATIONAL INSTITUTIONS

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Abstract:

In recent years, with increase in government aid to educational institutions and increased donations by certain donor agencies, greater need is being felt for accountability of the financial resources used by the educational institutions. To ensure financial discipline in educational institution, there is urgent need of financial awareness, financial information and financial advice. Every educational institution must go for efficient and systematic financial management. In this paper attempt has been made to highlight the accounting practices, financial management and disclosure of accounting information presented in the financial statement of higher educational institutions.

Keywords: Accounting practices; Financial management; Financial statements; Procurement of

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1. Introduction

The central and state government is responsible for establishment of state universities and colleges and to provide plan grants for their development and non plan grant for their maintenance. An accounting system that presents a true and correct picture of the state of affairs of an educational institution is a necessary requirement for transparency and accountability. A standardized uniform accounting and reporting framework, including the 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 educational institutions keeping in view the peculiarities of the activities of institutions is required. But, there is no standard basis of accounting being followed by educational institutions and are facing the problems of mismanagement of accounts, auditing and other financial and legal compliances of the University Act. There is lack of uniformity in presentation of financial statements of different educational institutions. There are different disclosure practices are being followed. There is no transparency in financial management and accounting practices in educational institution. The diversity in accounting practices is due to lack of awareness in adopting sound accounting practices as per accounting standards formulated by the institute of chartered Accountants of India (ICAI). This has given rise to confusion and misunderstanding among the users of financial information provided by the educational institutions. The current accounting practices by various educational institutions vary from that in cash basis, accrual basis to a hybrid form of accounting i.e., a mix of both cash and accrual basis of accounting. In order to harmonize accounting practices an appropriate method of accounting to be followed along with the financial control guidelines. It is necessary to ensure effective, efficient and systematic financial management for fund utilization in higher educational institution. Each institution requires variety of financial information on continuous basis regarding various rules and regulations. The main aim of setting accounting standard is to bring about uniformity in financial reporting and to ensure consistency and comparability in data submitted by the educational institution.

2. Financial Statements

Educational institution generally follows what is known as “fund based accounting”. This is because educational institution may be funded by numerous grants, donations or similar contributions, which may or may not impose conditions on their usages. Therefore, the financial

statements of educational institution should reflect income, expenses, assets and liabilities in respect of such funds separately so as to enable the users of financial statements to access the usages of fund contributed by them. The financial statements are the responsibility of the management of the college. The following statements should form part of general purpose financial statements of an educational institution e.g. balance sheet, income and expenditure account, cash flow statement, receipt and payment accounts, notes forming part of financial statements etc. The financial statements give a true and fair view of the state of affairs of the educational institutions. The financial statement discloses every material transaction, including transactions of an exceptional and extraordinary nature. The financial statement should be prepared in conformity with relevant statutory requirements, the accounting standards and other recognized accounting principles and practices.

3. Nature and Characteristics of Fund

Keeping in view financial control for good governance of educational institutions and effective and proper end-use of public funds it is necessary to understand their nature and characteristics. Restricted funds are subject to certain conditions set out by the contributor and agreed to by the educational institution, while accepting the contributions. Unrestricted funds are the funds contributed to educational institution with no specific restrictions. The obligation of educational institutions while accepting an unrestricted donation or grant is to ensure its usages for general purposes. Corpus funds are contributed by founders/promoters generally to start the educational institutions. It also includes donations/ contributions received with specific directions. Designated funds are unrestricted funds which have been set aside by the management of the educational institutions for specific purposes or to meet future requirements. The institution fund shall be kept in such scheduled bank within the meaning of the reserve bank of India Act, 1934 or invested in such securities authorized by the Indian Trusts Act, 1982, as may from time to time, be approved by the state government.

4. Books of Account

The books of account to be maintained by various educational institutions may depend upon the nature of activities and/or programmes carried on by them. The books of account may be structured in a manner that is suited to its needs and requirements. The grant-in-aid from the

UGC/State Government, the purposes on which the grants will be utilized is already indicated with certain directives. The funds thus given cannot be diverted for any other purpose than mentioned in the sanctioned letters. The educational institution generally maintains the following books of account e.g. receipt book, cash book/ bank book, ledger, purchase book, sales book/bill books, inventory register and other books as deemed necessary. Moreover, following registers and other records like vouchers should also be maintained so as to give information in relation to fees received from students (in respect of admission fee, tuition fee, library fee, examination fee , etc), grant–in-aid received from various sources, scholarship and special stipends, other funds (such as building, library, laboratory, sports, furniture, equipments, endowment, provident fund, poor students funds, deposits, etc), Immovable properties and other fixed assets, Investments, minutes of the meeting of the various committees, stock (for books, stationary, uniforms, etc), caution money received from students etc. A separate set of books and records may be maintained for foreign and Indian contribution for various projects. Separate ledgers, accounts and records may also be maintained with regard to various funds received from various sources, received with or without stipulations and restrictions. Fixed assets are properly recorded quantity wise, location wise, amount wise etc in fixed asset register.

5. Committees for financial operations

The planning and evaluation committee of the institution shall prepare the plan programme of development and improvement of the institution. The institution should follow the University Act and Statute for the rules and regulations for financial operations relating to account and the same should be passed by the finance committee. The finance committee shall consider Budget estimates relating to the grant received /receivable from UGC/state government and income from fees etc. collected for the activities to undertake the scheme. The finance committee shall advice the university on any question affecting its finances. The finance committee subject to statute has power to scrutinize the estimates of the college and is responsible for strict observance of the statutes relating to the maintenance of accounts of income and expenditure of the institution. The finance committee shall meet at least twice a year. The library committee of the institution may look after the proper maintenance and management of the library including purchase of books, periodicals, journals etc. The building committee shall consider the tenders received for construction, repairs and make its recommendations. Purchase and sales committee shall

consider the annual requirement of institution store shall open and consider tenders/quotations and the samples and make its recommendations for purchases to be made. The committee shall conduct action and make arrangement for the sale of saleable article of the institution. The purchase committee will survey the market to ascertain the reasonableness of the rates, quality and specification and identify the appropriate supplier. Before recommending placement of the purchase order the members of the committee will jointly record a certificate of satisfaction. All purchases should be made in a transparent, competitive and fair manner to secure best value for money. For smooth functioning of the institution, all committee through recommendation authorize head of the institution for purchase of any kind, repair and maintenance of buildings, equipments, computers, motor vehicles etc in the interest of the institution.

6. Payment of salaries and allowance

The teaching or nonteaching post involving financial liabilities (like revised pay scale, new allowance, remuneration etc) must have approval from state Government and be according to University Act. If excess amount paid to the teacher (if any) due to wrong calculation, the process of deduction should be initiated. While making payment of staff salaries, income tax and other taxes should be deducted at source and shall be duly deposited with Income Tax Department in time. The utilization certificate of the same should be submitted immediately after payment. The staff provident fund should be verified and it should be seen that it is invested as per rule. No person shall be given second advances without the adjustment of their first advance. No advance should be given to any private party. For government company/department percentage advance may be allowed as per rule. All officials/staff having involved in financial decisions should not hold any advance. No cash payment should be made for amount above Rs 10000/- except in case of travelling allowance. The payment of the travelling and other allowances shall be made as per regulations and rules made there under.

7. Procurement of Goods/ services

The institution should follow some rules that are applicable to procurement of all articles, materials, commodities, furniture, stationary articles, laboratory equipments and chemicals, computers and its accessories etc for the use of the institution. The institution considers the registered supplier/contractor for the purchase of goods. The institution should carefully verify

credential, manufacturing capability, quality control system, past performance, financial background etc of the supplier. The institution may hire external professionals, consultants for a specific job, which is well defined in terms of content and time frame for its completion or outsource certain services. The institution proposing to engage consultant (s) should estimate reasonable expenditure for the same by ascertaining the prevalent market conditions and consulting other organizations engaged in similar activities. The institution desirous of taking up construction of buildings, quarters, internal road, stadium etc is required to take administrative permission from the appropriate authority. Based on approved drawing and design, detailed estimate containing detailed specification and quantities of various items prepared for each individual work by registered architect and engineering consultant on the basis of rates maintained by CPWD or other public work organizations. The detailed estimate is to be sanctioned by the competent authority. The procurement of Goods/services should be made in the following manner.

- ✓ For the purchase of goods up to the value of Rs 15000/- only on each occasion may be made from reliable supplier on single quotation on the basis of certificate to be recorded by the Head of user department/college.
- ✓ For purchase of goods costing above Rs 15000/- only and up to Rs 1.00 lac on each occasion may be made on the recommendation of a duly constituted local purchase committee consisting of three faculty members of appropriate level and Bursar from reliable and registered supplier.
- ✓ Procurement from single source may be resorted (may be in case of emergency) on the advice of a competent technical expert and after approval from competent authority if only a particular firm is the manufacturer of the required goods/equipments.
- ✓ For estimated value of Goods/service or work of Rs 25.00 lakh and above tender advertisement should be given in two national daily newspapers having wide circulation and on its website or by obtaining quotations by registered post/speed post only from Govt. organization or any public sector unit etc. The minimum time allowed for submission of bid should not be less than three weeks from the date of publication of tender. For purchasing high value plant, machinery etc of complex and technical nature, bids may be obtained in two parts as
 1. Technical Bid (consisting of all technical details along with all commercial terms and conditions) and

2. Financial Bid (indicating item wise price for the items mentioned in the technical bids)

The bidder will submit quotations for technical and financial bids separately in sealed envelope and both kept in one bigger envelope. The technical part will be opened at the first instant and evaluated by the competent technical committee. Financial bids of only those bidders shall be opened who were found technically and commercially acceptable. The contract should be awarded to the lowest technically and commercially acceptable bidder. The bidders should be asked to furnish bid security (2% to 5% of estimated value of the goods to be purchased) along with their bids in the form of A/c payee demand draft or fixed deposit receipts. The bid securities of the unsuccessful bidder should be returned at the earliest. The performance security of 5% to 10% of the value of contract should be obtained from the successful bidder awarded the contract. Bid security should be refunded to the successful bidder on receipt of performance security. No price variation will be admissible beyond the original scheduled delivery date for defaults on the part of the supplier. The contract should include provision for payment of all applicable taxes by the supplier. All the departments should compulsorily procure Goods/services above Rs 50,000/- through government e-marketing (GeM) portal as per their requirement.

8. Responsibility of Authority with financial powers

Ensuring compliance with the accounting standards for educational institution is the responsibility of the appropriate authority which approves the financial statements for the purpose of issuance thereof. Where any of the accounting policies is not in conformity with accounting standards and the effect of departure from accounting standard is material, the particulars of the departure should be disclosed, together with the reasons thereof and also the financial effect thereof except where such effect is not ascertainable. The authority should disclose their significant accounting policies and this disclosure should be made at one place. The authority with financial powers of procuring goods and awarding work contract shall have the responsibility and accountability to bring efficiency, economy and transparency in matters relating to institutional procurement and for fair and equitable treatment of suppliers and promotion of competition in procurement.

9. Responsibility of Auditors

The university Audit Committee has power to examine the annual account of the institution together with the auditor report and may suggest the controlling and disbursing officer to avoid in future any misuse of the fund or irregularities in the account of the institution. The committee may suggest the recovery of any payment contrary to law from authority, officer or any person responsible there for any loss or deficiency. The account of every college shall be audited and examined annually by a qualified accountant appointed as auditor. The Principal of every college shall prepare in the prescribed form an Budget estimate of its probable income and expenditure for the next ensuing financial year. The budget should be timely submitted to the higher authority for their approval. There should be sufficient internal control for the receipt and utilization of fund. The utilization of finance and fund must be strictly in accordance with the set terms and conditions, rules and regulation. Internal audit system must be implemented with quality and seriousness. Misappropriation, frauds, misrepresentations must be detected and curbed at their initial stage. Auditors must see whether the accounting standard have been strictly followed by the educational institution or not.

10. Conclusion

For efficient and perpetual good performance, it is necessary that educational institution must maintain financial soundness. The institution should develop appropriate provisions for systematic fund management. This requires proper understanding of funds and utilization of funds. One of the most important aspects of financial management of educational institution is systematic financial planning. Accrual is the scientific basis of accounting and has conceptual superiority over the cash basis of accounting. It is therefore, recommended that educational institution should maintain their books of account on accrual basis. Accounting standards issued by ICAI should be made mandatory to educational institutions. All educational institutions should follow a common format for presentation of its general purpose financial statements to ensure proper accountability, financial discipline, end-use of funds and to meet the needs of stakeholders. It is also recommended that the statutes having specific formats for financial reporting by educational institution may also modify the same in line with the suggested format. Procure all goods through Government e-Marketing (GeM) as far as possible. All payments above fifty thousand should be made through RTGS/NEFT. Accounting software should be used

which efficiently manages all the expenses and incomes along with provision given for security and complete data storage. Recruitment of accountant with knowledge of accounts and computer skill are urgently needed in almost all institution. Finally, all educational institution should follow a uniform system for maintaining their account books, in order to ensure a “true and correct picture” of the state of their affairs.

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