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FINANCIAL ACCOUNTING AND REPORTING



Introduction

- The government provides funds to these learning institutions through the exchequer referred to as capitation every budget year through the Ministry of Education to all public schools in the country.
- Education institutions also levy other fees from students for the smooth running of activities.
- In this unit, we shall look at accounting documents and records required in education institutions.
- We shall also look at the importance of accounting documents and records.
- In addition, we shall look at financial reporting and its legal framework.
- We shall also learn how to interpret accounting documents, records and financial statements.



Expected learning outcomes

Upon completion of this Unit, you will be able to:

a) Identify the features and functions of accounting document and record required in an education institution
b) Explain the importance of the accounting documents and records
c) Explain the legal and policy Framework guiding Financial reporting
d) Identify the documents and records used in financial reporting.
e) Interpret accounting documents, records and financial statements for schools.



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Financial Documents and Records

- Documentation is crucial in financial management because it provides the basis and evidence of transactions.
- It helps to establish the audit trail for the transactions and reflect the process followed.
- Financial management is initiated at the planning stage and actualized at the budgeting stage.
- The transactions that follow should be able to trace authenticity from the approved plans.

Planning Documents

- When we looked at planning and budgeting in Unit 1, we discussed the following documents and how they are prepared:
  - Long Term Plan
  - Medium Term Plan/ Strategic Plan
  - Annual Plan
  - Budget
  - Procurement Plan



- The above are some of the planning documents and should be supported by comprehensive minutes of the BOM.

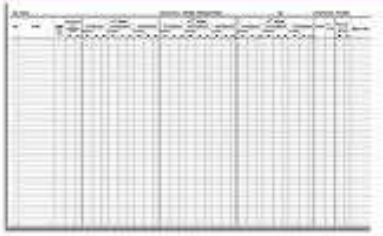
Income/ Revenue Collection Documents and Records

- Income/ revenue collection documents and records are used to acknowledge and control the revenue/ cash received by an institution.
- Income/ Revenue Collection Documents and Records include:
  - class attendance register
  - Fees register Parents' register
  - Rent and service charge register
  - Commitments' register
  - Telephone calls' register
  - Contracts'/suppliers' register
  - Textbooks' register
  - Imprest register
  - Claims' register
  - Money Orders' register
  - Fixed assets' register
  - Class registers



Fees register





- Provides an analysis of receipts from each student.
- The following information is shown:
  - Name of the student
  - Student's admission number
  - The class /form
  - Fees prepaid at the beginning of the year
  - Fees arrears
  - Amount paid
  - The receipt number and the date against the amount paid.
  - Refund of fee
  - Amount of fees paid in advance for the year to be carried over to the following year.
  - The fees outstanding as at the end of each year (end of the financial year).
- Where a student has been absent for a term and the fees has been waived, this information should be provided against the student's name in the register to avoid being reflected as a sundry debtor.
- As a control measure, attendance register (physical daily attendance) should also be reconciled regularly to the class fees register



Parents register

- This is a register that shows names of the parents/guardians, their contact addresses and names of respective students.
- This register should be updated on a regular basis.

Bursaries register

- This register provides names of students benefiting from bursaries and the amounts. •
- Bursaries received are receipted and Debited in the cashbook. The bursaries account in the ledger is credited. When bursaries are allocated, a payment voucher is prepared and the list of beneficiaries is attached as supporting document, a copy of which should be sent to CDE, and County Schools Auditor.
- The payment voucher amount is credited to the cashbook in the cash column and extended to the bursary column in the cashbook before it is posted (Debited) to the bursaries account in the ledger
- Each beneficiary should be issued with receipts as evidence of payment.
- All bursary awards should be in accordance with MOE and donor guidelines.



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Rent and service charge register

- This register should be introduced to all institutions where teaching and non-teaching staff occupy institutional houses and charges are raised by the BOM for rents, furniture, electricity, water, firewood, petrol, gas and other charges.
- At the end of each month, all officers occupying institutional houses will be billed individually for the amounts due using a serially numbered invoice.
- The original should be handed over to the officer and the duplicate retained in the books for record purposes
- In cases where rental charges for institutional houses are recovered at source, e.g. by TSC, then TSC (or any other relevant authority) should be informed of the occupation and vacation of institutional houses within reasonable time to enable recoveries to be effected at source.
- Delays in receipt of such rents and furniture revenue should be followed up regularly by BOM.



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Money order and cheques register

- All money orders received by post will be recorded in an in-coming cheque and money order register.
- The register should contain the date the order was received or returned by the bank, from whom it was received, amount, signature of receiving officer.
- A receipt should be issued showing receipt number, date and signature of officer Issuing receipt.
- At the conclusion of revenue collection, both wholly and partially used receipt books should be recorded in the counterfoil receipt register and handed over to the head of the institution for safe custody
- The person preparing and issuing receipts should not keep unused receipt books. For instance, where a bursar is collecting revenue, the Head of the institution should keep unused receipts.

Commitments register (vote book)

- Its necessary in expenditure control
- This is a control register that enables the head of an institution to readily verify the amount of money available on a particular vote-head.
- All orders placed should be recorded as commitment in the register serially with the anticipated expenditure entered in the appropriate column.
- When goods/services have been received and paid for, the register will be completed by entries of date, PV number, the amount paid, payee and available balance.
- The reference to the register will reveal that some items ordered would have either not been received or paid for.
- This, being anticipated expenditure, will have to be taken into account when determining the amount of money available.
- For instance, if the approved estimates for BES was Shs 25,000 and expenditure incurred, (paid for and reflected in the cash book and ledger) is Shs 10,000 while the order placed for goods, but not yet delivered amounts to Shs 7000, the balance available on this will therefore be Shs 8,000 as follows:
  - Approved estimates. 25,000
  - Less: Payments made (10,000)
  - Commitments (7,000)
  - Balance 8,000



Receipt books

- An official receipt must be issued for all sums received as income, including grants and bursaries from the MOE, rent, P.A funds, drive collections, donation materials, including sums received in form of cash, personal or banker's cheque, money or postal orders, etc.
- Receipt counterfoil numbers are shown in the cashbook against the relevant revenue entries.
- Any officer charged with the responsibility of collecting revenue will issue serialized official receipt(s) to the payer for the amount collected, retaining the duplicate copy of the receipt in the book. Official receipt issued for monies collected for institutional fees should have the student's admission number and class/form quoted on them.
- This is important for accountability and as evidence of source of revenue





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- If an error is made in preparing a receipt, the receipt must be cancelled by writing the word "cancelled" across the face of the original and the copy.
- If the original has been removed from the book, it must be glued back into place so that auditors can examine together with the duplicate.
- A receipt provides evidence of receipt of funds by an Institution.
- It is used to record receipt of funds in the cashbook.
- The original is issued to the person from whom funds are received, duplicate copy is filed while the triplicate copy is for audit purposes.
- The official receipt book should be pre-numbered.
- The features of a receipt include date of receipt, source of funds, cheque number, purpose of the funds, signature for receipt of funds (where this is received), and the amount.



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Printing of receipt books

- Official receipt books shall be printed either by the institution or the County Education Board (CEB) or centrally provided by MOE.
- Where the CEB prints receipt books, the institution should submit its requirements on a yearly basis to facilitate bulk printing. The receipt books must be serially numbered and provided with duplicate counterfoils.
- Where the institution prints its own receipt books, the serialised receipt books, accompanied by the requisition, deliveries and printer Certificate should be taken to the County Director of Education office for registration and rubber-stamping.
- The officer controlling the main stock of receipt books will need to record in the numbered counter-foil/duplicate receipt books register, the number of books purchased and to whom issued, ensuring that a signature is obtained in the register for each issue.

Safekeeping of receipt books

- For security reasons, receipt books whether partially or wholly used must be kept under lock and key

Cell phone register

- All institutions are required to maintain a cellphone register.
- This will be used to record official calls made, name of officer or the person making the call and their charges.
- In case private calls are made, the caller will be charged appropriately.

Text book register

- This is a register showing all books received and issued by an Institution.
- It should clearly show the following:
  - date of receipt
  - invoice number
  - the name of suppliers
  - quantity received
  - unit Cost & Total value
  - quantity issued
  - quantity Missing, if any



Imprest register

- Imprest is issued to teaching and non-teaching staff for a specific purpose and any payments made from it must be only for the purpose specified.



Payment Documents and Records

- Payment documents and records are used to document payments and control the expenditure incurred by an institution.
- Below is a table describing the various documents and records, main functions and features:



Name of document	Features	Functions	Reference/ remarks
Payment vouchers	Date, payee, serial no. amount (words &figures), approval (signature), purpose, evidence of payment (invoices, delivery notes, payroll and other supporting documents)	Document of original entry used to document expenditure incurred by the institution	PFM act, 2012 (section… Handbook for Financial Management for Educational Institutions
Cheque book/ cheque	Date, payee, cheque no., counterfoil, Bank account no., amount (in words & figures), authorized signature, serially numbered	To make non-cash payments and transfer funds from one account to the other	Handbook for Financial Management for Educational Institutions
Payroll	Date, employee's name, staff no, gross salary (basic salary & allowances), statutory deductions (PAYE, NSSF, NHIF), and other deductions.	To reflect the remuneration paid to the employees in an institution.	Employment Act Section…. Handbook for Financial Management for Educational Institutions



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The Cash Book

- A cash book is a daily summary of receipts and payments.
- The transactions should be recorded daily.
- The receipts should be summarized and posted at the end of the day.
- Only the authorized payment vouchers should be entered in the cash book.
- The accounting officer should check the transactions in the cash book and sign the same to confirm the correctness and completeness of the transactions entered.
- The cash book should be totaled and reconciled at the end of every month.
- However, cash transactions should be reconciled daily. Below is a sample of an analysis column cash book:

From whom received	Ref	Cash	Bank	Total	VOTE HEADS						To whom paid	Ref	Cash	Bank	Total	VOTE HEADS					
					BES	RMI	EWC	LT and T	PE	ACTIVITY						BES	RMI	EWC	LT and T	PE	ACTIVITY

Ledgers

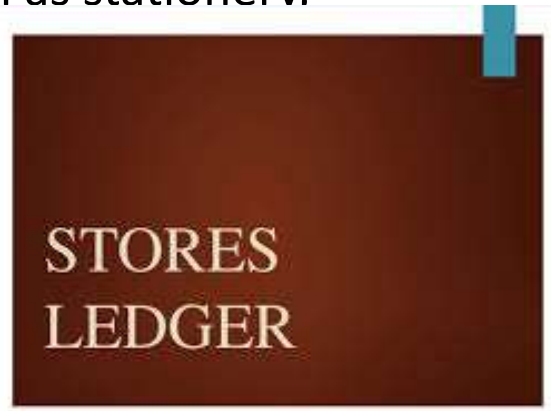
i. Cash Book Ledgers

- This is a monthly summary of the cash book.
- It is used to summarize the monthly expenditure incurred in the respective accounts/ vote heads.
- Each column of the cash book is summarized in a page of the ledger called folio.
- It summarizes both the receipts and payments made in cash and bank in respective vote heads.



ii. Stores ledgers

- The stores' ledgers are used to document the items or goods upon receipt and monitor their movement or use in the institution.
- There are two types of stores ledgers:
  - Permanent equipment and expendable stores ledger: used to record items or goods that have a life span of more than 12 months e.g. buildings, equipment etc.
  - Consumable stores ledger: is used to record items that are used on a day-day basis in the running of the institution such as stationery. kitchen items, detergents etc.



Documents used in payment

- The accounting records required include:
  - Payment vouchers
  - Expenditure support documents (such as receipts, BOM minutes)
  - Cheque book Payroll
  - Cash book
- In addition, the following records/ source documents are required to support/validate a transaction:
  - Cash receipt
  - Payment voucher
  - Suppliers' invoice
  - Payroll for non-TSC teachers and support staff
  - Imprest warrant
  - Goods Received Note/Suppliers' Delivery Note
  - LPO and LSO
  - Invitation letters to attend events/conferences, attendance sheet, timetable and a report of the conference





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Imprest requisition form

- An imprest requisition form should be filled and a payment voucher prepared in the name of the person applying for imprest.
- The voucher is then entered into the cashbook and Debited into the ledger under the officers' name, in a folio for "imprests."
- When the imprest holder brings back cash sales and receipts, vouchers are prepared charging the votes affected by the various cash sales/receipts.
- Then a receipt voucher is prepared for the imprest-holder for the total amount of the cash sales/receipts.
- This receipt is Debited into the cashbook and credited to the ledger under the officer's name.
- Any balance unspent from the imprest taken is also receipted and treated in the same manner when surrendered by the imprest holder



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Payroll

- The payroll should be used for recording salary expense and related expenditure.
- It is prepared monthly and is analysed to show:
  - Staff number and name
  - Basic pay
  - Allowances
  - Deductions for PAYE, NSSF, NHIF, co-operative unions and advances
  - Net pay
  - Signature and ID number of payee.
- The Head of the Institution MUST certify the payroll as correct.
- The institution should avoid cash payments to staff and efforts should be made with banks to facilitate direct transfers to staff accounts for salary payments.
- Cheques to staff can be used where direct salary transfer arrangements have not been made.

NOTE: The Finance officer/bursar should ensure that the one third basic rule is complied with at all times as required under employment Act, 2007



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Internal controls

- Internal control is a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, and safeguarding of assets against unauthorized acquisition, use or disposal.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance that the institution's objectives are achieved because of limitations inherent in all internal control systems.

- These limitations may include human judgment that can be faulty, errors, and controls can be circumvented by collusion and management can override the internal controls due to lack of integrity.
- Internal control is geared to the achievement of institution's objectives as outlined below:
  - Operations – relating to effective and efficient use of entity's resources;
  - Financial reporting – relating to preparation of reliable published financial statements;
  - Compliance – relating to the entity's compliance with applicable laws and regulations;
  - Safeguarding of assets.



Internal Control Registers

- These are registers that are used in monitoring and evaluation.
- These are used mainly to monitor the financial transactions in the institution.
- The table below indicates some of these registers:

Name of register	Features	Functions	Reference/ remarks
Admission register	Name of the student, admission number, date of birth. Contact address/tel. no of the parent/ guardian, contact	To register the enrolment of a learner and the level of entry in the educational institution. Captures the date when a learner joins the school.	BEAC Regulations, 2015 Sect. 63(g)
Class register	Name of the student, admission number, date of birth. class, attendance dates.	Monitors the attendance of the learner to class activities	BEAC Regulations, 2015 Sect. (63)
Rent and service charge register	Institutions name, year, house no. rent charged months	Monitors the amount of rent and service charge levied on institutional resources	Handbook for Financial Management for Educational Institutions
Commitment register	Date Name of the supplier, LPO/LSO ref, PV no amount paid the outstanding amount	Expenditure control and monitors the vote head commitment also used to plan for the cash flow.	Handbook for Financial Management for Educational Institutions
Tender opening register	Name of supplier submitting bid total price discounts, tender security	Records all bids submitted to the institution	Public procurement and asset disposal act 2015(sect 78(6)
Imprest register	Date of imprest, name of holder designation, amount applied for, purpose date surrendered	Records the monies given to officers to carry out official duties.	Handbook for Financial Management for Educational Institutions
Contracts /suppliers register	Contractors name, year of the contract, contract amount, start date, completion date, contract variation, payments summary	Monitors the execution of the contract payments adjustments as to time and value.	Handbook for Financial Management for Educational Institutions

Name of register	Features	Functions	Reference/ remarks
Assets register	Asset no, name type serial no date of purchase, price/cost date of sale, asset location, condition, improvements (if any)	Tracks the assets upon physical check records additions and disposals of the assets	PFM act, 2012 (section… BEAC Regulations, 2015 Sect. 63(c) Handbook for Financial Management for Educational Institutions
Textbooks register	Date of receipt invoice no. supplier's quantity received, stock balance	Monitors the use of textbooks	Handbook for Financial Management for Educational Institutions
Cheques / Money orders register	Receipt no date signature of officer's cheque /money order no	All money orders and cheques received are recorded and monitored	Handbook for Financial Management for Educational Institutions
Motor vehicle work ticket	Date drivers name authorized officers' trip km covered fuel drawn	Monitors the usage of motor vehicle and machinery, fuel and lubricants usage, repairs.	Handbook for Financial Management for Educational Institutions
Livestock register	Date of purchase/birth of the animal, tag no, production weight	Records all the biological assets tracks the growth of each	Handbook for Financial Management for Educational Institutions

Managing cash and bank accounts

- The main activities in management of Cash and Bank Accounts include:
  - Opening and Operating Accounts
  - Receiving Money
  - Handing Over Money
  - Banking Money
  - Withdrawing Money
  - Updating the cashbooks
  - Reconciling the cash book balance with bank balance
  - Operating Petty Cash system





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Opening and operating institutional bank accounts.

- Each institution shall open three accounts namely:
  - Tuition account,
  - operations account and
  - fund/main account.
- Other accounts may be opened depending on ministerial guidelines from time to time. Fewer accounts are meant to minimize bank charges and administrative costs.
- BOM should ensure that four members of BOM are signatories to the accounts.
- For any cheque payments to be effected, three members should sign cheques with the principal's signature being mandatory.



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- Similarly other payments affecting bank accounts should be authorized by at least three members of the BOM with the Principal's signature being mandatory.
- Other financiers may state their conditions on bank signatories.
- Blank cheques should NOT be signed by any of the signatories in advance of anticipated payments (Sec 13 of National Government PFM regulations, 2015)
- All supporting documents relating to a payment must be attached to the payment voucher before it is signed by the relevant signatories.
- The Signatories should appoint an officer as an agent to represent them in the bank.



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Recording receipts in the analysis cash book

- All revenue received by an institution should be recorded in the cash column of the cash book and total column analyzed as per the respective vote-heads, e.g. grants from MOE, tuition and examination
- To reduce the number of entries in the cashbook for individual fees revenue, it is advisable to sum the fees collections of the day and post it to the debit side of the cash column as a block figure and extend it to the total column for analysis.
- The head of the institution shall in writing, designate a staff member (Accounts Clerk/Bursar/Finance Officer) to be responsible for receiving and recording of incoming cash.

Handing over funds to Head teacher/Principal

- At the end of each day, the designated member of staff shall hand over all monies collected to the head of the institution for banking while intact.

Accounting and Financial Reporting

- We looked at accounting documents and the importance of recording all financial transactions done the school and the legal threshold for different accounting documents and records.
- We shall now look at the different accounting and financial records and how to interpret the information they contain in order to inform the decision making in an institution.





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What are financial statements?

- Financial statements are a collection of summary-level reports that shows how a firm has used the funds entrusted to it by its stakeholders.
- They show an organization's financial results, financial position, and cash flows.
- They are useful for the following reasons:
  - To determine the ability of an entity to generate cash, and the sources and uses of that cash.
  - To determine whether an entity has the capability to pay back its debts.
  - To track financial results on a trend line to spot any looming performance issues.
  - To derive financial ratios from the statements that can indicate the condition of the entity.
  - To investigate the details of certain business transactions, as outlined in the disclosures that accompany the statements.



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Legal and Policy Framework for financial accounting and reporting

- Accounting is the systematic and comprehensive recording of financial transactions pertaining to an institution.
- Accounting also refers to the process of summarizing, analyzing and reporting these transactions to oversight agencies, regulators and other entities.
- The financial statements summarize an institution's operations, financial position and cash flows over a particular period of time.
- The Accounting Officers are responsible for prudent management of public funds entrusted to them.
- They should put systems in place which guarantee proper use of public resources.
- It is also their responsibility to maintain financial discipline as required by the PFM Act, 2012 and PFM Regulations 2015.



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- In the case of educational institutions, the accounting officer is the "head of institution" which refers to a Principal/head teacher appointed by the Teachers' Service Commission to head an institution and exercising delegated authority of the Cabinet Secretary of the Ministry.
- The Basic Education Act 2013 requires that a Board of Management of a public institution of basic education shall cause to be kept all proper books and records of accounts of the income, expenditure and assets of the institution.
- The accountability of a public officer vacating an office shall not be completed until the financial and accounting records kept by him or her have been properly handed over in writing to an officer taking over his or her duties and attested by their supervisor, but this does not prevent the public officer from handing over any other documents required under any other law or government policy.



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- If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not.
- The National Treasury through the Public Sector Accounting Standards Board has prescribed accounting standards and formats for financial statements and reporting which are supposed to be used by public entities.
- This has ensured uniformity and comparability of financial reports by public entities.



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- The standards set by the Board will promote transparency and other Constitutional values and principles in effective, prudent and efficient management of revenue, expenditure, assets and liabilities of the institutions to which these standards apply.
- The basis of accounting so far prescribed is Cash Basis of Accounting Method under the (IPSAS), Accrual and International Financial Reporting Standards (IFRS).
- The National Government and County Governments use cash Basis of Accounting.
- State Corporations and Semi-Autonomous Government Agencies report under either Accrual Basis for state agencies which do not make profit or IFRS for the State Corporations which are established to make profit.
- The public schools are in the category of government entities which are required to report on Cash Basis of Accounting.

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Differences between cash and accrual methods f accounting

Cash basis accounting	Accrual basis accounting
It is an accounting method in which income is recorded when cash is received, and expenses are recorded when cash is paid out	The accrual basis systems provide for recording of accrued incomes and expenditure even though may not have become due for receipt/payment during the accounting period.
It measures financial results for a period as the difference between cash received and cash paid.	It is an accounting method that measures the performance and financial position of an organization by recognizing revenue when earned and expense when incurred rather than when cash is received or paid.
This is the simplest system of maintenance of accounts and easily understood.	A basis of accounting under which transactions and other events are recognized 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 recognized in the financial statements of the periods to which they relate.
	The elements recognized under accrual accounting are assets, liabilities, net assets, revenue and expenses.

Below are two examples to help you understand the difference between cash basis and accrual basis accounting:

(i). Example 1: Contracting services

Cash basis accounting

	Period of performance		
	Terrn 1	Terrn 2	Terrn 3
Expense is recognized at the signing of the contract (not the performance)	Ksh 200,000	-	-

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Accrual basis accounting

	Period of performance		
	Terrn 1	Terrn 2	Terrn 3
Costs are matched to the period of the performance	Ksh 80,000	Ksh 70, 000	Ksh, 50,000

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ii). Example 2: Employee gratuity payments

Cash basis accounting

	Period of performance		
	Term1	Term 2	Term 3
Cost is recognized upon end of employee contract, not as the million employee earns the benefit.	_	_	Ksh 3Million

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Accrual basis accounting

	Period of performance		
	Term 1	Term 2	Term 3
Cost is matched to employee services	Ksh, 1 million	Ksh, 1 Million	Ksh, 1 Million



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Financial responsibilities of education managers

Government accounting processes are guided by the Public Financial Management Act (PFM) of 2012. In Section 66 of this Act, accounting officers are expected to:

i. Promote and enforce transparency, effective management and accountability with regard to the use of public finances;

ii. Ensure that accounting standards are applied;

iii. The implement Government financial policies in relation to public finances;

iv. Ensure proper management and control of, and accounting for, public finances;

v. Acting as custodian of the entity‘s assets, except where provided otherwise by any other legislation or the Constitution;

vi. Monitor the management of public finances and financial performance in their institutions;



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Financial Reporting

- Financial reporting is the disclosure of financial results and related information to management and external stakeholders (e.g., investors, customers, regulators) about how an entity performed over a specific period of time.
- A key prerequisite for meaningful financial statements is that they be comparable to those statements for other entities, especially entities within the same industry.
- To meet that requirement, statements are prepared in accordance with Accounting Principles and Standards which "encompasses the conventions, rules and procedures", necessary to define accepted accounting practice at a particular time.



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- Accounting disclosures are as important as the actual numbers.
- Besides the balance sheet, income and expenditure account and statement of cash flows, a great deal of information is provided in the notes to the financial statements.
- The notes to the accounts are an integral part of the accounts.
- The information contained in some notes is often key to fully understanding the financial statements and some of the assumptions and accounting policies that were used in compiling the numbers.
- The structure of the reporting formats shall be based on the requirements of the PFM Act, 2012.
- The Cabinet Secretary, National Treasury may from time to time amend the reporting formats in accordance with the prescribed standards set by the Public Sector Accounting Standards Board.



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- The annual financial and non-financial statements shall be prepared in compliance with the International Public Sector Accounting Standards as prescribed by the PSASB from time to time; and the annual financial statements must be approved by the governing body.
- The accounts of the national government entities shall record transactions which take place during a financial year running from the 1st January to 31st December.
- The Kenya shillings shall be the unit of account for drawing up and implementing the national budgets, presenting and reporting accounts.



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Financial Statements

- Financial statements are a collection of summary-level reports that shows how a firm has used the funds entrusted to it by its stakeholders.
- They show an organization's financial results, financial position, and cash flows.
- School financial statements are useful for the following reasons:

i. To determine the ability of an entity to generate cash, and the sources and uses of that cash.

ii. To determine whether an entity has the capability to pay back its debts.

iii. To track financial results on a trend line to spot any looming performance issues.

iv. To derive financial ratios from the statements that can indicate the condition of the entity.

v. To investigate the details of certain business transactions, as outlined in the disclosures that accompany the statements.

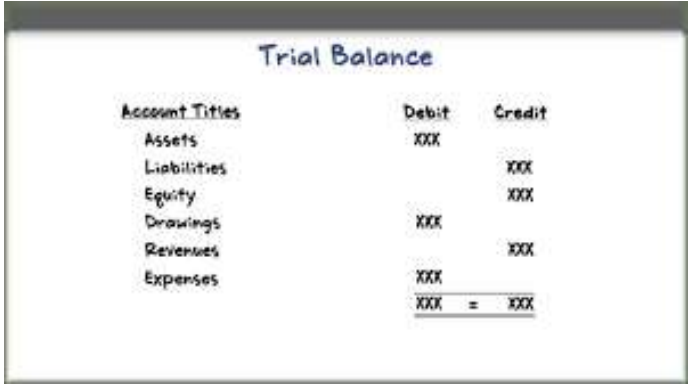


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- The Principal should ensure that the following financial statements are prepared:
  - The institution's trial balance
  - A statement of Financial Performance (Income and Expenditure account)
  - A statement of Budget Performance
  - Statement of Assets and liabilities (Balance Sheet).
  - Statement of cash flows

Cash Basis of Accounting

- Financial statements shall be prepared on cash basis.
- Under this accounting basis, revenue and costs are recognized as money is received or paid.
- Institutions shall maintain memorandum records containing details of Creditors, Debtors and non-current (fixed assets) to facilitate preparation of Statement of Financial position, as appropriate.



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Trial Balance

- The initial step in preparing final accounts involves extracting a Trial Balance from the general ledger.
- Thereafter, Financial Statements can be prepared.
- **A trial balance is a list of balances of all accounts in the general ledger and cash and bank.**
- It should be drawn up monthly, and normally before the preparation of Income and Expenditure Account and a balance sheet.
- The ledger accounts should also be balanced off each month
- A trial balance provides a check on the correctness of entries in accounting records, based on the basic book-keeping principle that **sources of funds** should equal to the uses, **(Assets = Liabilities + Owner's Funds)**.
- Hence all items recorded in all the accounts on the Debit side total, equal all those recorded on the credit side of the accounts.

Particulars	Amount (INR)	
	Dr.	Cr.
Cash in Hand	5000	
Cash at Bank	200000	
Sundry Debtors	30000	
Sundry Creditors		14000
Bills Receivable	22000	
Bills Payable		7000
Capital A/c		100000
Drawings		
Sales		300000
Purchases	80000	
Carraige Inwards	3000	
Employee Salary	25000	
Marketing Expenses	5000	
Insurance Paid	2000	
Furniture and Fixtures	7000	
Stock	18000	
Office Rent	2000	
Total	421000	421000

Trial Balance Examples

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Preparing a trial balance

- All debit and credit balances are transferred from ledger accounts and posted to credit and debit sides of the trial balance.
- Post cash and bank balances as reflected in the cashbook to the
- Debit side of trial balance. The cash and bank balances must first of all be reconciled
- Cast both the debit and credit columns of the trial balance.
- Totals on both sides should be equal, but if they are not equal, then an error will have been made in postings or casting.
- In schools when preparing the trial balance, the amounts received (income) for each vote head are posted to credit side of the trial balance (credit balances) while amounts spent under each vote head are debit balances.
- The closing balances of cash in hand and bank are debit balances in the trial balance.

Receipts	Amount	Payments	Amount
Cash in hand	460	Expense of annual fete	273
Subscription	520	New tools	94
Donation	340	New games equipment	60
Sale of tickets annual fete	590	Expense of music	270
Sale of music tickets	674	Cleaner's wages	340
		Light & heat	215
		Cash in hand	1332
	2584		2584

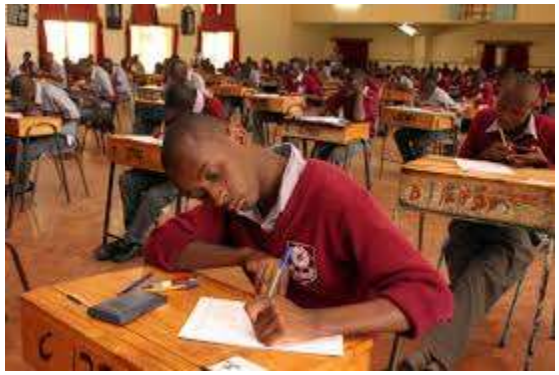
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Statement of Financial Performance (Income and Expenditure Account)

- In the case of non-trading and public educational institutions, this account is the equivalent of the profit and loss account.
- Income is credited and expenditure debited, and the balance represents either a surplus or deficit for the period and it is carried forward to the balance sheet.
- Details of commitments entered into under individual sub-heads should be indicated so that expenditure at any given time is realistic. Furthermore, approved estimates should be reflected prior to the debits and credits.

Note:

- Cash balances should not be recorded in this account
- The Vertical Format should be adopted, in which the following ought to be reflected. Comparative figures of the current and previous year's revenue and expenses should be indicated
- A budget execution statement for the current year should also be attached.



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Entries to Specific Accounts

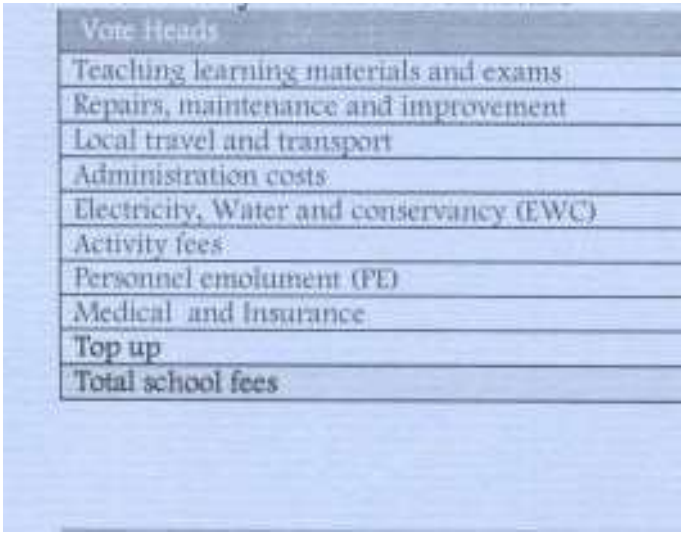
i. Tuition Account

- This account holds capitation grants received from the Ministry of Education under Free Day Secondary Education policy.
- The money is broken down into the following vote heads which form both income vote heads and expenditure vote heads in tuition account.
  - Textbooks and reference materials
  - Exercise books
  - Laboratory equipment
  - Internal exams
  - Teaching / learning materials
  - Chalks / Exams and assessment
  - Teachers guides

Note: Virement of funds from vote heads in this account to other vote heads in other accounts is prohibited

ii. Operations Account

- This account also holds funds received from government to subsidize the cost of running educational Institutions.
  - Personnel emoluments
  - Repairs, maintenance and improvements.
  - Local transport and travelling
  - Electricity, water and conservancy.
  - Medical
  - Administration costs
  - Activity
  - SMASSE
  - Any other as approved by the MoE



Vote Heads
Teaching learning materials and exams
Repairs, maintenance and improvement
Local travel and transport
Administration costs
Electricity, Water and conservancy (EWC)
Activity fees
Personnel emolument (PE)
Medical and Insurance
Top up
Total school fees



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iii. School Fund/Boarding/Lunch Account

- This is the account that holds funds contributed by parents by way of paying school fees.
- The income and expenditure items/vote heads are explained below:

a) Fees

- Fees charges may only be collected from parents based on the prevailing guidelines issued by the Ministry of Education from time to time.
- However, other charges can be collected through specific authority from the Ministry of Education.
- Such authority may only be granted where the grant from the Ministry is insufficient to meet approved costs.

- Fees contributed by parents is broken down into the following vote heads:
  - Personnel emoluments
  - Repairs and maintenance
  - Local transport / travelling
  - Electricity and water
  - Medical
  - Administration costs
  - Activity
  - SMASSE





b) **Rental Income:** Charges on staff occupying institutional houses for rents, furniture, electricity and water

c) PA/Development Fund: Contribution made by parents for an Institution's facilities development if authority has been obtained from the Ministry

d) Activity Fees: Funds collected to meet extra curricula costs such as Extra Curricula Activities, Music, Drama, Science and Engineering Fair, Games, Activity Fund, Transport, and Accommodation for students and allowances for instructors.

e) Donations/Harambee Funds: These are general contributions from donors, patrons, private sector, General public and other stakeholders, and may be in cash or kind.

f) Boarding Fees: These are funds for boarding materials including furniture, beddings, and stores

g) Medical and Insurance: These are funds for group emergency cover injuries, accidents, first aid kits, sanatorium/sick bay linen and medical cover for students.

Other Receipts

- These include incomes from other sources from within and outside the school.
- These are:
  - Income from farming activities
  - Insurance compensation
  - Income from Posho mill
  - Income from Bus Hire
  - Fee for hire of ground and equipment
  - Income from grants and donations
  - Interest income



- The incomes may vary from school to school and therefore each type of receipt/collection should be clearly described.



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Expenditure Accounts

- **Personnel emoluments (PE):** These are salaries paid to nonteaching staff who are not employed by the Teachers Service Commission
- **Boarding Equipment and Stores (BES):** Includes payments for boarding materials such as beddings, foodstuffs and cleaning materials
- **Local Transport and Travelling (LT&T):** Includes payments in respect of license, insurance, petrol, oil, spares, payments of transport and subsistence, vehicle repairs and maintenance.
- **Repairs, Maintenance and Improvements (RMI):** This will be for payments made for the repair and maintenance of an Institution's building and other equipment. Currently the MOE has issued new guidelines on use of RMI where secondary schools are allocated ksh 6000 per student to improve infrastructure to support 100% transition policy.



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- **Electricity, Water and Conservancy (EW&C):** These are payments for an institution's water and electricity bills, running costs for generators and purchase of paraffin and fuel
- **Activity fees:** Payments for Extra Curricula Activities, Music, Drama, Science and Engineering Fair, Games, Activity Fund, Transport, Accommodation for students and allowances for instructors
- **Medical and Insurance:** These are funds Group emergency cover injuries, accidents, first aid kits, sanatorium/sick bay linen and medical cover for students.
- **Expenditures related to income generating activities:** This will depend on the nature of activity for example operating a posho mill will require costs such as electricity/fuel, repairs among others.
- **Non- recurrent Expenditure**: Include expenditure incurred for construction of buildings, purchase of equipment such as computers, grass cutting tools, farm equipment, vehicles and other permanent assets.
- These capital expenditures should be expended on cash basis and recorded in the receipts and payments (cashbook) account while the corresponding asset will be captured in the fixed asset register



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Statement of Financial Position (Balance Sheet)

- This is a statement that shows the financial status or position of an educational institution, as at a particular time.
- It shows the values of Assets (i.e. the institution's possessions) and Liabilities (i.e. those items that the institution is liable to surrender or pay), on the date on which it is prepared.
- The assets and liabilities must have an identical total, i.e. they should balance.
- The surplus or deficit summary of the income and expenditure account, non-recurrent accounts balances and all the accounts that did not feature in the income and expenditure account such as cash and bank balances, sundry debtors and sundry creditors are recorded in the Balance Sheet.
- The Format of the Balance Sheet is the vertical type, with comparative figures of current and previous years.



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Financial assets

- These constitute cash and bank balances and accounts receivables (debtors).

Financial liabilities :

- These include account payables (creditors).
- The difference between the financial assets and liabilities will appear in the statement of assets and liabilities as net financial assets.
- The names and signatures of the institution's Head, Bursar /Finance Officer (where applicable) and the BOM chairman shall appear on the balance sheet.

Property, plant and equipment.

- Fixed assets will only be disclosed through the fixed assets register at historical cost.

Sundry Debtors Account

	(₹)		(₹)
To Balance c/d	17,500	By Sales Returns	7,500
To Cash & Cheque Received	2,40,000	By Discount Allowed	1,000
To Bad Debts	2,500		
To Balance c/d	20,000		

Sundry Creditors Account

To Purchase Returns	1,500	By Balance c/d	7,500
To Discount Received	400	By Cash & Cheque paid	1,15,000
To Reserve for Discount	250		
To Balance c/d	12,500		

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Sundry Debtors

- These are monies due to the institution such as fee arrears from students, interests that have accrued on special deposit accounts, rents owing from institutional houses, surrendered imprests and money from other sources.
- In the course of preparing annual financial statements, the head will need to ascertain how much money is due to the institution.
- Once this is done, it will be necessary to reflect those amounts in the final accounts for the year under review.

Write-off of Debtors

- In special cases, the BOM should review the listing of sundry debtors and recommend to the Ministry for approval to write them off.
- All write offs must be justified.



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Fees Payments in Kind

- This is only allowed in exceptional circumstances.
- The BOM must control the quantity as well determine the price of the items based on the market rate.
- This includes but not limited to payment of school fees where money is not used as a mode of payment.
- Parents may bring foodstuffs such as maize, beans, milk, labour among other items/services which are considered in settlement of fees.
- These in-kind payments should be valued and receipts issued to students and a payment voucher raised to account for the payment.
- The payment should be charged to Boarding, Equipment and Stores (BES).



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Donations in Kind

- These include donations of assets which include vehicles, equipment or labour services.
- Their value can be determined by the donor through official communication on the value of the asset.
- This should be receipted in donation vote head and a payment voucher is prepared charging donation vote head to pay out and recorded in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts, otherwise the contribution is not recorded.

Sundry creditors

- These are debts incurred by an educational institution by end of the financial year in respect of services, works or goods received for payments which will be made in the beginning of new financial year.
- However, other creditors may be brought forward from previous years which should be given priority in payment.



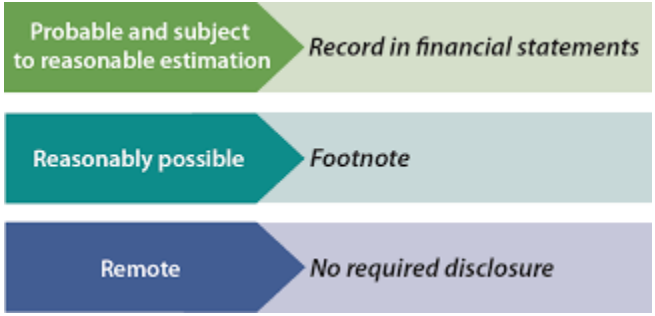
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Prepaid Fees

- This is fees paid by parents in advance by the end of the financial year.
- The fees should be considered as part of sundry creditors and be transferred to the income statement in the following financial year.

Undisclosed Creditors

- These are creditors which do not appear in the final account's balances or in handing/taking over notes during transfer of teachers which may be genuine.
- These creditors should only be paid after verification by the management.
- An adjustment may also be required to adjust the financial statements with such errors.



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Contingent Liabilities

- These are conditions/events that exist at the time the financial statements are approved by the BOM, whose outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.
- Such events may include pending court cases involving school land, employees' salaries or suppliers'/contractors' disputes awaiting determination
- Where there is a high possibility (it is probable) that a contingent liability will occur, and likely to have material financial effects, the contingency should be disclosed by way of notes to the annual financial statements.
- There should be an explanation for a proper understanding of the likely effects in terms of:
  - The nature of the contingent liability.
  - The expected uncertainties likely to occur.
  - A prudent estimate of the potential financial effect or a statement that it is not possible to make such an estimate.



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Suspense Account

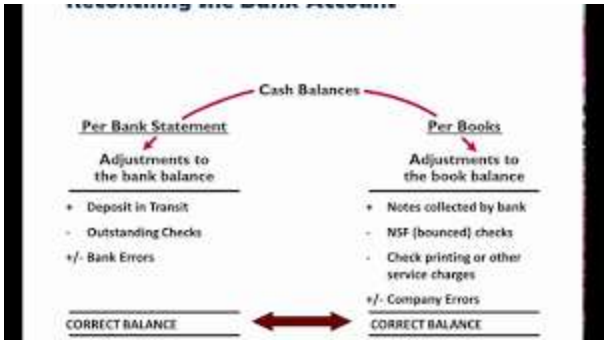
- This is a temporary account opened to record payments which cannot for the time being cannot be accounted for, or receipts for which the institution has no adequate authority to spend.
- Each suspense account should record a specific kind of transaction and not in general.
- A suspense account may be used to record the following:
  - Income tax and other deductions from staff salaries, which are ultimately payable to departments such as income tax, NHIF and NSSF
  - Salary advances and salary paid in advance
  - The amount of any erroneous/irregular payments, which may or may not have been disqualified by an audit, or overpayment made or received by the institution pending investigations
  - The amount of any loss of money discovered (or any recoveries) pending investigations
  - When the assets do not equal the liabilities for some unknown reasons, the balance is taken to the suspense account pending investigations. This balance, if identified, may be cleared later through a journal entry.
  - Unexplained sources of money that need to be accounted for at a later date.
  - The suspense account should not be used to carry forward unspent balances from one year to another.
  - The net amount of the balances in the suspense account at the end of the financial year should be recorded in the assets and liabilities statement



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Statement of Cash Flows

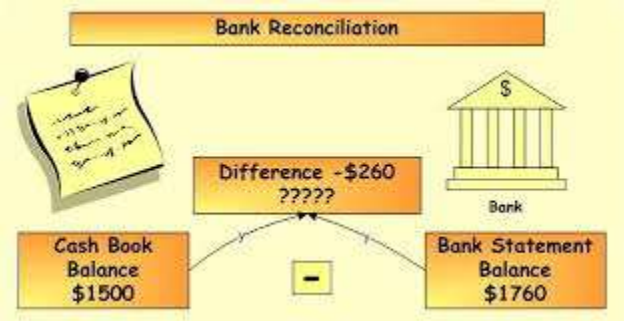
- A Cash Flow Statement (also called the Statement of Cash Flows) shows how much cash is generated and used during a given time period.
- It is one of the main financial statement's analysts use in building a three-statement model.
- The main categories found in a cash flow statement are the;
  - operating activities,
  - investing activities, and
  - financing activities of an organization and are organized respectively.
- The total cash provided from or used by each of the three activities is summed to arrive at the total change in cash for the period, which is then added to the opening cash balance to arrive at the cash flow statement's bottom line, the closing cash balance.



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Bank reconciliation statement

- The bank reconciliation reports on the differences between the balance on the bank statement and the balance in the institutions financial records such as cheque register, cash book, general ledger cash account, balance sheet etc.
- The reconciliation results in the true cash balance that will appear on the balance sheet.
- In simpler terms, the bank reconciliation statement is a report which compares the bank balance as per the institution's accounting records with the balance stated in the bank statement.
- It is normal for an institution's bank balance as per accounting records to differ from the balance as per bank statement due to timing differences.
- Due to the timing difference, omissions and errors made by the bank or the institution itself, the balances of the bank statement and the bank account in the cash book rarely agree.
- Bank reconciliation statements can be used to explain the reasons for the differences and to identify errors and omissions in both documents, so that corrections can be made as soon as possible.



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Reasons for differences between the cash book and the bank statement

i. **Uncredited items:** They are deposits paid into the bank. These items occurred too close to the cut-off date of the bank statement and so do not appear on the statement. They will appear on the next statement

ii. **Un-presented cheque:** They are cheques issued by the institution that have not yet been presented to its bank for payment.

iii. **Standing orders:** They are standing instructions from the institution to the bank to make regular payments.

iv. **Direct debits:** They are payments made directly through the bank.

v. **Bank charges:** They are charges made by the bank to the institution for banking services used.

vi. **Dishonored cheques:** They are cheques deposited but subsequently returned by the bank due to the failure of the drawer to pay.

vii. **Credit transfers/direct credits:** They are collections from customers directly through the bank.

viii. **Interest allowed by the bank:** They are interest received for deposits or fixed deposits.



- In this unit, we have looked at financial account in education institutions.
- We have looked at various accounting documents and records and the entries that are made in them.
- We have emphasized the importance of ensuring correct entries are made in the documents and records
- In addition, we have looked at financial reporting and its legal requirements.
- We have looked at the various financial statements and reports that should be prepared and provided to management in order to determine the financial status of the school.
- It is our hope that you can now interpret the various financial documents and reports and make decisions based on the information provided.