

Maintenance of proper books of accounts and fair presentation of financial statements

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Introduction



- Many universities in liquidity crisis
- Causes are under capitation, less diversified sources of revenue
- Partially attributed to very ambitious policies of accounting for revenue
- Mismatch between revenue and the related expenditure
- Revenue recognised and cash utilised long before the related expenditure is incurred

Introduction



- Not-for-profit characteristics
 - Contributions without expected commensurate returns
 - Purpose is scholarship and research and not providing goods or services
 - Lacks ownership interests
- Many have commercial or enterprises division

Category of resources

- Restrictions must be imposed by external condition eg donors before an asset is classified as “restricted”
 - For financial statement purposes, board-designated or internally restricted assets continue to be classified as “unrestricted”
- Temporarily restricted
 - For a particular purpose or
 - For use in a future time period
- Permanently restricted
 - Expected to remain restricted for as long as the organization exists

Revenue funds

- Examples
 - Library fund
 - Medical fund
 - Bursary fund
- Scholarship fund
 - Research fund
 - General fund
- Examination fees etc

Reporting framework



- Public universities applies IPSASs (Accrual)
- While the public university commercial enterprises use IFRSs
- Example - KU hospital or funeral home
- Private university are for profit organizations IFRSs



Tuition income

Tuition and fees: revenue at gross amount

- Tuition waivers: contra revenue

Reported tuition revenue is reduced by employee discounts and non-employment fellowships

Scholarships



- From outside sources: collect the account receivable from the donor
- Awarded by the college itself: reduce accounts receivable and record "Expenses – Educational and general – student aid"



- Example
- Student register but have not paid tuition fee
- Student differ the studies
- Student pay full amount in advance
- Student applies special examination
- Student enters repeat or supplementary exam

Example



- The university offers a work study program where enlisted student offer basic services in the library and administration support.
- Eligible student tuition fees is waived
- Discuss the accounting implication

Tuition Revenues



- Tuition is recorded at gross amount
 - Tuition waivers are contra-revenues
- Bad debts are recorded as for businesses
 - Grouped with institutional support expenses

Accounts receivable
Unrestricted revenues - tuition and fees
Tuition reduction: unrestricted - student aid
Accounts receivable
Expenses - educational and general - institutional support
Allowance for uncollectibles

Receive Appropriations (cappitation)



- Appropriations received from governments and other sources are support revenue
 - Unrestricted
 - For general operations
 - the board has ability to designate as unrestricted
 - Restricted
 - Temporary or permanently restricted

Cash
Unrestricted support - state appropriation

Funds Held for Students



- Receive cash that is to be distributed to students
 - Grant funds held for students is a liability
- Distribute cash to appropriate students

If some of those funds are applied to student accounts, the second entry would credit accounts receivable rather than cash.

Cash
Grant funds held for students
Grant funds held for students
Cash

Endowments



- Receive cash for permanent endowment, *with income restricted to student aid*
- Receive income on endowment
 - Classify as temporarily restricted
- Spend cash on student aid
 - Reclassify net assets

Cash
Permanently restricted support - endowment contribution
Cash
Temporarily restricted support - endowment income
Expenses - unrestricted - student aid
Cash
Temporarily restricted net assets - reclassifications out
Unrestricted net assets - reclassifications in

Auxiliary Services



- Auxiliary services: residence halls, food services, intercollegiate athletics
 - Unrestricted revenues and expenses
- Statement of activities: total revenues and total expenses for auxiliary services
- Subsidiary records are maintained

Cash
Revenues - auxiliary enterprises
Expenses - auxiliary enterprises
Cash

College Expenses



Expenses are only in the unrestricted net assets

Classify by function:

- Instruction expense
- Research expense
- Academic support (intellectual property)
- Student services
- Institutional support
- maintenance of facilities
- Student aid

Regulatory charges

- In the 2014 charges that were to be implemented in the 2015/16 academic year CUE had demanded Sh1,000 for quality assurance per year for every student enrolled for a bachelor's degree, Sh1,500 for master's and Sh2,000 for PhD while a post-graduate diploma was to cost Sh800.

- Annual accreditation charges per academic programme was Sh640,000 but was reduced to Sh320,000 while establishment for grant of letter of interim authority or new constituent college is Sh405,000 from Sh810,000.
- CUE was demanding Sh960,000 for a charter award but has reduced that to Sh480,000 and cut quality audit from Sh1.8million to Sh900,000 with e-academic programme costing Sh320,000 from Sh640,000. Campus accreditation cost Sh300,000 but is now Sh150,000.
- Authority to collaborate was charged Sh810,000 per degree programme but it is now Sh405,000 with a local university and Sh385,000 a foreign one

Example



- University has a policy of supporting intellectual development of the employee.
- Specialised and technical training of a Doctorate student cost Ksh 13 million each
- The university has about 15 student under the program currently
- The average training duration is 4 to 6 years

Net Assets

Three categories

Permanently restricted net assets

- Asset use is limited
- Donor imposed stipulations that do not expire/
cannot be removed by entity

Temporarily restricted net assets

- Donor imposed restrictions that expire (time restrictions)
- Can be removed by entity fulfilling stipulations (purpose restrictions)

Unrestricted net assets

Statement of Comprehensive income

- Changes in net assets shown separately for
 - Unrestricted net assets
 - Temporarily restricted net assets
 - Permanently restricted net assets
- Revenues and contributions in all three areas
- Expenses only in unrestricted net assets
- Reclassifications
 - Move amounts from temporarily restricted to unrestricted net assets
 - Expiration of time restrictions
 - Fulfillment of purpose restrictions



Expenses

Expenses are classified into one of two major categories

Program services

These are the activities the NFP provides

Examples: Research expense, Educational expense, Food bank expense, Recreational expense

Supporting services

Management and general expenses

Fund-raising expenses

Contributions

- Contributions of cash
 - Contribution revenue
- Conditional promise to give
 - Will be contribution revenue and receivable when conditions are substantially met
- Unconditional promise to give
 - Contribution revenue and receivable when pledged, but is temporarily restricted (time)

Contributions

- Contributions (cash, pledge, other assets) with donor imposed restrictions
 - Contribution revenue as temporarily restricted (time or purpose) or permanently restricted
 - When temporary restriction is met, reclassify temporarily restricted net assets as unrestricted net assets
- Contributions of fixed assets
 - Temporarily restricted net assets if donor imposed or board designated as such

Transfers (Non-contribution)

- Exchange transactions: Revenues
 - Sales of products or services
 - "Donations" with gift of same approximate value
 - Exchange is unrestricted
- Agency transactions
 - No revenue or contribution
 - Increase (decrease) both assets and liabilities
- Gifts in kind
 - Contribution revenue (restricted or unrestricted)
 - Create or enhance nonfinancial assets
 - Specialized skills that would otherwise have been purchased

Other Accounting Issues

- Measurement
 - Contributions at fair value
 - Fair value at time of pledge
 - Don't recognize increases
 - Decreases change net assets
- Collections (art work, historical treasures)
 - Capitalization encouraged
 - Contributions are revenues
- Fund accounting
 - Fund financial statements may be presented as supplemental information



Thank you

Interactive session

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