

# A Critical Review of Accounting Practices in Indian Universities

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**Abstract – The outcome of financial transactions may show different results depending upon accounting practices, methods and accounting standards followed by that unit. Therefore, there is need to device a uniform system of accounting for specific categories of institutions so that similar types of transactions do not result in financial results.**

**The main objective of the present study is to critically review the existing accounting practices of higher education institutions and to suggest better methods of classification and presentation of financial statements. An attempt has been made to suggest a model which is legally compliant and draws from the best accounting practices. The model shall be applicable to all types of higher educational institutions and shall provide a uniform basis for comparison of financial results amongst various institutions.**

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## INTRODUCTION

Accounting refers to knowing state of affairs based on the financial transactions of an organization. The type of transactions entered into by various categories of enterprises may differ depending upon the type of activities carried out.

Adoption of different accounting practices for the same type of transactions led to the need for greater degree of uniformity in accounting disclosures, measurements and presentation of financial information by various enterprises.

The formulation of accounting standards in India is based on the accrual accounting system, and has been structured by ICAI. These standards are applicable to commercial, industrial and business organizations.

The 'Preface to the Statements of Accounting Standards', issued by the Institute of Chartered Accountants of India state the following:

"Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI.

Accounting Standards apply in respect of any enterprise (whether organized in corporate,

cooperative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature."

It may be inferred that the guidelines of these standards give directions to even those organizations to which application of the accounting standards is not mandatory. It is advisable that these accounting standards be mandatory for all such institutions for the purpose of proper financial reporting framework. This will be helpful in maintaining uniformity in the presentation of financial statements with transparency and accuracy.

Accounting and financial transactions in any commercial/non-commercial organization are done on the basis of double entry system, generally accepted accounting principles (GAAP), as per conventions of any trade in that country, and by the statutes of respective countries as applicable on accounting of particular types of institutions. In all countries, the respective institutes are statutory bodies which control and regulate accounting standards for various types of commercial/non-commercial organisations of the countries where the organisations are located. Some of the standards are mandatorily required to be followed whereas others may be optional. Accounting standards (AS) in India are issued by The Institute of Chartered Accountant of India in India (ICAI). The ICAI is governed by the parliamentary act of our country.

**EDUCATIONAL INSTITUTIONS IN INDIA**

The higher education system in India has grown remarkably particularly after independence. The list Universities in India are given as below-

State wise Distribution of Different Types of Universities in India, 2017

| States/UTs        | Central | Central (open) | Institute of National Importance | State public | State (open) | State (private) | Inst. under State Leg. Act | Deemed (govt) | Deemed (govt aided) | Deemed (private) | Others | Total |
|-------------------|---------|----------------|----------------------------------|--------------|--------------|-----------------|----------------------------|---------------|---------------------|------------------|--------|-------|
| Andhra Pradesh    |         |                | 2                                | 31           | 1            |                 | 2                          |               |                     | 5                | 1      | 47    |
| Arunachal Pradesh | 1       |                | 1                                |              |              |                 |                            | 1             |                     |                  |        | 3     |
| Assam             | 2       |                | 2                                | 4            | 1            | 3               |                            |               |                     |                  |        | 12    |
| Bihar             | 2       |                | 2                                | 14           | 1            |                 | 1                          | 1             |                     |                  |        | 20    |
| Chhattisgarh      |         |                | 1                                | 1            |              |                 |                            | 1             |                     |                  |        | 3     |
| Chhattisgarh      |         |                | 1                                | 11           | 1            | 5               |                            |               |                     |                  |        | 19    |
| Delhi             | 5       | 1              | 3                                | 5            |              |                 |                            | 9             | 2                   | 1                | 1      | 26    |
| Goa               |         |                |                                  | 1            |              |                 |                            |               |                     |                  |        | 1     |
| Gujarat           | 1       |                | 2                                | 23           | 1            | 12              |                            |               | 1                   | 1                |        | 41    |
| Haryana           | 1       |                | 1                                | 10           |              | 8               |                            | 2             |                     | 3                |        | 25    |
| Himachal Pradesh  | 1       |                | 2                                | 4            |              | 15              |                            |               |                     |                  |        | 22    |
| Jammu & Kashmir   | 2       |                | 1                                | 7            |              |                 | 1                          |               |                     |                  |        | 11    |
| Jharkhand         | 1       |                | 1                                | 7            |              | 1               | 1                          | 1             |                     |                  |        | 12    |
| Karnataka         | 1       |                | 1                                | 24           | 1            | 3               |                            | 4             |                     | 11               |        | 45    |
| Kerala            | 1       |                | 3                                | 11           |              |                 |                            | 2             |                     |                  |        | 17    |
| Madhya Pradesh    | 2       |                | 3                                | 17           | 1            | 9               |                            | 3             |                     |                  | 1      | 36    |
| Maharashtra       | 1       |                | 3                                | 19           | 1            |                 |                            | 7             | 2                   | 12               |        | 45    |
| Manipur           | 2       |                | 1                                |              |              |                 |                            |               |                     |                  |        | 3     |
| Meghalaya         | 1       |                | 1                                |              |              | 8               |                            |               |                     |                  |        | 10    |
| Mizoram           | 1       |                | 1                                |              |              | 1               |                            |               |                     |                  |        | 3     |
| Nagaland          | 1       |                | 1                                |              |              | 1               |                            |               |                     |                  |        | 4     |
| Orissa            | 1       |                | 2                                | 12           |              | 2               |                            |               |                     | 2                |        | 19    |
| Puducherry        | 1       |                | 2                                |              |              |                 |                            |               |                     |                  |        | 4     |
| Punjab            | 1       |                | 4                                | 8            |              | 4               |                            | 1             |                     | 1                |        | 19    |
| Rajasthan         | 1       |                | 2                                | 14           | 1            | 20              |                            |               |                     | 8                |        | 46    |
| Sikkim            | 1       |                | 1                                |              |              | 4               |                            |               |                     |                  |        | 6     |
| Tamil Nadu        | 2       |                | 5                                | 20           | 1            |                 |                            |               | 1                   | 27               |        | 56    |
| Telangana         | 3       |                |                                  |              |              |                 |                            |               |                     |                  |        | 3     |
| Tripura           | 1       |                | 1                                |              |              | 1               |                            |               |                     |                  |        | 3     |
| Uttar Pradesh     | 5       |                | 4                                | 21           | 1            | 18              | 1                          | 3             | 3                   | 4                |        | 59    |
| Uttarakhand       | 1       |                | 2                                | 7            | 1            | 6               |                            | 1             | 1                   | 2                |        | 21    |
| West Bengal       | 1       |                | 4                                | 19           | 1            |                 |                            |               |                     | 1                |        | 26    |
| All India         | 45      | 1              | 61                               | 290          | 13           | 122             | 5                          | 38            | 11                  | 79               | 3      | 665   |

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List of Central Universities as on 29.06.17-UGC retrieved 1<sup>st</sup> July, 2017

List of State Universities as on 06.10.2017-UGC, retrieved 30<sup>th</sup> October, 2017

The central government is responsible for formulation of strategy with regard to higher education in the nation. It provides grants to the UGC and sets up institutions at the central level in the country.

The central government is additionally in charge of announcement of education institutions as 'Deemed to be Universities' on the proposal of the UGC. State Governments in the country are in charge of colleges and schools at state levels. They provide design grants for improvement and non-design grants for their up keep.

**NEED FOR APPLICABILITY OF ACCOUNTING STANDARDS**

As per the ecosystem of an educational institution, there may be various types of financial transactions, viz., fee collections, salaries and wages, payment to various categories of vendors towards housekeeping, loans and advances, security agencies, transporters, stationery, lab equipment and instruments, furniture and fixtures, vehicles, books, research and development, travel allowance, conferences, cultural events etc. Further, a number of internal and external stakeholders are involved in, as also are affected by these transactions. A uniform and correct method of treatment and classification of these transactions would help all stakeholders to know the fair picture of financial transactions in educational institutions. Financial statements refer to documents which summarize and synthesize the above transactions. These statements are to be prepared in routine and/or periodically. A few financial statements which are prepared are- balance sheet, income and expenditure account, various supporting schedules like cash flows, fixed assets schedules, supporting schedules relating to the transactions shown in income expenditure account and balance sheet etc. The entry of all types of transactions in an educational institution result in two types of major financial statements- income and expenditure account and balance sheet.

In the above background, there arises a need for enhanced responsibility of the assets utilized by educational institutions. A perfect accounting and financial structure may act as a critical element for advancing responsibility and for growth of the education sector. To elaborate, the need for applicability of accounting standards can be described as follows:

1. The existing system of accounting and financial reporting does not fulfill the need of stakeholders such as donors, members, regulatory bodies, employees and public at large as various organizations do not consider uniform accounting principles.

This renders their financial statements incomparable.

2. The accounting standards prescribed by the ICAI of India are generally not being applied. There is also a lack of awareness of the benefits which shall accrue on implementing accounting standards.
3. Current accounting practices vary from one institution to other i.e. some follow cash, others may follow accrual or hybrid of both. The final results shall vary under all three systems.
4. The focus of accounting practices and financial statements is mainly to comply with statutes, such as Indian Trust Act- 1882, various States' Trusts Act, Societies Registration Act 1860, Income Tax Act-1961. This takes away focus from the need to depict a fair picture of prevailing status of financial transactions carried during the year.
5. There is diversity of terminology used and various practices being followed by educational Institutions.
6. There are no standards on reporting formats which can satisfy the information requirements of the stakeholders.

The above scenario has caused misleading financial results and misunderstanding amongst the users of financial information. It is pertinent to note that the institutions which are incorporated under Section 25 of the Companies Act, 1956 or Section 8 of Companies Act, 2013 are required to prepare the financial statements as per Schedule VI to the Companies Act, and accounting standards as formulated by ICAI are applicable to them. Here it is emphasized that ICAI has clearly mentioned that a charitable organisation is considered to be commercial, industrial or business in nature if any portion of it deals with any transaction which is of industrial or commercial in nature. In such cases the said institutions are not eligible for claiming exemptions available for the Trusts and societies under the rules and its activities as a whole will be treated as commercial or industrial or business transactions. Further, it may be stated that all the trusts and societies avail huge facilities, grants, subsidies and exemptions from the Government. However, in case these trusts undertake any commercial activity then they will lose all grants, subsidies and exemptions being given by the government.

## OBJECTIVES OF THE STUDY

Considering the present state of affairs of accounting practices in education institutions, the following objectives have been studied in this paper:

1. To harmonize different accounting systems and practices being followed in educational institutions.
2. To suggest changes in order to bring more transparency in financial transactions, such as sound accounting principles, uniformity in recognition of financial transactions, accounting heads, modes of treatment of expenses, incomes, assets and liabilities, notes to accounts and other information relating to peculiar transactions of shifting of funds from one person who is related to another.
3. To suggest standard formats of financial reports and statements for all types of educational institutions.

## SCOPE OF THE STUDY

This study is related to the educational institutions regulated by Ministry of HRD such as State Universities, Deemed to be Universities, Institutes of National Importance (by state legislation) and private universities situated in NCR only. The study relates to educational activities and other incidental activities also, which earn revenues for the transactions made by educational institutions.

The focus of the study is on presenting a fair picture of financial transactions of educational institutions. Thus, the requirements of statutes such as the Income Tax Act, 1961 and the Foreign Contribution (Regulation) Act, 1976 have not been highlighted.

It is recommended that separate books of accounts and financial statements be maintained for the purpose of projection of fair view of state of affairs of the Institution. The implementation of various components of this model will aid the uniformity of financial transactions and reporting.

Applicability of Accounting Standards to Educational Institutions is based on the above analysis of the needs for uniformity in accounting practices of educational institutions, the following model is suggested:



## ACCOUNTING METHODOLOGY FOR EDUCATIONAL INSTITUTIONS

Accounting methodology refers to financial reports and the statements prepared for the purpose of a wide range of stakeholders. These reports are the vital source of financial information which should be presented in prescribed formats and are easily understandable. Since educational institutions conduct a specific set of activities, it is required to treat their financial nuances in a different manner, as compared to other organizations.

Since the profit earning is not the aim of educational institutions, the formats which are applicable for commercial organisations cannot be prescribed for reporting. However, considering the different objectives of the educational institutions, suitable standards need be framed.

To recommend an ideal accounting system for educational institutions, it is of great importance to understand the main ingredients of an accounting methodology. The below mentioned points need be considered regarding accounting system for educational institutions:

- a) To identify the transactions which may be treated as income, expenses, assets and liabilities of the institution, as per the principals of Indian GAAP. These definitions would never change whether the unit is an industry, trading unit or an educational institution. For example, a grant is treated as income in the financial statements under accrual basis of accounting system subject to certainty of receipt of grant and fulfilment of conditions attached with it. Whether the entity is commercial or educational in nature, the receipt of grant will be treated as income in both the cases.
- b) Regarding recognition, the same principles are applicable to commercial and non-commercial organizations. To illustrate, the

usage of the assets matters and not the organization which may be commercial or non-commercial in nature.

- c) Fund based accounting system is followed by educational institutions whereas commercial organisations do not follow this system. The rationale behind this is that the major grants given to institutions are purpose-specific and accordingly the conditions of the grant are required to be fulfilled, whereas in the case of commercial organisations no such restrictions or conditions are imposed.
- d) The books as per normal practice are maintained either on 'cash' or 'accrual basis'. The basic difference between both is of timings. Under 'cash' system, the entries are made at the time of actual receipts or payments whereas in 'accrual' system the transactions of expenses, revenue, assets or liabilities are reflected at the time of accrual.

It is pertinent to note that 'cash' system is beset with full of drawbacks and 'accrual' system is an appropriate method of recording the transactions in both types of organizations.

## FINANCIAL CONTROL IN EDUCATIONAL INSTITUTIONS

Funds available with an organization may be restricted, unrestricted, corpus, designated or general funds. Keeping in view good governance in the financial control of educational institutions and proper use of public funds, it must be ensured that the public funds are utilized exactly for the same purpose for which the funds were granted. There could also be legal compliance on such type of funds which need be complied with and properly presented in financial statements.

## BOOKS OF ACCOUNTS REQUIRED TO BE MAINTAINED

Every institution is required to maintain a record of all monies received, expended, incomes received towards various grants and donations, assets and liabilities. The books of account to record such transactions are Receipt Book, Journal, Cash/Bank Book and ledger. Account books should be maintained following the rules of Double Entry Book Keeping, in view of the principles of GAAP.

The structure of books of account of an educational institution should be in such a manner which suits to its needs and requirements. It is suggested that a separate set of books of account be maintained mentioned as given below:



- a) Contributions received from India and foreign countries as per the requirements of the Foreign Contribution (Regulation) Act, 1976.
- b) Ledgers relating to fund based accounting representing grants received from various sources with or without conditions and restrictions.
- c) Purchase Book
- d) Sales Book
- e) Inventory register for books, stationery, equipments etc.
- f) Fee received from students Register
- g) Grants-in-aid received from various persons
- h) Scholarships and other fee concessions
- i) Other types of funds such as library, building, sports, laboratory, furniture and fixtures and equipments
- j) Provident fund, endowment, deposits and poor students fund etc.
- k) Fixed assets register
- l) Minutes of various meetings such as BOM
- m) Caution Money or Alumni

The books as mentioned are necessary to be maintained on accrual basis to provide a fair view of the state of affairs.

#### **Prescribed Formats of Financial Statements Under Accrual Basis of Accounting**

ICAI has prescribed various formats which serve the purpose of a fair view of state of affairs, uniformity and transparency. Apart from this, there are various requirements of other statutes such as Income Tax Act, donor agencies, regulatory bodies, UGC, AICTE and others. The financial statements as prescribed by ICAI may not meet the requirements of educational institutions as in this case, focus is on true and fair state of affairs. The following are the basic financial statements required for any educational institution-

- 1. Balance sheet on any particular date
- 2. Income and expenditure account for any duration
- 3. Cash flow statement for any duration

- 4. Notes in support of financial statements, describing the details of the transactions

Various guidelines have been issued by ICAI in its Publication "Guidance Note on Accounting by Schools" which mentions that the standards should be made mandatory for all types of educational institution. The information in annual reports must include reports issued by the governing bodies, the Income and Expenditure Account should have three columns mentioning separately the details of restricted and unrestricted funds. In the balance sheet, assets and liabilities should not be set off with each other and balances of various funds should be disclosed distinctly. Moreover, all educational institutions whether government or private must follow accrual basis of accounting. There should be uniformity in presentation of financial statements. Training programmes at various intervals should be organized by MHRD and other regulators for proper implementation of guidelines.

The balance sheet of educational institutions should be supported by various schedules such as corpus, general fund, designated and earmarked funds, restricted funds, loans and borrowings, fixed assets and loans and advances.

Similarly, schedules for income and expenditure account should separately show academic, transport, hostel and other receipts, grants and donations, income from investments, staff payments and benefits, administrative and general expenses, repairs and maintenance, finance costs and others.

#### **Limitations to Implementation of Accounting Standards**

- a) Institutions lack awareness as to benefits of adopting sound accounting practices.
- b) Institutions do not want to shift to sound accounting practices as manipulations would be difficult once the transition is made.
- c) The primary focus is to comply with *other laws* such as Indian Trust Act, 1882, Various State Trusts Act, Societies Registration Act, 1860 rather than with a view to reflect a fair view of the state of affairs.

As a result of the above mentioned factors, there is no standard basis of accounting being followed by various educational institutions. Some of them follow accrual basis of accounting whereas others follow cash basis and there is lack of uniformity in presentation of accounts. As a result of the above factors, there is no standard basis of accounting

being followed by educational institutions at present. Cash, hybrid, accrual and modified cash/accrual basis of accounting are being followed. There are different disclosure practices being followed and there is diversity in terminology and accounting practices being presently adopted.

To summarize, there is need to formulate a uniform and transparent system of accounting so that there is no scope for manipulation in such educational institutions who employ huge assets, avail exemptions from state and central governments and other statutory bodies.

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