

**STUDIES RELATING TO HIGHER EDUCATION
IN MAHARASHTRA**

SERIES 1

**STUDIES RELATING TO FINANCIAL
ADMINISTRATION OF PRIVATE COLLEGES**

P00104

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
PUNE - 411 004**

RESERVE SECTION

STUDIES RELATING TO HIGHER EDUCATION IN MAH RASHTRA

SERIES 1

**STUDIES RELATING TO FINANCIAL ADMINISTRATION OF
PRIVATE COLLEGES**

**REPORT A: Financial Accounting in the Financial
Administration of Private Aided
Colleges and the Institutions of
Higher Education in Maharashtra State**

**REPORT B: Budgeting in the Financial
Administration of Private Aided
Colleges and the Institutions of
Higher Education in Maharashtra State**

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FOREWORD

1) (a) Financial accounting in the administration of colleges and in the institutions of higher education in Maharashtra and (b) Budgeting in the financial administration of colleges and the institutions of higher education in the State of Maharashtra are two studies pertaining to the financial administration in private aided colleges. These studies are an integral part of a series of studies that are to be undertaken in this sphere in the State.

2) These studies have been made possible due to the generous grant made available by the Ministry of Education Maharashtra Government, due to all sorts of even out of the way and odd facilities and guidance made available by the Director and the staff of Gokhale Institute, Poona, due to the fact that B.M. College of Commerce belonging to the Deccan Education Society Poona, could relieve me from by routine teaching work and finally due to earnest co-operation of concern and understanding, extended by some of the progressive educational societies managing the colleges. I am indeed very much grateful to all these agencies and institutions for all their favours and facilities so readily extended for this task.

3) As regards methodology certain facts must be submitted. In spite of the fact that I wished to have a comprehensive survey on both the issues namely the systems of keeping of

accounts and budgeting in the private aided colleges, in the first round of surveys, this could not be done. Financial inputs involved in such a study were substantial. At this initial stage it was not possible to mobilize the needed finance. Due to the always experienced doubts and suspicions lurking in the minds of many managements it was clear that, that the degree of enlightened co-operation of the colleges and educational societies as was desirable, could ^{NOT} be developed within the short time at disposal. Many a projects were entrusted to ^{be} at one and the same time and it was necessary that all projects were to progress simultaneously. It was therefore not possible to give to this project more than a specific scheduled period. Due to financial constrains additional staff needed for preparing questionnaire, administering the same, collection and statistical analysis of the data so collected could not be employed. It was also felt that in this initial stage in the process of modernization of higher educational administration, really a comprehensive detailed survey was not necessary. Due to all these limitations a somewhat different approach had to be adopted. In the first case it had to be decided that instead of a post mortum, a diagnostic approach be adopted. In the second case it was decided that instead of harpeneing over present day deficiencies, it would be practically wise to emphasise the positive side. For clearly understanding realities, quite

a lot of case work had to be done. One of the methods of presentation would have been to report on the basis of these cases. However it was felt that this would amount to rubbing to the wrong side. This would certainly result in strengthening the doubts and suspicions and stabilizing an adverse attitude of those who are to be "at the action end" in the movement of modernization and development of accountability in these developmental institutions of public character. It was therefore thought desirable to present and emphasize the correct and sound methods. At the basis of the adoption of this method, is a hope that such a presentation would initiate a process of introspection and action in the existing and emerging administrators and managers in the institutions of higher education. It would be observed that it is because of these considerations it is the normative positive side which is repeatedly brought out and emphasised.

4) It is hoped, that in the light of the observations submitted under these two notes, officers, administrators and managers in the higher educational institutions would review their policies and practices in this respect and make their own decisions regarding future improvements. It is to be appreciated in this connection, that colleges educational institutions and educational societies running the institutions, have like individuals, their own distinct personalities and as well as physical characteristics. They have their own educational philosophies and goals as well as their own

standards of excellence. At this juncture, main purpose of these studies is not to establish any standards but to indicate guidelines, which the educational administrators and managers may use with intelligence and discretion. However, it is to be expected that an adequate awareness regarding the developmental significance of these institution as well as the necessity to develop public accountability in conducting these institutions is to be at the earliest developed in these managers and administrators.

5) It must be mentioned that these studies shall have to be taken really as failures and therefore a waste of public funds, in case they fail to initiate and stimulate a desire on the part of higher educational administrators at all levels, to introspect and initiate internally institutional improvement, to intimate and inform others of their own experiences and ultimately to improve entire system by becoming more efficient and effective in this basic developmental work.

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December 1972

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Broad Outline of the Note

1.0 Place of Financial Accountancy in the Financial Administration of College and the Institutions of Higher Education

- 1.1 Financial Accountancy through incidental, yet a significant function.
- 1.2 Nature objectives and aims of Financial Accountancy in Institutions of Higher Education.
- 1.3 Main objectives, resulting actions and implications.
- 1.4 Broad outline of the note.

2.0 At present operating Objectives of keeping Financial Accounts and Records in Institutions of Higher Education

- 2.1 Manifold objectives.
- 2.2 Existing Financial Accountancy system is the result of two types of pressures.

3.0 An outline of the existing operating system of Financial Accountancy in the colleges and the private institutions of Higher Education in the state

- 3.1 Characteristics of existing system (a) conventional system, (b) double entry book keeping system of commercial accountancy, (c) college budgets (d) main books of accounts and the normal routine procedure.

- 3.2 Modification and adoption of the system.
Various factors of work.
- 3.3 Government system of accountancy and adoption of the system to suit government requirements in financial accounts.
- 3.4 Another modification factor, statutory requirements.
- 3.5 Statutory requirements under Society's Registration Act and Public Trust Acts.
- 3.6 Complex combination of these systems and the failure of the existing system to operate as an effective management tool.

4.0 ^{Differences} Differences of the existing system and the pressing need of improvement and evolving a suitable system

- 4.1 ^{Differences} Main differences and weaknesses of the existing system.
- 4.2 Objective and need based system.
- 4.3 Need to evolve a suitable system.

5.0 Stages and steps in the process of improvement and adoption of the system of financial accountancy

- 5.1 Various stages and phases.
- 5.2 First step - standardization of income and expenditure classification.
- 5.3 Fundamental difference in the nature objectives and formation of educational and commercial accountancy systems:

- (a) Nature and aims of educational institutions,
- (b) Financial aims of educational institutions,
- (c) Asset accumulation and the structure of assets,
- (d) Attitude towards the accumulation of capital and the significance of balance sheet and income and expenditure statement,
- (e) Consideration and the treatment of inventories,
- (f) Methods of acquiring capital and the resulting liability towards those who contribute to it,
- (g) Reflection of liabilities and the present value of assets and their use in financial accounts,
- (h) Exemption from taxation.

5.4 Under appreciation of the above said aspects so far and the need to evolve satisfactory system on the basis of these aspects.

6.0 Features of a satisfactory system of Financial Accountancy for educational institutions

- 6.1 Characteristics of a satisfactory system of Accountancy.
- 6.2 Objectives of Financial Accountancy and record keeping in educational institutions.

- 6.3 Essential requisites of a sound system of accountancy:
- (a) Suitability for educational institutions,
 - (b) Safeguarding funds,
 - (c) Provision of information needed for educational planning and administration,
 - (d) Capacity to provide information needed for financial control,
 - (e) Simplicity, and
 - (f) Adaptability to government requirements.

7.0 Bases of Accountancy Procedure

- 7.1 Basis of the system.
- 7.2 Two types of basis (a) cost and (b) accrual.
- 7.3 Distinction and need for two bases.
- 7.4 Cost bases.
- 7.5 Decision regarding the basis.
- 7.6 Accrual bases.
- 7.7 Existing practices cost basis and its modification.
- 7.8 Reasons for adopting cost basis.
- 7.9 Result of the mixture and the possibilities of presenting unreal positions.
- 7.10 Development of operational core.



8.0 Fund accountability system

- 8.1 Operational core of educational (financial) accountability.**
- 8.2 Concept of "fund" and its analysis.**
- 8.3 Necessity of fund accountability system.**
- 8.4 Operational analysis of fund accountability:
 - (a) Identification of distinct transaction and then segregation and the multi-institutional character of the institution of Higher Education,**
 - (b) Grouping of transactions under fund groups,**
 - (c) Self-balancing of fund accounts,**
 - (d) Kind of accounts and fund grouping,**
 - (e) Operations of current fund.****

9.0 Principles of keeping account records

- 9.1 Indication of specific relevant principles only.**
- 9.2 Maintenance of complete files and documents covering financial transaction.**
- 9.3 Control and coordination of various books of accounts by a general register.**
- 9.4 Maintenance of a system of internal checks and verifications.**
- 9.5 Influence of local factors.**
- 9.6 Broad graphic presentation of books of accounts.**

- 10.0 Operating funds its administrative aspects
 - 10.1 Delegation of authority.
 - 10.2 Prime significance of the operations of current funds.

- 11.0 Development of an objective form of account returns
 - 11.1 Appreciation of present day situation, anxiety to meet both ends and the dependency of the institution of higher education on outside support.
 - 11.2 Expanding enrolment and the resulting ^{dependency} depending of anxiety.
 - 11.3 Socio-economic frame work factors.
 - 11.4 Inflation and rising prices and costs.
 - 11.5 College is not a financially self-sufficient institution.
 - 11.6 Shift in the emphasis in the sources of revenue/ income/receipt.
 - 11.7 Self-imposed discipline of business enterprises and the need to apply the same to the educational institution.
 - 11.8 The need to compare and the development of a self-comparison system.
 - 11.9 Development of uniform standard techniques of accountancy and reporting procedures.

11.10 Proposed proforma based on distinct functional and financial areas.

11.11 Distinct functional and financial areas of operations.

11.12 Proposed proforma provides a reliable basis for inter comparisons.

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Appendix 1

A Sheet 1 Summary sheet

P Sheet 2 Current income/revenue and expenditure captions

Explanatory Note

1. Main objectives.
2. Current income.
3. Major categories of current income.
4. Details of current income items.
5. Current expenditure.
6. Details of current expenditure items their identification and grouping (a) General Administration , (b) Students Administration, (c) Academic Administration, (d) Financial Administration, (e) Estate Administration Plant Management, (f) Public Relation and Information

Service, (g) Personnel Administration,
(h) Administration of Auxiliary Enterprise,
(i) Annuity and Loan Payments,
(j) Contra payments, (k) Miscellaneous
payment and (l) Surplus.

- Appendix 2 - Internal organization of the Accounts
Department in a college or institution
of Higher Education.
- Appendix 3 - Reference.
- Appendix 4 - Summary and Recommendation courses of Action.

1. PLACE OF FINANCIAL ACCOUNTING IN THE FINANCIAL ADMINISTRATION OF COLLEGES AND THE INSTITUTIONS OF HIGHER EDUCATION

1.1 Financial Accounting through significant yet is an incidental function in the Financial Administration of Institutions of Higher Education

Definition of the term financial function in relation to colleges and the institutions of higher education falls mainly in three groupings:

(a) One defines finance function as simply the task of providing funds needed by the institution of higher education, on terms that are most favourable. It is noteworthy to find that the dictionary definition of the term finance is almost exclusively concerned with the "procurement of funds". However, the concept of procurement of funds can be further widened so as to incorporate into it, the consideration of the (i) instruments (ii) institutions and (iii) practices through which institution of higher education obtains its funds. This also logically covers (iv) legal accounting relationships of the educational institution, with the students, the donor or the public and the government from whom financial support is received. The main logic behind this approach is that the expenditure needs in the college or the institution of higher education give rise to the demand for funds and the main function in the financial administration of the college is to satisfy this demand.

(b) Although the above stated approach has its own merit of highlighting the central core of the finance function in

the college and the institution of higher education, yet it is generally considered that such a definition as well as approach emerging out of it, is narrow. It is obvious that main function in the financial administration is not merely the procurement of funds. It is a much more broader function than this. This appreciation of the situation results in another extreme type of approach namely that since finance is mostly concerned with the procurement of funds and cash, and since in all activities and transactions taking place in the college or the institution of higher education directly or indirectly cash is concerned, everything that happens under the roof of the college or the institution of higher education obviously forms a part of the financial administration. It is quite evident that such a definition of financial function would be too broad to serve meaningfully any managerial function.

(c) The third approach visualises finance function as one mainly concerned with the procurement of funds and their effective utilisation in the college and the institution of higher education. This central core of activity associated with the procurement and utilisation gives rise to a number of activities and financial functions. Thus the financial administration in a college or the institution of higher education is concerned with (i) Estimation of financial needs (ii) Mobilising and raising funds (iii) putting these funds into the most effective use or utilisation function in relation to the main objectives of the institutions of higher education and (iv) checking from time to time that actually fund utilisation

is taking place according to a predetermined plan. In other words the central core of functions involved in the financial administration of an institution of higher education or the college is (i) Financial planning, forecasting financial needs and chalking out a line of action for meeting these financial needs (ii) Actual raising of funds or the mobilisation of finance and utilisation of finance including allocation etc. and finally (iii) financial control.

The above mentioned analysis leads us to further analysis of finance functions in the financial administration of the college. (1) Primary functions (or executive) functions and (2) the secondary (or incidental) function.

(I) In the primary and the executive function are included:

(A) Estimation of financial needs of the new as well as old colleges or the institution of higher education, including estimates of cash and fund flows, estimation of financial needs for special projects like the financing of new building construction, debt retirement etc.

(B) Mobilisation of finance and finding out resources to meet the needs. This includes financial promotion, fund raising, receiving of income in the form of fees from students, endowment and donations and subscriptions from the public and receiving financial support from the government in the form of grant, as well as borrowing of funds.

(C) Administration of financial resources. This includes expenditure function, management of surpluses, administration of funds and reserves, redemption and retirement of debts and other obligations etc.

- (D) Financial control and checking of the financial performance from time to time.
- (II) Secondary incidental functions are:
- (a) Financial accounting and record keeping.
 - (b) Financial Reports and Statistics.
 - (c) Maintaining satisfactory financial relationship with the students, endowment holders, subscribers, donors, government etc
 - (d) Research on various matters including financial administration and micro concepts in the educational planning.

It would be obvious from the above stated analysis that financial accounting and record keeping though fundamental, yet incidental, function in the financial administration of the college and the institution of higher education.

1.2 Nature, objectives and aims of financial accounting

Financial accounting is said to be (a) the science of recording and classifying the financial transaction and events that take place in the institution of higher education and (b) an art of making significant summaries, analysis and interpretation of these financial transactions and events and communicating these to those who make decision or form judgments. This definition suggests a variety of operations which can be, for convenience, can be grouped as :

- (a) Recording Functions: This is mainly concerned with the work of recording multitudes of transactions and events as well as their accumulation in journals and ledgers. Usually it is the book-keeping clerk who does this work as it is entrusted to him by the accountant. In an accounts department

of a large college, this represents practically 3/4 of the work-load in accounting and book keeping.

(b) Interpretation: This function is mainly concerned with the preparation of analytical reports and statements for management and others, who have the right of information. Where most of the reports are issued, periodically according to a schedule there are certain special types of reports that range from hurried and short answers to the urgent questions, to lengthy detailed noting and reports incorporating some times even extensive research.

(c) Auditative: This function is mainly concerned with the verification of accuracy, authenticating and correctness of accounting records and the statements drawn from these records. This work is either done by internal auditor or an independent outsider auditor - the Chartered Accountant. While an internal auditor maintains a continuous check and reviews, the outsider independent auditor merely provides a periodical review strictly from a point of view of an auditor.

(d) Constructive activity: This is the work of constructing designing and revising book keeping and accounting system of a college or an institution of higher education and thereby attempting to ensure an efficient supply of information preventing and minimising thereby errors and fraud. Methods and systems are to be built up in relation to the needs of the organisation. Hence consequently the chief accountant in the college needs a broad knowledge of organisation, principles, internal control, procedure etc. Thus from a strict functional point of view the field of accounting in the college and the

institution of higher education can be divided into (a) Financial accounting and the (b) Administrative accounting. *Cost Accounting*

and Support accounting
Financial accounting is mainly concerned with the receiving of funds and their utilisations, principle, activities involved being the preparation of financial statements - namely income and expenditure statements, surplus statements, funds and property statements etc.

Administrative accounting or the managerial accounting is a function that emerges out of the concept that accounting is a method of management, it is tool by which managerial effectiveness is enhanced. Although administration or management accounting deals with the same financial data, it is not confined merely to this financial data. It seeks to ensure scientific managerial planning and sound management decisions. It seeks to make management control more effective by encouraging planning and ensuring that the plans are constantly before the management, so that management may constantly compare their performance with anticipated and planned results. It is to provide a build-in check, balances and a continuous review and appraisal to prevent frauds and errors. It is to enable management to correct methods and improve methods. It is obvious from this that while financial accounting is chained to history, management and administrative accounting is free to conjecture. As a matter of fact, while the utility of financial accounting depends on the faithful and just recording of past actions, the utility of administrative accounting depends on a large measure on the discretion with which the accountant predicts the future.

(e) Statutory Accounting: This really is a separate field in which educational accounting cuts across accounting and law. Financial returns are to be submitted to the Registrar of Societies, Charity Commissioner, Union and State Educational Ministries, University Grants Commission, University, etc.

(d) "Support Accounting" concerned with the presentation of accounts to the government for receiving financial support in the form of a grant in aid.

1.3 Main objective and the resulting actions

Ultimately accounting service in the college or the institution of higher education is meant for making management more efficient and more effective. This being the main mission following actions become necessary:

- (a) Meticulous recording all financial transactions.
- (b) Careful compilation of all the financial data and continuous review of operations, policies and procedures.
- (c) Preparation, factual financial projections, their implementation analysis of the courses open etc.
- (d) Constant review and development of accounting system in the college.

In this a number of operations are involved, the main amongst them being (i) Making survey of the nature of institution (ii) Finding out from time to time as to what type of financial and operating data is needed. (iii) Preparing a list of general ledger accounting - determining subsidiary ledgers and other supplementary record that is to be kept. (iv) To determine what books of original entries are to be used and what columns

are necessary to classify these transactions (v) Designing and redesigning forms etc. and to chart their flow so as to ensure maximum clerical efficiency i.e. adopting in operation the principle of "accounting control" (vi) Reviewing record design, standard procedure in accounting operations and its adaptability to changing institutional needs. All these actions are necessary because accounting system so far evolved and operated, is developed in a piecemeal fashion through a process in which accountants and executives were mainly involved in solving immediate problems. What is now seems to be needed is development fairly coherent system and its statement.

1.4 Broad outline of the note

On the basis of above stated ~~xxxx~~ background, it is herewith proposed to study broadly (i) the objectives of keeping accounts (ii) factors that influence and determine a particular pattern of the system of financial accounts and record keeping (iii) Broad outline and analysis of the existing system of financial account keeping (iv) Determinants of a satisfactory x system of financial account keeping (v) Basis of accounting procedure (vi) System of fund accounting and analysis of its suitability to the educational institution (vii) Operational development of the fund accounting system (the identification of distinct transactions and their segregation and grouping into functions) (viii) Accounting records (ix) Operating of fund accounts and (x) finally a case made out for a desirable pattern of maintaining and operating current fund accounts.

2. OBJECTIVES OF KEEPING FINANCIAL ACCOUNTS AND RECORDS IN AN INSTITUTION OF HIGHER EDUCATION

2.1 Manifold concepts are indicated to be the important objectives behind the keeping of financial accounts. Relevant, amongst the important objectives are as mentioned as:

(a) Financial Accounts and records as a tool in decision making: Financial accounts and records are maintained as they are necessary, as an important, basic tool in the decision making. Financial records are necessary because the college or the institution of higher education, not only wants to operate within the limits and boundaries set up by the financial capabilities of the institution but also wants to optimise output through proper utilisation of its financial resources. It is for this purpose that the management also wants to do meaningful comparison with reference to two points of time in the life of the same institution as well as inter institutional comparison at the same point of time. It is for this purpose that the financial data emerging out of account records, that is needed, and therefore, the keeping of financial accounts and records.

(b) Financial Accounts and records for satisfying statutory legal requirements: The second important reason for maintaining accounts is to satisfy legal and statutory requirements as communicated by the University, University Grants Commission, the State and Union Education Ministry as well as Registrar of Societies and the Charity Commission.

(c) Financial Accounts and records for receiving government financial support in the form of grant in aid: The third important and perhaps the most decisive reason is that financial

data and records are to be created and maintained as they are needed for submitting to the government for obtaining financial support in the form of grant-in-aid, and finally,

(d) Institutional financial data may be said to be needed for developing educational research as well as for initiating and helping educational planning functions.

2.2 Although, all the above said objectives do influence the emergence of a particular pattern of financial account keeping yet, emergence of an existing system of accounts seems to be mainly a result of two types of pressures -

(a) Pressures (Business) Commercial Accounting System forcing the college and the institution of higher education to adopt and operate commercial and business financial accounting pattern. This pressure is quite effective. Reasons being that (i) Availability of personnel appointed to handle financial accounting are qualified and experienced only in the commercial financial business practices (ii) Auditors available are exclusively from the (business) commercial, financial field, and as such, they give advice and recommend commercial accounting practices that are known to them. They conceive or ignore the fact that (Business) Accounting practices are not suitable and therefore is appropriate to educational institution. (iii) Even the members of Board of Trustees are drawn from the business and financial world. They tend to insist on the adoption of practices that are known to them and these are merely business accounting practices.

(b) Pressure of government financial support, system and needs

The second important pressure influencing the development of the financial accounting system that is to say is the need to receive support from the government (in the form of grant-in-aid). It is this need that has a decisive influence. In the administration of these government grant, the basis is that of a deficit, calculated on the basis of approved expenditure. In order to ascertain this deficit, government insists the submission of application on a prescribed form. It is for facilitating the submission in this prescribed form that a particular type of system of deficit oriented financial accounting is adopted. It is true that the legal requirements including those pertaining to the statutory objectives namely submitting annual reports to the Registrar of Societies or the Charity Commission, Union and State Education Ministry, University Grants Commission also have their influence on the emergence of a particular system. However, it is very much obvious that important observation is that the requirements in decision making seems to have practically very little or no influence on the emergence of the system. Observations over existing system drives one to the conclusion that utilising accounting system as a management tool in decision making is not the objective of keeping financial accounts and records in our colleges and institutes of higher education that it is the absence of objective results in an absence of an objective financial managerial approach to the issue. It is this fact that is indicative of the reason for an undergrowth in the development of

technique of educational financial accounting. While there is a significant development in the accounting and financial report practices in the commercial and business undertakings and elaborate techniques and devices have been developed; while there has been a marked development in the methods of government accounting, educational institutional accounting system has remained almost static. This is very much evidenced by the fact that while there is a good deal of research information available in the field of commercial and government accounting, there is practically no research work available on educational financial accounting. Another indication of an absence of an objective outlook and the resulting undergrowth of educational accounting system is the fact that while training courses including even college and university courses ~~xx~~ have been developed and available in commercial accounting, some arrangements of training in the field of government accounts also exists, However, there are no such course and training offerings in the educational financial accounting system.

3. EXISTING SYSTEM OF FINANCIAL ACCOUNTING IN THE COLLEGES

3.1 Characteristic features of existing and the operating system of financial accounting and record keeping are as mentioned hereafter:

(a) Conventional Commercial Method: Basically, it is "conventional" system borrowed, drawn from (Business) commercial accounting system, the system being modified to some extent to suit statutory requirements under the Society and Public Trust

Act as well as the government requirement prescribed under the "grant-in-aid code".

(b) College accounts are kept on double entry system of accounting.

(c) College budget: This is prepared on a form that is developed and prescribed by the secretaries of the educational societies. Usually items on the receipt side are (i) tuition fees (ii) library fees (iii) post-graduate fee (iv) hostel rent (v) grants from University Grants Commission, Director of Education and such other bodies if any. On the expenditure side main items are (i) Salaries of the teaching and non-teaching staff (ii) D.A., HRA., CIA. and the personal allowances to the teaching and non-teaching staff (iii) Provident Fund, Pension Fund, Gratuity, Life Insurance Premium as provided in the Service Conditions (iv) Rent rates taxes (v) College scholarship and freeships (vi) Purchase of furniture or new equipment (vii) Building repairs and ordinary repairs (viii) Library (ix) Miscellaneous and other expenses including expenditure on gymkhana, P.T., H.C.C., Magazine as well as expenditure on telephone, college garden, electricity, stationery, printing, postage, conveyance and functions and festivals (x) Capital expenditure. College budget is mainly based on the expected collection of fees and the grant that is likely to be received from the government which (though based on the concept of deficit arising out of approved expenditure) is termed as the "maintenance grant". Other items of receipt are insignificant and therefore in the process of budgeting usually are said to be not taken into consideration.

Revision of Budget: Many a times a need for preparing a revised budget arises. Commonly adopted method is that of firstly consolidating receipt and payment accounts and checking and verifying whether these figures are tallying with the "Cost book" and "Ledger figures". Then these preparation of "revised budget" starts. In the revised budget the above mentioned figures as revealed from ledger and cost book are mentioned in the column of "Actuals". These presented figures of "actuals" are said to be indicating "exact picture" of anticipated "income and expenditure". It is on the basis of these figures that plans for future mobilization or collection of funds are made.

(d) Main books of accounts and the normal procedure:

(I) It is observed that the main books of accounts kept and maintained are (i) cost book (ii) daily collection book (this is distinct from cost book) (iii) Fee register (iv) Miscellaneous receipt book (v) Ledger (vi) M.O. Book Register (vii) Salary pay register (viii) voucher file (ix) Cheque Book Register and finally, (x) Dues Book.

(II) Procedure and practice of Accounting: Care is taken to the maintain records pertaining to cash receipts. Commonly observed procedure is that the cashier who receives cash, issues from the receipt book, a receipt to payee. (These receipt books are printed, each receipt having a serial number. Receipt book is taken to be an important document, and as such is kept under lock and key by the cashier). (i) Cashier then enters the details of the receipts in the Daily Collection Book (which is printed, bound book, each sheet being numbered).

(iii) Then detailed entries are made in the cash book. (Till this is done, daily work of the cashier is not said to be over). (iv) On the payment side, relevant details are mentioned. (v) There is the checking and verification of each entry. Entries to the receipt side are checked through their verification with the entries in the supporting books like receipt book, daily collection book, money orders, etc. Entries to the payment side are verified with the help of the scrutiny of vouchers. In the event of money being deposited in the Bank, Bank Chalan Book is also checked. (vi) It is customary to maintain a separate "exercise book" giving details regarding currency notes, their denomination, etc. Entries in this are checked and the cash is to tally with the figures in the cash book. This exercise book is then signed by the accounts clerk. This is done daily. Once in a week, Office Superintendent or the Senior Clerk and Vice-Principal check these entries. On Saturday when cash transactions are closed, posting in the ledger books is done (work of voucher posting is done daily).

(III) At about 10th day in the month, bank reconciliation statement is prepared on the basis of entries in the ledger account at the end of the month, trial balance and Receipt and Payment account is prepared. It is checked that the entries in trial balance and the cash book are tallying.

(IV) 31st March is the closing date of financial accounts. Accounts are checked; particularly the closing cash balance,. Checking is usually done by the Accounts Clerk, the Office Superintendent and one of the Vice Principals. In due course,

with all the detailed lists of income expenditure statement and balance sheets are prepared. These two statements give a complete picture of the turn over of the year.

(V) In the month of June, it is with the help of the above said two statements that the "grant-in-aid statement" is prepared. Along with the rest of the accounts, this statement is then audited by the Auditor who, after being satisfied, puts his signature on the statements. It is normally in the month of June that this grant-in-aid statement is submitted to the Director of Education, Maharashtra Government.

3.2 Modification and adaptation of the system:

Having stated broadly, (a) the usual system of budgeting and its revision (b) different types of books kept and maintained and (c) the procedure and time schedule usually adopted in the colleges, it is now necessary to examine the modification of the above said aspects as is done to satisfy government requirement.

3.3 Government (Administrative) System of Accounting and Adaptation: requirements of the State Government: Modification in the financial accounting system for receiving in grant-in-aid:

(A) These requirements are incorporated in the "Grant-in-Aid Code (for educational institutions and the subsequent modification). As explained in the code, financing of higher education involves a consideration of resources and expenditure. Resources are said to be of two types, namely, the human resources and material resources. Human resources consists of skilled man power and qualified personnel, needed for instruction, supervision, direction and administration. Physical

resources are said to be of two types material resources and capital resources. While material resources refer to the building class room equipment, furniture, laboratories, play grounds, text books and teaching aids, capital resources are the "finances". According to the government accounting procedure, money received from the capital resources is called "receipt" opposed to "expenditure" which refers to a financial charge incurred in organising education. Receipts refer to the cash received or made available to the college or an institution of higher education and includes grants allotments, fees, donations, cash value of the property received etc. It is customary in government accounting procedure to differentiate between "receipts" and "revenue". Receipts do not include cash received from borrowed money or from the sales proceeds of property etc. because it does not constitute current revenue.

(B) According to the government accounting practice the sources of revenue for an educational institution are (i) government grants, (ii) allotment of local bodies, (iii) tuition and other fees, (iv) income from college funds and endowments, (v) gifts and bequests from private persons and organisations, (vi) proceeds from rent and college property. These sources have been classified as (a) public (including government funds, local body funds and district board funds) received in the form of grant-in-aid and (b) private funds (including fees, endowment and other sources. Another classification of revenue is in the form of (a) recurring receipts, direct current receipts (which includes government grants, from centre, state

or local authorities, fees, subscriptions, donations, endowment income, other incomes and any charges collected for specific services) and (b) Non-recurring indirect, capital receipts (including building grants, equipment grants, receipts on accounts of scholarship, prizes and fellowships, loans and subscriptions and contributions towards non-recurring items like building equipment or other specified purpose).

(C) In the government accounting terminology, expenditure refers to a financial charge incurred by or on behalf of the educational institutions, for goods and services. Ordinarily it refers to the charges of the current year. It does not include payments made for the services of previous year or advance payments made for the services of ~~previous year~~ to be rendered in future.

(D) Expenditures have been classified broadly under three divisions: (a) Current and recurring expenditure - referring to the payments made for the purpose of administration or general control operation and maintenance of college plant, teaching and instructions, including the salaries to teachers and other staff, library, laboratory, other supplies for availing service during the current year. (b) Capital outlay or expenditure which is made for acquiring fixed assets or additions to fixed assets like the college site and campus, play ground, building equipment. These expenditures may be directly related to the operations of the college plant or indirectly as facilities in the form of hostel, canteen, cooperative books store. This is also called as non-recurring expenditure. Thirdly, (c) expenditure may refer to debt

charges, i.e. payment on interests or loans or repayment of principal amount of loan. If the loan is repaid in the same financial year in which it is borrowed, the expenditure is termed as current or recurring.

In addition to this broad classification, expenditure is also usually classified into direct and indirect expenditure. Expenses that are incurred directly for the running of the educational institution and which can be identified on specific activities, such as, salary allowance (including allowances, contribution to provident funds, pension, gratuity funds, insurance premium etc.) Library, laboratory, (but excluding gymkhana, hostel and other residential quarters) building repairs and depreciation (on college building including library and laboratory but excluding hostel, gymkhana and residential quarters) contribution to maintenance and repair funds where not such fund is maintained for depreciation and maintenance is maintained, rent for principals and managerial staff, college library, ordinary repairs to college furnitures and road, current laboratory expenses and miscellaneous expenses (including college garden, water pumping plant, lighting, telephone, printing, stationery, postage, college contribution to gymkhana, etc.)

Expenses on items which cannot be easily and accurately identified with specific activities, their nature being such that they cannot be apportioned amongst different types, items or institutions are termed as indirect expenses. Usually expenditure on direction, inspection, non-recurring expenditure

on building equipment, furniture etc., scholarship, hostels and other miscellaneous items which include special grant to minor activities are termed as indirect expenditure. According to the rules and regulations of Directorate of Higher Education, Maharashtra Government, equipment including replacement of existing furniture, office equipment, apparatus as well as the purchase of new furniture, office equipment or apparatus (b) Capital expenditure including construction and extension of building, special repairs, electrification, (c) Scholarships and prizes (d) Fellowships (e) Repayment of loans and other contributions including administrative charges paid to the Society for conducting college and extra curricular activities including social events, tours etc. are included.

(D) One significant aspect about the government accounting procedure is its reference and its limitation to a given financial year. In its accounting procedure government has, by law fixed an accounting period and that is called financial fiscal period. It is important to note that governments financial or fiscal period does neither coincide with the calendar year not with the academic year. While the governments fiscal year extends from 1st April of an year to 31st March of the next year, 'calendar year' is from 1st January to 31st December and the academic year is from June or July to June. It is expected that financial accounts should be closed by the end of the financial year, i.e. completion of transactions of cash receipts and expenditure be made in a particular financial year. In order to get some idea of the current position of educational receipts and expenditure, provisional figures are

given which in reality are mere approximations. These approximations are said to be subject to an adjustment and revision at a later stage.

(E) It requires no specific logic to mention that these government accounting requirements as mentioned in the government "Account Manuals" as the specific requirement of the grant-in-aid code as applied to educational institutions, have their direct impact on the system of account keeping in the college. Colleges cannot do without grants and grants cannot be received until and unless a college becomes qualified to receive the same. Essential pre-requisite is that the college must have a current deficit and that the government must be convinced that as per its regulation there is a deficit between total current receipts and the "approved expenditure". Usual method of convincing the government is through a written communication - an application submitted according to the prescribed form. For submitting financial information in the shape of a prescribed form, the college is required to maintain its financial records and accounts in the same form and that now the pressure of government grant-in-aid code accounting requirements operates and the existing pure double entry commercial system of accountancy stands modified.

3.4 Another modification factor: Statutory requirements:

In addition to these modifications and adaptations emerging out of the government grant-in-aid code requirements there is another factor that influences the system. This factor is the statutory requirement emerging out of the operations of the Acts, rules and Regulations under the Act of Society's Registration and Public Trust Acts.

3.5 Statutory requirements under Society's Registered and Public Trust Acts:

Most of the privately aided colleges are established as registered institutions under both Indian Societys Registration Act 1960 and Bombay Public Trust Act 1951 - as modified in January 1969. As such especially when the society runs only one college, it is obligatory for the registered institutions to submit periodically their "Income and Expenditure" and "Funds and Liability and Property and Asset Statement". Naturally for satisfying this requirement, college accounts are to be so condensed as can be conveniently presented in this prescribed form. The necessary modification of the system and adjustments are to be done. It is under this situation that, two periodical statements namely "Income and Expenditure Statement" and "Fund and Liability and Property and Asset Statement" are to be periodically submitted. In the income and expenditure statements, incomes in the form of rent, interest, dividends, donation grants or incomes from any other sources are to be mentioned. On the expenditure side, expenditure in respect of properties - (rent taxes cesses, repairs and maintenance, insurance depreciation, establishment expenses, remuneration to the trustees, legal expenses, audit fees, contributions and fees, amounts written off by way of bad debts, miscellaneous expenses etc.) are to be shown. In the "Property, Fund" or "Asset and Liability Statement" details regarding the trust funds its corpus, previous years balances, earmarked funds created under the trust deed including depreciation, sinking reserve or any other fund - loans (secured

or unsecured from trustees or others) liabilities for expenses, advances, rents and other deposits - sundry credit balances are to be mentioned. In the property or asset side of this return, details regarding immovable property, investments, furniture and fixtures, loans and advances, invoices outstanding and cash balances are to be mentioned.

3.6 Complex combination of three systems and its consequences: Existing systems failure to operate as a Management Tool:

Obviously the natural consequence of all the above indicated pressures operating is that we have a combination of a tripple system of financial accounts keeping in our colleges. The first type of the system is based on the commercial accounting practices, the second is the deficit oriented system of accounts based and developed for meeting government requirements. Being differently oriented all these systems are internally inconsistant. There is a lack of uniformity in practices and a lot of duplication. Main ends of these systems are distinct and different and even at times conflicting. Outcome of all these systems are not comparable and as observed, even at time inconsistant. Compilation of financial data pertaining to the college becomes a matter of doubtful significance. Figures in distinct reports do not tally. Valid comparison between two institutions becomes difficult. Totals reported at district or regional levels become broad approximation rather than accurate figures. It must be mentioned with all emphasis that the existing system of financial accounting and the existing system of financial reports and results can neither serve any management decision.

4. DEFICIENCIES OF THE EXISTING SYSTEM: PRESSING NEED OF IMPROVEMENT AND EVOLVING SUITABLE SYSTEM

4.1 Main deficiencies and weakness of the existing system:

An objective evaluation of existing system brings us to a clear conclusion that (a) Existing system emerges out of manifold complex and conflicting objectives. The result is that there are (b) the duplication (c) Absence of a high degree of internal consistency (d) Low degree of comparability and reliability (e) inability of the system to operate as management administrative control coordination tool and (f) mobility of the system to initiate and assert (educational) financial planning.

4.2 Objective need based approach:

After all any system of (educational) financial accounting is not evolved or operated merely to serve either statutory or government (financial) support requirements. The system is also to serve as an important tool in the managerial financial decision making process in the college. The system is also to provide a real practical basis in (Educational) financial planning at the macro local district and regional basis and is to adjust and operate as an important effective tool of planning controlling coordinating educational planning and evolving educational performance.

4.3 Need to evolve suitable systems:

Having stated the differences and weaknesses of the existing operating system and basic objectives that the financial system is to serve as a tool in institutional management and basis of planning the need for modifying and adopting the system to changing requirements becomes quite obvious. The

only point that requires emphasis is that earlier the system is modified and adopted the better it would. Pressing need for immediate action become obvious when the fact that till such improvement and adaptation takes place meaningful progress either in the development of administrative efficiency or in (educational) financial planning is not possible is appropriately appreciated.

5. STAGES AND STEPS IN THE PROCESS OF IMPROVEMENT AND ADAPTATION OF THE SYSTEM OF FINANCIAL ACCOUNTING

5.1 Various stages and steps

Having done (a) a survey and constructive objective evaluation of existing accounting system (what is needed for developing right type of realistic approach, subsequent steps in evolving a suitable system are (b) Development of a standard method of income expenditure classification (c) standardizing the methods of accounting practices and (d) provision of Advisory Services.

5.2 First Step: Standardization of income and expenditure classification

First step in developing standard methods of income expenditure classification and standardizing accountancy methods and practices and through it developing a suitable system of financial is to appreciate fully the fundamental distinction that exists between the foundation and nature of commercial accounting and educational accounting. In this respect, following seems to be important point of distinction.

5.3 Fundamental difference in the nature and foundation of College (Higher Educational Institution) and Commercial Accounting

It is important to note the basic difference in the foundation of educational and commercial accounting.

(a) Nature and aims of the Educational Institutions:

(1) College, as a service motivated standing institution.

It is not a profit motivated surplus building institution. College is a spending institution and not, at least in pure theory, a money making institution. Ideology of modern economic system is so much geared up to profit making that non profit-making, service institutions are not readily even understood. A commercial enterprise is to make profit and pay dividends to those who have risked their savings, through their contribution to the capital. Accounting system of such an institution is to be so shaped as would provide for the emergence of profits either from productive or distribution or exchange operations. In a marked contrast to this, college has no objective of profit. It is a spending institution which is to produce, not profit, but service.*

* The terms like profit or loss therefore appear to be entirely inappropriate in the process of financial reporting of an educational enterprise. In Educational Institutions, financial reporting, the emphasis is to be lead on operating statement showing the amount of income and its sources and the purpose of expenditure rather than on balance sheet use its emphasis on statement of Assets and Liabilities (that are so important in ordinary commercial undertaking).

(b) Financial aims of the Educational Institution:

Financial aim of the college is to spend all incomes obtained from educational services that it seeks to render to the community. Of course, no doubt, that deficits are embarrassing and they are embarrassing even to the educational institutions, but surplus in funds, (which are quite infrequent, in practice) are also embarrassing. These surpluses mean that less service has been rendered to the community than the institution is in a position to provide, particularly service which the students were entitled to receive. Financial aim of an educational institution is therefore "to approximate as nearly as possible, an even balance, between income and expenditure." Such an aim is absolutely incompatible with any commercial enterprise.

In order to achieve the objective of approximating an even balance between income and expenditure, it is necessary for the college or any other higher educational institution, (on the basis of a carefully prepared budget) to be within the limits. The entire accounting system, therefore, is to be organised mainly on the basis of and in terms of "control of budget". This is necessary for limiting the expenditure strictly to the estimated available income. Commercial business organisations are not under this strict necessity of controlling expenditure within fixed limits and hence the accounting system in commercial concerns is not set up to achieve such a purpose.

There is, however, an exception to the general statement. This exception emerges out of specific area in college

administration, namely the area the operation of "auxiliary activities". These activities are similar in nature to the commercial enterprises. Usual philosophy on which such services as "book-store", hostels and residential halls, and the dining rooms are operated is that those who benefit from running these services would pay the entire cost. Obviously the operational objective being different, the accounting system adopted for these auxiliary services may be different.

The conclusion is that the accounting system of the college and that of the institutions of higher education is to be set up and operated in such a manner, as would take adequate care of the needs of both, the educational programme as well as auxiliary activities.

(c) Asset accumulation and the structure of Assets:

The third important point is that the institution of higher education is fundamentally not "an asset accumulating agency." Success of commercial enterprise is judged by its ability to pay dividend as well as by the way in which it increases its net assets. Increase in the net asset of a commercial concern reflects the growth in the value of original investment of the share holders. Capital appreciation is an important test of efficiency in management. In a sharp contrast with this, the success of an educational institution is tested not so much by the extent to which it has accumulated assets but by the way it has, for educationally desirable purposes and services, spent its current assets. Renowned great colleges of our state have achieved their success and the name, not because they have

large accumulated assets, but rather because over a period of years they have rendered to the society unestimable educational service. It is the spending of money in the past on the academic, teaching staff salary, administrative services, library facilities, laboratory supplies and equipment and spending for availing all the necessary paraphernalia of academic organization that has given to the great higher educational institutions their importance in modern times. That there has been in the most of these excellent institutions also an accumulation of capital asset is ~~an~~ more or less a coincidence. Assets themselves, have only this much significance in the educational institution, that they make possible the educational service. It would be interesting to note that the large share of assets in the educational institution is typically fixed in form, and the market value of these assets is very much uncertain.

(d) Attitude towards accumulation of capital and the significance of balance sheet and income expenditure statements

This important difference in the attitude towards accumulation of capital between educational and commercial enterprises is of utmost significance in the financial accounting and reporting. In commercial undertakings "Balance Sheet" is an extremely significant document. It tells to the shareholders, ascertainable value of investment in the concern. It also reveals to the creditors chances of recovery. On the contrary the balance sheet of a college tells little or really nothing about the services (which are the main objectives) rendered or even the capacity for rendering services. Capacity for repaying indebtedness also cannot be judged accurately by a financial

analysis of fixed assets. "Financially speaking modern large endowed university or an institution of higher education is an aggregate of funds devolved to a variety of purposes. A balance sheet for such an institution does not and probably cannot show its "worth", Certainly not in the sense it is presumed to do so in commercial enterprises. At the best it simply serves as a device of showing several types of funds held in the form in which they are accounted for."* It is thus obvious that rendering services is the primary object of the college as profit is the goal of commercial enterprises. In that sense, in an educational institution, the operating statement showing the record of income and expenditure is a much more significant document than the balance sheet. It is by studying the flow of income and expenditure that some conception of the Educational Services rendered, can be obtained.

(e) Consideration and Treatment of Inventories:

In another important detail, the demands of commercial and educational enterprise are different. For accurately estimating projects as well as for determining exact ^{net} worth of assets, careful analysis of inventories is absolutely necessary and essential in a commercial undertaking. It is because of this reason that the commercial concerns spent large sums and business time in taking and keeping accurate and detailed inventories of supplies and equipment ~~max~~ used for the

* N.C.Plimpton Report - Report of Comptroller, 1935 - 36, University of Chicago. Reprint from Presidents Report).

educational purposes are of relatively little significant. No doubt, inventories are desirable as a check on management especially as an aid for controlling purchases as well as in facilitating economic assignment of equipment to the department. As such it is, therefore, desirable that some record of the items of relatively permanent property are maintained. However, the observed fact is that most well managed colleges and even universities, find it entirely unnecessary to keep inventories with these details or precision as is demanded in commercial office.

(f) Method of acquiring Capital and the Resulting Liabilities towards those who contribute to it:

College or an institution acquires capital in a manner entirely unlike that of a commercial enterprise. The result of this difference in the manner of getting or acquiring capital, is the difference in the accountability of capital in two different organization. Commercial enterprise obtains its capital from those who expect a return. This expectation includes not only the return of original investment at some time but also some annual income or dividend thereon. There is also the expectancy of actual accretion of the original capital. Educational institution on the other hand gets its capital by donations, ~~fig~~ gifts, etc. The donors have no such expectancy of any financial return.

(g) Reflection of Liabilities and of present value of assets and their use in financial accounts:

In commercial enterprise, accounts must accurately reflect the present value of the total assets. In the educational

concern, importance is not so much attached to the present market value of the asset as to the record of 'Use' to which they are being put and the services that is being derived from them. Thus the "liability side of the balance sheet of a college or an institution of higher education is thus entirely a different affair from the schedule of liabilities of a commercial concern."

Proprietorship of a business enterprise visions and views the ultimate return to the capital to those who supplied it. Liabilities of the educational institutions record and report the obligations to use the fund in the manner prescribed by the donor.* It is also to be remembered that the college or the institution of higher education is simultaneously in a position of a "trustee", "owner", and "operator", a situation that cannot be found, in the case of commercial enterprise. This is bound to have a marked effect on the accounting practices.

* Exception to the above stated statements are:

(a) Some educational institutions are of a propriety type and they are more of the nature of a commercial concern rather than an educational one.

(b) Some institutions have borrowed funds which temporarily provide the operating capital, the borrowing being typically in anticipation of later gifts or incomes from which it is expected that the loan would be repaid.

(c) Many institutions obtain capital funds on an annuity basis. In such case, the expecting of return to the donor is a temporary affair which has been dealt with. Here also the amount of return expected is always far below which could have been realised from commercial transactions of similar type).

The only requirement is that gift or the donation be used for the production of educational service.

(h) Exemption from taxation:

On its corporate income, an educational institution is usually not expected to pay taxes. Whereas commercial organizations have this obligations, the accounting practice in these organisation is to be so arranged as to reflect readily the figures of amounts of taxable income. To safeguard the interest of the share-holders it is important that the accounts of enterprise be so set up as to reflect a taxable income on only those items that are classified in the tax law. Accounting of income is to be modified in terms of tax situation. On the other hand, educational institution is without any such obligation for an income tax return. It is therefore free to set up its accounting for income classification that would be most useful administratively.

5.10 These fundamental distinctions have been elaborated because of the frequency with which these differences are overlooked or neglected in developing and administering the accounting practices of the college or the institution of higher education.

On the basis of these points of differences in the commercial and educational financial accounting systems, it is necessary now to comprehend the essential requisites of a satisfactory system of accounts for educational institution.

6. FEATURES SATISFACTORY SYSTEM OF FINANCIAL ACCOUNTING FOR AN EDUCATIONAL INSTITUTE

6.1 Characteristics of a satisfactory system of accountings:

Here the first consideration is the fact that the suitability of a system is directly related to the purpose or the objectives behind the keeping of accounts and records. It is therefore necessary to consider the purpose and objects that lie behind keeping of accounts and accumulating data.

6.2 Objectives of Financial Accounts and Records in the Educational Institutions:

In a functionally oriented system of financial accounts and record keeping in the educational institution records are to be kept so that they serve as -

- (a) An aid to decision making (with respect to the conduct of the educational institutions affairs within the limits or boundaries financial capabilities of the institutions).
- (b) Records and reports also are to be kept to fulfill legal requirements.
- (c) The college or the higher educational institution called upon to furnish data to the government for receiving the financial support in the form of grant-in-aid and, therefore, financial accounts and records are kept for submitting to the Government for acquiring a grant sanction. And finally,
- (d) Financial records are also to be kept so that they may serve as a basis of (educational) financial planning.

6.3 Essential Requisites of a suitable Accounting Systems

Keeping in view the above stated purposes of keeping accounts and financial records, it may be mentioned that there are following main characteristics of a satisfactory system of educational accounts, namely:

- (a) The system of account keeping must safeguard the funds of the institution.
- (b) The system must be capable of providing of yielding all the information that is needed for the administrative control of finance.
- (c) It must be as simple as possible.
- (d) It must serve as an objective basis of receiving government support in the form of grant-in-aid and finally,
- (e) System must be capable of serving as a basis to educational financial planning.

It may be said that these characteristics are common and generally applicable to the accounting system of any type of enterprise and there is nothing significant in the application of these characteristics in the system of accounting of an educational institution. However, it is not so. It is therefore, necessary to examine in more details the application of above stated characteristics.

(a) Safeguarding of funds:

Adequate control of funds require that the accounting system be so organised as to ensure that automatically all incomes and additions to the assets are made automatically part of the records and that all the available funds are expended or otherwise handled in a manner, consistent with the

purpose for which and the conditions under which they have been received. Control of assets is to be assured to make certain that they are preserved against unauthorised encroachment and they produce maximum educational service.

The safeguarding of funds means four things:

- (i) It means that the accounting system is in a position to provide such an organisation of the system of accounts as ensures automatic recording all incomes and additions to assets.
- (ii) Handling and utilisation of funds is in a manner consistent with the purpose for which they are received.
- (iii) Control of asset and their safeguarding against unauthorised handling.
- (iv) Ensuring that the system leads to the maximisation of educational service and output, and
- (v) finally for protecting the name and fame of the personnel in the finance section handling money that is not belonging to them, ensuring that the records are completely clean and that they give full and complete details regarding all financial transactions.

(b) Provision of information needed for educational administration:

System of accounts being organised on the commercial basis by experts in the commercial accounts is really not organised to meet needs of educational administration. Number of principals and heads of institutions seem to have little idea as to how financial information can be used for educational administration purposes. Thus arises the need is that accounts are to be so arranged as to meet this requisite that

they provide adequate information needed for administration. (a) Thus for example, the classification of income and expenditure, and assets and liabilities is be such as to have meaning and implication for educational programming. (b) It is necessary here to separate educational and non-educational items in the accounting of the college (c) An element of cost accounting is to be brought in for developing efficiency and effectiveness of educational administration. This is to be done through a process of or on the basis of identifying areas of educational activities and by visually costing basis of operation.¹

(c) Simplicity:

Many a times an elaborate system leads to confusion and administrative delay in the provision of information needed for administration and hence this requisite. It means that the system should be open for ready and immediate audit which is very much useful in the preparation of budget. In many colleges this requisite is violated. Accounts records that are kept have no specific objective and hence significance. Time and money

1 Need of classification of items for educational administration has been emphasised by the National Committee on the preparation of a manual for the College and University business administrations and the standard report for institutions of higher education, National Committee Report 1952. Pages 16-20 and 39 and 42. U.S. College and University Administration is greatly indebted to the system so developed).

is wasted in providing information that is not used at all.¹

However, simplicity does not mean that the accounting can be made as simple as that one operating in the small business house of the self employed. College authorities certainly must have all the information needed for normal administrative purposes as well as for developing administrative efficiency. It is necessary always to test the value of every detail partly by the uses made of that information. Those procedures which do not yield important information and those are not necessary for the effective operations of the accounting system should really be eliminated.

(d) The system of account should be such as would be in a position to produce and provide to the government readily, all information that is needed in the administration of the governments support policy operated through^a system of grant-in-aid.

(e) Quite a lot of financial information is needed in the process of objective planning of the development of higher educational facilities at the local district regional and the state level. Financial accounting system of the college is to satisfy this requirement as well.

¹ In many colleges there is a policy of collecting students fees in cash on a registration day, carrying a ledger and with every student entering amounts of his fees and crediting the payment. In another college that pays all the bills promptly carry an account payable ledger in which every bill is duly entered and immediately cancelled by duly entered and immediately cancelled by payment. In many small colleges, detailed accounting systems are adopted requiring unnecessary entries).

Having so far considered that the main requisites of satisfactory system of accounts are (a) Suitability of the system to the main purpose of educational institutions (b) Capacity of the system to safeguard funds (c) The capacity of the system to operate as an aid to decision making (d) Capacity of the system to provide adequate information for financial control (e) The simplicity of the system and finally, (f) Its adaptability to the government requirements in her administration of grant-in-aid policy, it is now necessary to examine the "basis of accounting procedure".

7. BASIS OF ACCOUNTING PROCEDURE

7.1 A question of fundamental importance is basis on which the accounting system of the college is to be founded.

7.2 There are two extreme types of approaches namely (a) Cash bases and Approach (b) the actual basis approach.

7.3 The necessity of difference and basis in the two plans arise out of the facts that at certain date many transactions are not complete. The issue is whether the annual report is to reflect the conditions as at a certain date.

7.4 In the cash basis of accounts payments (including fee payments for the services) are to be entered as an expenditure of the year in which the payment is made. On the other hand in the accrual basis only that much amount as is used in the fiscal year, is reported as an expenditure for the period.

7.5 The necessity of decision whether to adopt cash or accrual basis arised out of the fact that many transactions are not complete on a particular choosen day as the end of the fiscal period. If the conditions of the college are so simplified and arranged that every transaction would be completed on the day of the closing of the accounts, the result of cash and accrual basis of accounts would be identically the same, and there would arise no necessity to choose in the basis of accounting. However, the fact is that while annual report is expected to reflect the conditions as at a certain day, yet there are many transactions that are not complete on the day.

7.6 Commercial accounting practice adopts accrual basis. However, most of the colleges and universities even in the advanced countries do not use accrual basis but a system that approximates cash basis in their system of account.

* On 30th June many bills might be in the process of payment. Goods might have been received but there might not have been adequate time to verify them with the invoices, there might be certain security investment interest payment on debts, there might be certain prepayment for services representing at the end of the year, certain assets in the form of prepayment assets.

** For example, dividend to share are paid on the basis of records on that day. Inventories of unpaid bills for goods and services, all items accruing during the year reflect in the year's accounts

7.7 While the most of the colleges adopt a system that approximate cash basis in their accounting system, actual practice used, is a modification leaning towards conservatism. Tendency in practice seems to be not to accrue unrealised earned incomes but accrue all the unpaid expenses and prepayments made for future services. These accrued items are usually set up as liabilities and assets in the current fund sections of balance sheet. Day-to-day accounting is always on "cash basis" but the reports at the end of the fiscal period may be recognized to be adjusted to entertain accruals.

7.8 Several reasons are furnished for using cash as a basis:

(a) Like commercial concern the college is not faced with the problem of distributing profits or dividends to the shareholders and therefore, there is no compelling reason for figuring precisely the outcome of the financial operations of a single year.

(b) Accrual system requires an elaborate system of book keeping that is relatively expensive to operate particularly if accruals are daily or monthly and if accurate results and records are needed at frequent intervals. Cash basis permits a simpler system and therefore less expensive.

(c) Because of the fixed nature of fiscal cycle in the college, accrual at the end of the fiscal year is expected to be approximately the same as those at the end of the year. This being the case the net result of the years operation (whether studied on cash or accrual basis) are about the same as those

at the end of the next year in as much as the net balance of accrued debt and credits added (or subtracted) would be the same at the end of the year as the net balance subtracted (or added) at the beginning of the period.

7.9 Failure to adhere strictly to either the cash or accrual basis or to follow any strict plan regarding the items that are to be accrued, make it possible for administration of finance in the college to gingle the financial out come of the year, especially in respect of surplus or deficits. In order to avoid temptation of this type it is advisable for the Board of Trustees to adopt strict rules setting forth the basis on which accounts are to be kept and reports are to be made. If the basis is the modification of either strict cash or strict accrual basis, the regulation should state explicitly to which deposition must be made in the report of every kind of transaction that is complete at the end of the fiscal year.

7.10 Having said/discussed so far the basis of financial accounting, it is now necessary to examine and develop operational core of the system.

* National committee on the standard reports for the institution of higher education gives her approval to a plan which accounts for income are to be kept on the cash basis but adopts accrual basis in accounting for expenditure.

National committee prepares a manual recommending the keeping of accounts on the modified accrual basis.

8. FUND ACCOUNTING

8.1 Operational core of educational finance accounting:

Generally the sound principle and the accepted practice of financial accounting for the college or any institution of higher education is to disintegrate for financial accounting purpose, its financial structure into several distinctly identifiable areas. Each identifiable area is to have its own assets and obligations, incomes and expenses and the net worth structure. These various identified areas flow into the total structure each area maintaining its separate prospect of management control and decision making. It is this system, principle and practice that is usually designated as "Fund Accounting System."

8.2 Though commonly used the term fund seems to be somewhat loosely used to mean (a) sub-division of worldly wealth in the form of cash or other assets (e.g. I have a fund to buy a house) that are owned or (b) it means as a net worth or (c) proprietorship or an obligation to use certain sum of money. In this sense the term is used to cover not only assets but even the liability concept of a fund, especially in case in which the liability an obligation for use and employment of assets (e.g. Scholarship fund) representing not only an asset of a fund but also an obligation to the donor in whose name the fund is memorised.

* However, the National Committee on Standard Reports for the institution of higher education has strongly recommended the use of the word "Fund" for assets only.

It seems to be desirable to define for educational accounting purposes "fund," as "sum of money or other resources set aside for specific purposes of carrying on specific activities or attaining certain objectives in accordance with the special regulation, restrictions or limitations.

Fund grouping may be applied to an aggregate of accounts. The further suggestion is that the term proprietorship of the fund could be appropriate for references to that part of the liability which represents an obligation to the donor.

8.3 Necessity of Fund Accounting

Basically every institution of higher education has got gifts or incomes which are to be spent for some specific purpose or used in some defined, restricted manner. It is for carrying out these restrictions strictly that fund accounting system is necessary. The necessity of fund grouping within the accounting system applies to both public and private institutions. Many a time, legislation, while making appropriation to the publicly controlled institutions frequently plan restrictions on the use of funds specifying thereby certain amounts are available for new buildings, certain for current general purposes or certain for paying stipends to Economically Backward students or even certain amount for certain specific projects. In the private institutions there are many cases in which groups of assets or items of income are limited as to the use especially, because of the stipulations made by the optional donors. Both privately

* For further elaboration of this definition, the Report of the National Committee on preparation of Manual on College and University Administration, pp. 139-40 may be seen.

and publicly controlled institutions usually have incomes from hostels or residential halls, dining rooms or Mess, book or cooperative store. These incomes or revenues are expected to be solely devoted to the operations of these activities. For carrying on properly obligations arising out of such restrictions on the use of assets and incomes, it is necessary for the institution to adopt fund system of accounting.

8.4 Operational Analysis of the Fund Accounting System:

As mentioned earlier, "fund accounting system is a system of identifying distinct areas of financial operations sorting and segregating financial transactions and grouping such transactions under a specific meaningful objective head."

"Fund system of accounting is a system of segregating transactions and grouping them on the basis of specific use or restrictions and through such system of segregation grouping controlling the transactions."

(A) Identification of distinct transactions and their segregation: Multi-Institutional structures of college or the Institution of Higher Education:

The need for segregation of each transaction on the basis of restrictions placed over the use of income or specific nature of use need not be over emphasised. For separation of each transaction under various specified distinct groups is necessary as in dealing with each kind of asset the institution of higher education is to consider itself practically a separate enterprise. Thus carrying our current transactions and dealing with the current funds, the higher educational institution is to act as an "Operating Company". In handling students

loan funds, it is to act as a "Commercial Credit Agency". In managing endowments it is to act as an "Investment Trust". In dealing with the agency funds it is to act as an "Agent or Custodian". In providing educational plant facilities it is to act as a "Landlord or as a real estate concern". Relating to any one of these situations, it is helpful to consider that the higher educational institution has become for the purpose of financial accounting a joint stock company or firm, a commercial credit agency, an investment trust, an agency firm or a custodian or real estate concern, all distinct entities that ^{are} not handling transaction or dealing with the assets of other the entities. Accounting procedure must segregate the transactions in each fund group, just as rigorously as is usually done in the process management of distinct separate entities.

(B) Grouping of Transactions under Fund Groups

The next question that arises is regarding the grouping of transaction under certain fund groups.

A college or university may display some individuality in minor matter and there may be ^{have} distinct types of transactions requiring distinct type of grouping. However, by and large the nature of the transactions being more or less uniform, the same pattern of grouping can be adopted. It is possible that

* One of the significant achievement on the National Committee on standard reports has been the determination of ~~is~~ the main outline for fund grouping that is to be used in all institutions of higher education.

certain institutions might not be possessing funds of a particular classification. As such, that group of fund may be dropped in that institution. On this basis, five major groups of funds can be suggested:

- (a) Current Funds
- (b) Students Loan Funds
- (c) Endowment and non-expendable funds
- (d) Plant Funds and
- (e) Agency Fund.

(a) Current Funds: Funds that are expendable for usual operating purpose are current funds. These current funds may be further subdivided into -

- (i) unrestricted funds which may be used for any current purpose or
- (ii) restricted current funds which can be further subdivided according to each type of restriction. Additional internal groups may be
 - (a) general administration including
 - (i) top management policy formulation
 - (ii) chief administration by the principal and vice principals and
 - (iii) office administration,
 - (b) students administration including
 - (i) general administration of students,
 - (ii) administration of students services and welfare and
 - (iii) administration of students activities,

- (c) Academic administration including (i) Institutional administration, (ii) Library (iii) Laboratory, (iv) Botanical garden, museum (v) organised research and (vi) special educational activity,
- (d) Business and financial administration,
- (e) Personnel administration and
- (f) Public relation administration.

There should be an additional and distinctly independent group concerning Auxiliary Activities for such as running hostel and residential halls, food service guest house, books store, a co-operative store, printing press, farm, snack bar cafeteria etc. Although it is observed that in many institutions, the accounts of auxiliary services are grouped under unrestricted current funds, it is, however, desirable to set up distinct accounts for auxiliary activities entirely separate from current accounts. This is particularly desirable because auxiliary enterprises are at least expected to be self financing. In case they have a surplus, that surplus may be devoted to the servicing of indebtedness on self financing projects.

(b) Endowment and other non-expendable funds: Endowment and other non-expendable funds should be the second major classification of funds. This group can be subjected to three further sub-divisions: (i) Endowment (ii) other non-expendable funds, and (iii) Annuity funds. Under the first of these division, there can be further sub-classification in the restricted and unrestricted funds - the latter being sub-classified in accordance with each restriction. Endowed scholarship should also be set up separately under the first

sub-division; Under the second, the funds that are temporarily used to produce income but which the Board of trustees are not ready to commit irrevocably to the endowment, are to be included. Endowed loan funds that are held as invested capital with only the income available for loans to the students should be carried as separate classification under the third group. The third division namely the annuity funds, should be further subdivided in accordance with the designations of use made of these assets at their maturity. In fact, under the classification each annuity contract is a basis for separate accounting grouping. Some institutions receive gifts of capital which is expendable over a period of years - the unexpended capital of such funds should be classified, as a separate category under this major head.

(c) Loan Funds: Students loan funds should be the third major classification in which funds of the revolving type, the capital of which is available for loan purpose is to be included. Funds of endowed type with the only income available for loan, should have a capital set up in the fund grouping with endowment and other non-expendable funds. The amount available for loans should be carried under the loan fund classification.

(d) Plant Funds: Fourth classification relates to the plant funds. These funds relate to all resources used or designated for use in providing permanent physical facilities of the institution. Major sub-classifications of the assets are (a) unexpended fund (b) Fund outlaid for plant facilities.

Under the first division there can be further sub-classifications according to the project for which unexpended funds are used. Categories under the second division relate to particular building or feature of the plant.

(e) Agency Funds: This is the fifth and final fund group classification consisting of resources which the higher educational institution controls and for which it is accountable but which does not own it. Some higher educational institutions operate small depositing system in which students may leave cash and withdraw as and when needed. Many colleges manage funds that belong to other organisations. Research grants, students scholarship, economically backward students stipends etc. are received. All the assets in such fund are yet they are handled by the college and therefore not belonging to the college, these must be accounted for. Possession of such assets of this kind - demand separate fund group - each project or aspect requiring a separate sub-classification.

(C) Self balancing of funds accounts:

Within each fund group the assets and liabilities must be self balancing. In the properly operated fund accounting system, the principle is that each fund must be Self Balancing, just as it were on an entirely separate fund classification. All incomes belonging to the particular fund must be entered into as credits and all expenditures must be charged against it. The difference between the income and expenditure being further available for further use of the type indicated in the fund classification e.g. student loan receipt must be credited

to fund group and outlays occurring out of loan transactions, charged to it. Any deviation from such practice would amount to the misuse of funds e.g. use of these assets belonging to the students aid or loan fund for the payment of teachers ~~xx~~ salaries would certainly violate all the understanding with which funds were originally provided.* It is only by means of fund accounting system than an assurance can be given that the funds are used strictly in accordance with the limitation accepted as binding at the time of assets were received.

(D) Kind of Accounts in Fund Groups:

Within various fund groups, there are normally four kind of accounts. The first two of these are assets and liability accounts. Assets and Liability Accounts show cumulative results of all the operations from the beginning of the system till today i.e. the present Balance Sheets, that are derived from these accounts showing the accumulated results of institutional operations with reference to the fund involved up to a certain date such as the end of the fiscal year.

It is to be stated again that within each group, the fund account, assets and liabilities must be self-balancing. That is to say assets of one fund are not used to balance the liability of another fund group. It is observed with reference to some colleges that they have used the cash belonging to endowment funds for the construction of college building. This

* There are reasons to believe that such a mis-application of funds is a very common phenomenon, ~~which~~ requires an ~~immediate~~ attention and correction. ~~which~~

means that the liabilities of the endowment fund groups are a part balanced by assets belonging to plant fund groups. This must not happen. If at all this happens, then the accounts must clearly reflect this, that being achieved by setting up an asset in the endowment fund asset as "Loan to Plant Fund" by setting up corresponding item in the Plant Fund Liabilities designated as "borrowed from plant funds". Thus each fund group in the accounting system should be self-balancing so that the nature of the inter-fund transactions clearly revealed.

The third and the fourth types of accounts are those dealing with the income and expenditure, these showing the results of operation since the close of the last fiscal period. These types of accounts contrast sharply with the assets and liability accounts which show cumulative effect of all operations since the beginning of the system. From these accounts dealing with the income and expenditure the operating statement can be derived.

The Operation of Current Funds:

In general, the current fund does represent the highest volume of day to day transactions recorded in the administration of the college. Here, most of the volume of expenditure takes place. To the income side are tuition fees and miscellaneous fees paid by the students, endowment income, receipts from donations, gifts, etc. and government appropriation. To the expenditure side, there is to be the payment of salaries including the salaries to teaching and non-teaching staff, payment for the routine maintenance of plant and equipment,

payment for supplies and printing material, utility Service costs etc. will be reflected through this medium.

Current fund income:

Method of income accounting may vary among colleges, but ultimately a pattern is to emerge the main function of the pattern being to record the origin of current fund income. Here again the highest volume for record and book-keeping will be the students account sections. Records demand here some type of a subsidiary recording.

Current Fund Expense:

The expenditure side of the system demands such a design of the record keeping as will supply pertinent information necessary in the administration of the college or the institution of higher education. There may be further requirements of the governmental authority for regulated reporting of expenditure of accountable operating funds. However, any requirement either internal or external has common denomination and therefore the theoretical bases of the system should be identified.

Since in any college or the institution of higher education, the cost of personnel will be the largest single type of expenditure, it is necessary to know something more about these salaries. It is desirable to know what costs are for teaching staff, non-teaching administrators, secretarial staff, maintenance staff etc. Thus, it would be necessary to bring in, additional ingredients within the system. In addition, there could be other types of expenditure that may require segregation so that normal progress may be observed by management.

Included amongst there are the office supplies, laboratory equipment. It means that expenditure will need an orderly classification and as such as the size expands, basic system of expense classification will have to be expanded so that it gives additional information with departmental breakdowns of accounts. Thus on similar lines to income analysis, one begins to observe what has been expended in terms of where it has been actually expended. The detailed accumulation of such an information within the system leads to meaningful periodic reporting to management. One may meaningfully relate expenses to budget projections. Current account funds will normally have certain assets and obligations, associated with it and these are to be appropriately recorded.

Restricted current funds:

Another type of recording is found necessary for recording transactions of current funds that are restricted in nature. This type of item originates in the form of a grant for specific purpose, gift or bequest. However, except in large higher educational institutions, restricted funds are few and small in number.

8.5 Having stated so far the system of grouping of transactions in fund groups and an analysis of the kinds of accounts in the fund groups, it is now necessary to so appreciate important principles of keeping and maintaining accounting records.

9. PRINCIPLES OF KEEPING ACCOUNTING RECORDS

9.1 No attempt is aimed here of presenting details regarding the entire financial accounting system for a college, for institution of higher education or for a university. Attempt is, however, to be made to indicate major principles that should govern the organization of accounting records.

9.2 The first principle is about the importance of maintaining complete files and documents covering financial transactions of all types. These documents provide original authorisation for entries in the permanent records and upon these entries rests the validity of the entire accounting record. Original documents are of various types - transactions relating to cash receipts, issue of acknowledgement to the person paying cash - similarly, payment all must be authenticated.

9.3 The Second important principle is about the adequate set of account books, centring and controlled by the general register. In this, ledgers are brought together, the summarised records of all transactions, records in this ledger being derived from the accounting records usually known as the Books of Original Entry.

9.4 The third principle is that of maintaining a system of internal checks and verifications. It is necessary to make certain that the errors that might have been made in the records shall be caught and corrected, that a falsification of accounts cannot occur without being revealed.

9.5 Exact nature of the system of account keeping would depend on a number of local factors - local conditions and circumstances. However, a broad sample presentation of the system can be said to consist of the following:

9.6 A broad sample graphic presentation can be mentioned as under:

(a) A general ledger records:

- (i) Assets (ii) Obligations or liabilities
- (iii) Funds (iv) Income and (v) Expenditure.

(b) Funds:

(1) Current funds (Broad outline):

- (i) Assets, (ii) Obligations or liabilities
- (iii) Funds (current) (iv) Income (v) Expenditure.

(2) Endowment Funds:

- (i) Assets (ii) Obligations (iii) Funds (Principal)
- (iv) Income (v) Expenditure.

(3) Plant Funds:

- (i) Assets (ii) Obligations or liabilities
- (iii) Funds invested in plants (iv) Unexpended plant funds (v) Income (vi) Expenditure.

(4) Loan Funds:

- (i) Assets (ii) Liabilities or obligations
- (iii) Fund principle (iv) Income (v) Expenditure.

(5) Agency Funds:

- (i) Assets (ii) Liabilities or obligations (iii) Income (iv) Expenses.

This pattern of data will be relevant in the situation from a small higher educational institution to a large one, adopting manual to highly mechanical system of accounts. There may be small variations in institutions.

10. OPERATING FUNDS

10.1 While operating funds, it is to be remembered that the question regarding the deligation of authority regarding decision making in fund operation is important. The authority that is deligated must be clearly d-fined. It is also necessary that at level the persons or bodies to whom the decision making authority delegated by the office should be clearly understood and ascertained before any movement of funds especially between various areas is completed.

10.2 While developing an understanding regarding the operations, it is necessary to understand the operation of current funds, current funds represent the highest and bulkies volume of all day to day transactions for the recording section of the system. It is here that most of the volume ofexpenditure takes place. Therefore, for understanding financial working of the college in its financial administration, understanding if current fund operation is quite significant and therefore necessary.

10.3 It is for developing understanding as well as developing a standard form of procedure of financial account that the subsequent note is hereby presented.

11. DEVELOPMENT OF AN OBJECTIVE FORM FOR ACCOUNT RETURNS
(For Educational Management and Government)

11.1 Appreciation of the present situation the background and the approach:

Colleges and the institutions of higher education have a traditional anxiety over their ability to make ends meet. Their omnipresent problem had been, and is, to maintain a flow of funds from fees, government grants and appropriations, gifts donations endowments, etc., sufficient to meet the increasing operating costs and the cost of institutions or educational plant development. In recent years this anxiety has outgrown all traditional proportions, with the result that the problems have become very much serious and pressing.

11.2 To this source of concern, has been added, in recent times, another one - the ever-increasing rate of enrolment in high education resulting into a serious strain to institutional (Micro) and community (Macro) economic and financial resources of the higher educational institution. In fact the projected size of enrolment is a "real challenge to the imagination of educational administrators." The relative suddenness of growth of the present dimensions, is by itself a crisis which it cannot be expected to come to an end, even in coming 10-15 years. Problem of increasing the total enrolment underscores the problem of maintaining an adequate inflow of funds in future. Quite possibly, some colleges and the institutions of higher education may decide not to enlarge their students ~~enrolment~~ enrolment in proportion to the enrolment growth. But then the obvious result would be that these colleges - who have

so decided will have to face a competition not only in terms of personnel but even in terms of financial flows.

11.3 The next important aspect is the changing socio-economic framework. The changing socio-economic factors make the financial planning and development more complex.

Ensuring that the policies and even curriculum are ahead of times means a frequent even constant revaluation. This means a greater demand on the time and skill of the academic administrator, recruitment retention of an even increasing number of teaching and research personnel; their orientation to new changes, all these aspects not only magnify the administrative but even create budgetary problems. Providing additional facilities in terms of library, laboratory and other aspects in the educational plant all these needs further complicated budgetary problems.

11.4 Against this background and against the fact that with the rest of the world the academic world is also subjected to the spiral of inflation, rising prices, and cost, other aspects is also to be noted. It is a common experience that the major sources relied upon for funds for operating the educational institution and effecting its expansion and development, are declining in yield. They are providing inadequately, in meeting even the current needs. Contrasted with this decline is the universally expressed unwillingness, to permit a deterioration in the quality of higher education or to relax academic standards.

11.5 It is an observed fact that, in most of the cases the colleges usually cannot be self-sufficient. In general, students can neither bear the full cost of instructions, departmental research or other educational activities, nor the cost of physical facilities and their operations and maintenance. Tuitions and fees do not equal costs. Even tuition fees are too great a financial burden for many promising and highly educable young people and it is because of this that funds and scholarships are made available. Hostel and food services and other auxiliary enterprises are expected to pay their own way. Therefore to meet the excess of current expenditure and major costs of creating facilities over the receipts from tuitions and fees, the colleges are obliged to depend on outside support, - income from endowments, gifts, donation, grants etc.

11.6 It is inevitable, under such a situation, that the emphasis on certain sources should be shifted to those sources that have not been contributing generously before but which have the capacity to contribute growingly. The business community or the Alumni (past students) organization might be more willing to contribute for preserving the traditions and integrity of the institution. Business is expressing its recognition that it must rely on the institutions of higher education to provide education and training to their personnel, they need for administration in their enterprise.

11.7 It should be remembered that every business enterprise is compelled by its own self imposed discipline to challenge the wisdom of its programme and plans and justify its expenditures. When business contributes money to an educational institution it naturally expects the institution to do likewise.

Even without any desire to dictate to the colleges as to how to use the money, a business concern, as a donor, will want to be assured that the college knows as to for what end and how it is using the money. The point of emphasis here is that while carefully husbanding and employing financial resources might have been a historical requirement in the past now the requirement is that of justifying the usage of funds. Emphasis on the justification of the usage of funds has been so far less common in education as compared to business. However, this is bound to be in future one of the important points of emphasis in fund raising and financial administration process in the college.

In the presentation of a financial picture to the donor community, especially the new donor, more than mere statement of their resources of income and heads of expenditure is needed. Because of the growing interest, the donors supporting the institution, would like to ensure that in relation to the activities of the institutions, funds are allocated on sound lines and the institution is using the funds wisely. It is for this purpose that a comparative data is needed.

11.8 Then again it is said that one of the requisites of intelligent and effective administration is to use some form of comparison in the income and expenditure in colleges. Such comparative data are valuable to the governing body of life members and the Policy Board as such data provides a measure of appraising the results of efforts to acquire economic resources and utilise them to the optimum advantage level.

Here the major determinant is the 'objective' and its influence on the allocation of funds. It would be correct to say that the objective and the mission of the college is to be the major determinant of how the institution uses the funds. The degree of emphasis an institution places on several activities is determined by educational philosophies, educational offering of standards of excellence in teaching and research teaching techniques - teacher student ratio, interest in the educational and total developmental experience of the student. Such emphasis plays a major part in determining the expenditure for each activity. However, optimum advantage level being the target, it would be desirable to have a comparative data.

11.9 It is for the creation of a comparative data (which as stated above, would be emmensely useful to educational administration as well as donors) that a standard technique in the procedure of accounting and reporting is to be developed. These are humble efforts in this direction.

11.10 The basis of this proposed form is (i) that as an educational business ⁽ⁿ⁾ non-profit unit, (ii) college carries out distinct functions and each function has got a financial implication. The approach adopted therefore is that of identifying distinct functional and financial areas.

11.11 The main identified areas are -

- (a) General Administration that has been further subdivided on a functional basis into (1) Policy Board

represented by the body of life members (2) chief executive represented by the Principal and Vice-Principals, and (3) the office. The second area is

(b) Student Administration. This again is sub-divided into (1) General student administration consisting of admission registration, record keeping testing evaluation transfer etc. (2) The administration of students services and (3) The Administration of students activities. The third fundamental area is the

(c) Academic administration consisting of (1) Administration of Instructions (2) Library (3) Laboratory (4) Botanical garden Museum (5) Organised research and organised educational activities.

(d) Business and financial administration,

(e) Estate and property administration,

(f) Personnel administration,

(g) Administration of Auxiliary enterprises are the remaining important functional areas of financial expenditure.

11.12 It is claimed that the proposed proforma would not only enable a two pointⁿ in time comparison, but even inter-college, intra college^{or} in between various activities functions and departments the comparisons would be possible.

Appendix No. 1
Sheet 1:

1. Current Income Cautions
- 1.1 Government Appropriation
- 1.2 Income from student fees and fines
- 1.3 Income from endowments
- 1.4 Gifts and Donations
- 1.5 Income from organized Activities in relation to Education
- 1.6 Income from Auxiliary Services
- 1.7 Income from other sources
- 1.8 Income from current borrowings
- 1.9 Students scholarships etc.
- 1.10 Funds received and payable
- 1.11 Deficit (if any).

SUMMARY SHEET

Current Expenditure Cautions

E.1 General Administration

- (a) Top Management Policy Board (Trustees, Life Members)
- (b) Chief Administration (Principal, Vice-Principal)
- (c) Office Administration

E.2 Students Administration

- (a) General
- (b) Administration of students services and welfare
- (c) Administration of students activities

E.3 Academic Administration

- (a) Instruction Administration
- (b) Library
- (c) Laboratory
- (d) Botanical garden Museum
- (e) Organized Research
- (f) Special Educational Activity

E.4 Business and Financial Administration

E.5 Estate and Property Administration

E.6 Public Relations Administration

E.7 Personnel Administration

E.8 Administration of Auxiliary Enterprises

E.9 Annuity payments and Loan Repayment

E.10 Contra payment

E.11 Miscellaneous

E.12 Surplus (if any).

PRO-FORMA OF CURRENT INCOME (REVENUE) & EXPENDITURE

Current Income Revenue Cautions

Current Expenditure Cautions

1.1 Government Appropriations

- (A) State Government
- (B) Union Government and University Grants Commission
- (C) District Local Administration
- (D) Municipalities
- (E) Other Sources

Total of Government Appropriations

1.2 Students Fees, Fines, etc.

- (A) Tuition Fees
- (B) Library and Lab. Fees
- (C) Admission/Transfer Fee
- (D) Co and Extra Curricular Students Activities
- (E) Examinations
- (F) Fines
- (G) Miscellaneous

Total of Students Fees & Fines

1.3 Endowment Income

- (A) Net total endowment income

Total of (Net) Endowment Income

E.1 General Administration

E.1.1 (A) Top Management Function Plan Policy Formulation Control Coordination Evaluation (Board of Trustees Governing Body - Life Members)

- 1) Establishment
- 2) Staff with benefits
- 3) Operational Expenses
 - (a) Board Meeting, Trustees travel, Preparation of Agenda
 - (b) Routine Office Expenditure
 - (c) Expenditure on Development Planning

Total Expenditure of Top Management Board of Trustees and G.B.L. Members

E.1.2 (B) Chief Administration (Principal & Vice-Principal)

- 1) Establishment
- 2) Staff with benefits (Principal, Vice-Principal, etc.)
- 3) Operational expenditure

Total Expenditure Chief Executive, Chief Administration

2

Contd.

Current Income Revenue Captions

1.4 Gifts and Donations

- (A) From Members of Staff
- (B) From Management
- (C) From other sources

Total of Gifts and Donations

1.5 Income from Organized Activities relating to Education and its Operations

- (A) Professional training
- (B) Summer Schools
- (C) Extension Service
- (D) Night Schools
- (E) Correspondence courses
- (F) Adult (Literacy) Evening Classes
- (G) Short Courses
- (H) Research and Publications

Total Income from Organized Activity relating to Education

1.6 Income from Auxiliary Services

- (A) Cooperative Store or Society
- (B) Canteen and Food Service
- (C) Rent recovered from hostel
- (D) Cycle Stand
- (E) Any other enterprise for the service of student and staff and income from the same

Total Current Income from Auxiliary Service

Current Expenditure Captions

E.1.3 (C) Office Administration

- 1) Establishment
- 2) Staff with benefits - Staff including
- 3) Office Service Staff, Administrative, Supervisory, Steno-Typists, etc.
- 4) Operational Expenses
 - (a) Supplies (Steno, Duplicating etc.)
 - (b) Expenses:
 - Postage, telegraph, telephone, insurance-
 - Co Insurance
 - Conveyance, travel, etc.
 - Legal Expenses and the fees
 - (External) Audit
 - Commencement and other functions
 - Instructional charges but not academic instructions
 - Institutional Membership fees
 - Miscellaneous

Total Office Administration Expenditure

Total of General Administration (A,B,C) Expenditure

Contd.

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Current Income Revenue Cautions

1.7 Income from Other Sources

- (A) Rent from Educational Building
- (B) Income from Current Fund Investment
- (C) Salvage value recovered from material sold
- (D) Annuity Income (Net)

Total Income (Current from Other Sources)

1.8 Income from Current Borrowings and Deposits

- (A) ^{From} Members of Staff
- (B) Management: From Management
- (C) ~~Kalkawki~~ From Government
- (D) From any other source

Total of Current Deposits and Borrowings

1.9 Income from Students Scholarship & etc.

- (A) Scholarship
- (B) Fellowship
- (C) Fees
- (D) Prizes etc.

Total Students Scholarship & etc.

Current Expenditure Cautions

E.2 Students Administration

E.2.1 (A) Students General Administration

- 1) Staff including officer in-charge, students admission, advicement
- 2) Equipment
- 3) Establishment
- 4) Operational expenses under following heads
 - Admission
 - Registration Record
 - Evaluation testing
 - Placement
 - Transfer

Total of Students General Administration Expenses

E.2.2 (B) Administration of Students Services and Welfare

- 1) Staff including Rector and Superintendent, other hostel staff and the staff for other services including officer and clerk in-charge of remission in fees, scholarship, etc.
- 2) Establishment
- 3) Operational expenses on
 - Hostel Residential Hall
 - Health Services
 - Advicement guidance
 - Employment
 - Financial Aid
 - Expenditure on Fellowship
 - Contra Entry
- 4) Miscellaneous

Total Expenditure for the Administration of Students Services

Current Income Revenue Cautions

1.10 Fund received and payable
(Contra Entry)

- (A) University
- (B) Inter Collegiate Sport Events
- (C) Any other Miscellaneous Receipt

Total Fund received and Payable

1.11 Deficit

Current Expenditure Cautions

E.2.3 Administration of Students Activities

1) Students Council of Gymkhana Staff Establishment Equipment Operational Expenses

- (a) Staff
- (b) Establishment
- (c) Operational expenses including stores, supplies

2) Intellectual Activities

- Literary Society
- Debating and Seminar
- Planning Forum
- Magazine, Newspaper, Hand book, year book
- Museum Exhibition
- Miscellaneous

Total Intellectual Activities

3) Physical Activities

- (a) Staff
- (b) Establishment
- (3) Operational Expenses including stores and supplies
 - Athletics
 - Sport
 - Club
 - Miscellaneous

Total Physical Activities

Current Income Revenue Cautions

Current Expenditure Cautions

4) Cultural Activities

- (a) Staff
- (b) Establishment
- (c) Operational Expenses including stores and supplies
 - Dramatics
 - Music
 - Motion Picture
 - Alumni Association
 - Contests, Annual Social
 - Miscellaneous

Total Cultural Activities

5) Social Activities

- (a) Staff
- (b) Establishment
- (c) Operational expenses including stores and supplies
 - College Cooperative Canteen
 - Thrift and Banking Association
 - Book Bank
 - Miscellaneous

Total Social Activities

Total Expenditure Administration of Students Activities (E.2.1, E.2.2, E.2.3)

SE.3 Academic Administration

(Including Administration of Instructions, Library, Laboratory Specialized Educational Activities & Departmental Research).

Contd.

Current Income Revenue Cautions

Current Expenditure Cautions

E.3.1 (A) Instructional Administration

- 1) Staff: Salary wages benefits
 - (a) Instructional Staff
 - (b) Student Staff
 - (c) Clerical Staff

Total Staff

- 2) Supplies and Expenses including repairs and replacement
- 3) Audio Visual Aid etc.
- 4) Operational Expenses

Total Instructional Administration

E.3.2 (B) Library

- 1) Staff Salary Wages Benefits
- 2) Supplies and Expenses
- 3) Books (Current Expenditure)
- 4) Periodicals
- 5) Micro Films
- 6) Binding

Total Library

E.3.3 (C) Laboratory

- 1) Staff
- 2) Supplies, Chemical and other inventory expenditure
- 3) Light, Power Sewage
- 4) Insurance
- 5) Fire Protection

Total Laboratory

Contd.

Current Income Revenue Captions

Current Expenditure Captions

E.3.4 (D) Botanical Garden and Museum

- 1) Staff
- 2) Supplies
- 3) Operational

Total Botanical Garden and Museum

E.3.5 (E) Organized Research

- 1) Staff
- 2) Supplies
- 3) Operational
- 4) Publication Subsidy

Total Organized Research

E.3.6 (F) Special Educational Activities

- 1) Staff
- 2) Supplies
- 3) Operational
 - Summer School
 - Extension Services
 - Night School
 - Correspondence Courses
 - Short Courses
 - Adult Evening Classes
 - Any other Educational Operation

Total Expenditure specialized Educational Activities

Total Expenditure on Academic Administration (A, B, C, D, E and F) All Heads (E.3.1 to E.3.6)

Current Income Revenue Cautions

Current Expenditure Cautions

E.4.1 Business and Financial Administration

- (1) Staff (for the collection of revenue
custody of funds disbursement
utilization investment financial
accounting (Internal) Audit
reporting - purchases
- (2) Establishment
- (3) Operational Expenses
- (4) Bad Debt
- (5) Interest on Current Borrowed Funds

Total Financial Administration

E.5 Estate Management

- (1) Staff
- (2) Establishment
- (3) Operational Expenses
 - Maintenance Repairs Depreciation
 - Insurance
 - Electricity Power Water Sewage
 - Ground Road-walks
 - Police watchman Watch and Ward
 - Safety Fire etc. Protection
 - College Transport and Trucking
 - Taxes and Interest Assessment

Total Estate Management

E.6 Public Relations Administration

- (1) Staff
- (2) Establishment
- (3) Operational Expenses
 - Publicity
 - Public relations and information

Contd.

Current Income Revenue Captions

Current Expenditure Captions

- Campus Information Bureau
- Publications including cost of bulletins or special publications providing information about colleges and catalogues
- Miscellaneous Alumni Office

Total Public Relation Administration

E.7

Personnel Administration

- (1) Staff
- (2) Establishment
- (3) Operational
 - Staff recruitment travel
 - Advertisement
 - Staff Seminar, Training or Orientation courses in In-Service training and staff development expenses

73

Total Personnel Administration Expenditure

E.8

Administration of Auxiliary Enterprises

(Residential Hall or Hostels, Food Services, Guest House, Book Stores, Cooperative Store, Printing Press, Farm etc., Snack Bar)

- (1) Staff
- (2) Establishment
- (3) Operational Expenses

Contd.

Current Income Revenue Cautions

Current Expenditure Cautions

- Plant Operations and Maintenance
- Heat, Light, Power, Telephone
- Repairs Depreciation
- Bad Debt
- Taxes
- Interest on Borrowed Funds
- Rent
- Appropriation of Administrative Overheads made for cost accounting purposes

- E.9 Annuity Payments and Loan Repayments
- E.10 Contra-Payments
- E.11 Miscellaneous Expenditure
- E.12 Surplus

EXPLANATORY NOTE**12.1 Introductory - Main Objective**

The proposed proforma of the Statement of Income - revenue - Expenditure is exclusively meant for recording, reporting and presenting for management and academic audit, data, for analysis on the current income and expenditure of the college or the higher educational institution.

12.2 Current Income

Current income includes all income which is expendable for the current operations of the institution. Obviously it does not include receipts from Loan funds, endowment and other non-expendable funds, annuity funds, and agency funds, or capital additions.

12.3 Major categories of current income are:

- (A) Government Appropriations
- (B) Students Fees
- (C) Endowment Income
- (D) Gifts and Donations
- (E) Income from organized Educational Activities and Operations
- (F) Income from Auxiliary Services
- (G) Income from Other Sources
- (H) Income from Current Borrowings
- (I) Income from Students Aid Scholarship etc.
- (J) Funds received and payable
- (K) Deficits (This obviously is not income but is to be mentioned to balance both sides - only when there is the deficit).

12.4 Details of Income Items

(1.1) Government Appropriations: Here should be included all amounts received from or made available by the Governmental sources out of governmental and, not institutional - revenue; which are expendable for educational and general purposes. The amounts include funds which are expendable for current purposes for educational and general purposes - they may be received either from state government, or Union Education Ministry or University Grants Commission or District and Local Administration, Municipalities or any other source. It must, however, be noted that the income from the Government agencies received for the purpose of contract research and services should not appear here but be reported under other sources.

(b) (1.2) Students Fees: Under this caption should be included all Tuition General and Specific Fees, assessed against students for general and educational purposes. Charges for room, board and other services rendered by other auxiliary enterprises are not to be included here, but they are to be reported under their respective heading. Lump sums, - if so received in accordance with the institutions practice in accountancy, - should be so allocated. Tuition fees are those assessed against students during regular sessions for educational purposes, regardless of the source of fund. Remaining items are self-explanatory. However, forfeiture of room deposits (these are to be credited to auxiliary enterprises) is not to be included herewith.

(c) (1.3) Endowment Income: Under this should be included the income earned on the investments of endowments and other non-expendable funds, available for educational and general purposes. Earnings on endowment funds, designated for purposes other than educational or general, such as "students aid loan fund" or "Development" funds are not to be included here but to be reported under appropriate current income fund. If endowment fund investment includes real estate, only not income from such property should be reported.

(d) (1.4) Gifts and Donations and Grants: Under this caption all gifts - donations or grants (non-government) received, appropriable and expendable for educational and general purposes - during the year, are to be reported. Income appropriated for or expendable for research and services other than government should be reported here, unless reported under "Other Sources - Contract Research".

(e) (1.5) Income from Organized Activities Relating to Education and its operations: Here gross income from all enterprises, organized and operated in connection with the instructional department and conducted primarily for the purpose of education - special or general is to be reported. All funds received for current expenditure on professional training, conducting summer school, extension service, night schools, correspondence courses, Adult literacy (night) classes, Research and Publications are to be included. If there are any specific provision under contract research, money received for current expenditure purposes should be mentioned herewith.

(f) (1.6) Income from Auxiliary Services: Under this heading gross income of enterprises existing for the service of staff and students such as the co-operative store, canteen, food service, cycle stand etc. are to be included.

(g) (1.7) Income from Other Sources: All items of income, for general and educational purposes, not covered elsewhere, should be reported herewith. For example (a) Rent from Educational Building etc. should include, (rent received from outside agencies for the use of Assembly Hall or Auditorium, Tennis Court Equipments, etc.) (b) Income from current^{funds} investments includes income from current investment, interest on loans to staff members and other employees or students etc. (c) Salvage value of material and equipment sold, should include the value received from the disposal of old newspapers, magazines, books or any other material. Finally, (d) Annuity Income net, is also to be mentioned and added herewith. (e) Miscellaneous should include income from cash discounts proceed, income from current sale of publications, etc.

(h) (1.8) Current Income from Borrowings: Here income received from borrowings and expendable during the year, (borrowings being from any source) is to be included.

(i) (1.9) Income for Students Scholarship etc.: Under this are to be included all income specifically received and designated for scholarship, prizes, etc.

(j) (1.10) Any other Income received and payable (Contra Entries): Income from students examination fees - income that is to be paid off and is merely a contra entry income is to be mentioned herewith.

(k) (1.11) Deficit: In case the college is running deficit for the current account purposes, in the sense that its current income is less than its current expenditure, then the size and amount of deficit is to be mentioned. Certainly such a mention is necessary for the balancing of the Statement of Accounts.

12.5 Expenditure (Current)

Current expenditure includes expenditure, both of current general funds and the current restricted funds. It also includes expenditure for equipment made from current funds.

~~4.52~~ Major categories of current expenditure items are as mentioned hereunder:

(a) Administration

This is to include following divisions and subdivisions.

(1) (E.1) General Administration: Top Management Function (Planning, Policy Formulation, Control Coordination Evaluation, Function, of Board of Trustees, Governing Body of Life Members etc. Thus Administrative items of -

- a) Board of Trustees and Governing Body
- b) Chief executive officer, the Principal and Vice-Principal

c) Office Administration

are to be definitely identified and mentioned.

(2) (E.2) Students Administration:

a) General Administration including Admission Records, transfer, etc.

b) Administration of students' Welfare and personnel services

c) Administration of students activities.

(3) (E.3) Academic Administration

a) The Instructional Administration

b) Library

c) Laboratory

d) Botanical Garden, Museum

e) Organized Research

f) Organized Special Educational Activities

(4) (E.4) Business and Financial Administration

(5) (E.5) Estate Management and Administration

(6) (E.6) Public Relations Administration

(7) (E.7) Personnel Administration

(8) (E.8) Administration and Auxiliary Enterprises

(9) (E.9) Annuity Payment and Loan Repayment

(10) (E.10) Contra Payment

(11) (E.11) Miscellaneous

(12) (E.12) Surplus

12.6 Details of Expenditure Items

(a) Sub-title of each have been provided to show further details. It is important to maintain uniformity by showing expenditure in accordance with the functional classification adopted herewith.

12.7 General Administration

(a) Under this is to be included expenditures on policy formulation, the general execution and administrative office,

servicing the entire institution and not its any specific section or department or branch. For promoting uniformity in expenditure reporting, three sub-divisions of general administration have been conceived, namely, (a) Top Management or Policy Board concerned with the planning policy formulation control coordination evaluation, Functions of the Board of Trustees Governing Body, Life Members Board. (b) The Principal and the Vice-Principals representing the Chief Executive Office and (c) the Office.

(b) The expenses incurred by the Top Management or Policy Board for their establishment, salaries together with benefits travel, secretarial costs. Expenses pertaining to the preparation of agenda, minutes are to be listed herewith. Expenses for special trustees report (not intended for general circulation) is also to be included herewith. Cost of the report circulated to general public Alumni is, however, to be included under "Public Relation Administration". Any expenditure incurred for development planning purposes, is to be distinctly mentioned hereunder.

(c) Under the heading of Principal and Vice-Principals are to be included, the offices if there exists any, of the Dean of Administration. The establishment salaries with benefits etc. operational expenditure all this is to be included herewith.

(d) Under the General Institutional Office is to be included, in addition to the establishment staff etc. expenses on post telegraph, expenses for central office services,

Audit (External), Legal fees, entertainment of college guest functions, membership fees etc.

(e) It is a fact that there are variations as to the title of the officers performing administrative functions. Effort is to be done to provide many sub-divisions and each office may appropriately be reported at that place. If an officer's duties are such that he is required in two or more organizational functions in the institution, his salary and the cost of his office expenditure is to be pro-rated in accordance with the division of his work responsibility in man-hours. If an officer, for example, a Principal, teaches, a portion of his salary applicable to instructions should be pro-rated at Academic Administration. The amount of his salary can well be pro-rated on the basis of the costing of his teaching duty hours, at the rate ordinarily paid to for professional rank and grade, normally assigned to the teaching performed. The same may be the treatment of Administration charges.

~~The~~ The next important area is the Students Administration. The student's administration is to be functionally further sub-divided into -

- (a) Students general administration
- (b) Administration of students welfare and personnel services and the
- (c) Administration of students activities. Further relevant break up of information on expenditure is as mentioned hereunder.

~~7.1.1~~ (E.2) ^(a) Students (General) Administration:

(a) Functionally the main activities involved are

(1) Admission and Registration of students. (2) Their orientation, testing - evaluation examination and placement. (3) The record keeping. Here salaries and expenses of officers and the office directly dealing with these functions as well as the expenditure incurred on the printing of admission forms, cumulative record cards, other equipment, operational charges are to be mentioned.

It is quite possible that the college might not be maintaining complete break up of expenditure on the students admission. It is also possible that the same staff, establishment, etc. which is otherwise engaged in the office might be being used. Under such circumstances it is requested that on the basis of total man-hours required to conduct the operation, the total office expenses may be apportioned.

~~7.1.2~~ (b) Administration of Students Welfare and

Personnel Services: Here the relevant functions are

(a) Administration of hostel and residential halls (b) Advice-ment and guidance (c) Administration of students health service (d) Book bank (e) Earn and learn schemes (f) Provision of mid-day meals (g) Employment and placement and (h) Financial aid in the form of remission, expenditure by the college on stipend scholarships prizes as well as the contra entry for the scholarship prizes etc. received from outside the institution.

Obviously, these functions cannot be carried out without staff, establishment etc. or without the operational expenses. It is, therefore, necessary to mention expenditure on all the above aspects separately. In case there is no distinct separate staff or establishment, then, on the basis on man-hours spent as mentioned above, the apportionment of the expenses is to be done.

~~2.1.3~~ (c) Administration of Students Activities: There are many students ^{UNITS} actuals. This might be at the top the "students" council or gymkhana under which (a) Intellectual activities like literary societies debating, seminar, planning forum, might be operating. Then there might be the preparation of magazine, handbook, year book, expenditure on trip and excursions, museum etc. The next area of students activities is the (b) Students physical activities represented by gymnasium athletics, sports of Indian, European, indoor, outdoor type, or even the club. (c) In the cultural activities dramatics, music, dancing, motion pictures, alumni associations, annual contests and gathering is to be included. In the (d) 4th area there are the social activities. The college co-operative canteen, thrift and banking associations, text book bank etc. Social Service League being the important in these.

~~2.1.4~~ For conducting all these activities staff and establishment and operational expenses are needed. There might be the office of the student council or gymkhana chairman, and he might be being assisted by a number of Advisers (who usually are staff members). Then there might be coaches, instructors and trainers who are to be paid salary, honorarium etc. Each

activity requires certain stores and equipment and then the operational expenses are also to be incurred. A distinct allocation of expenditure to the heads mentioned above, is most desirable. In case this is not possible the minimum 'must' is the separate mention of the total staff, equipment and operational expenses incurred for conducting students activities.

~~8.0~~ (E.3) The Academic Administration

~~8.1~~ Academic Administration is to be further sub-divided into following areas (a) Instructional Administration, (b) Library, (c) Laboratory (d) Botanical garden and museum, (d) Organized research and (e) Special Educational Activities.

~~8.1.1~~ (a) Instructional Administration: The main function is the conduct of "Instructions" in the college. Under this heading therefore all current expenditure on instructional departments is to be included. Expenditures are those incurred for instructional programme for the students pursuing regular courses of study which generally lead the college to a degree. Amounts to be included are (a) the salaries with benefits, of all academic staff junior members, tutors etc., of the clerical staff providing supporting service and the honorarium paid to student fellows etc. (b) Supplies and expenses including office and laboratory expenses, their replacement etc. and (c) Operational expenses.

~~8.1.2~~ (b) Library: Under Library the current items of expenditure are (1) staff salary, wages and other benefits, (2) Supplies and expenses, (3) Books (current expenditure),

(4) Periodicals (5) Micro films etc. and the (6) charges for binding. The establishment and operational expenses are also to be mentioned.

~~8.1.4~~ (c) Laboratory: Current expenditure under laboratory, should include (i) staff salary wages and benefits (ii) supplies of chemicals and other expendable inventory (iii) current expenditure on heat, light, power, sewage, (iv) insurance and (v) fire protection and safety etc.

~~8.1.5~~ (d) Botanical Garden and Museum: Current expenditure on the above has to be summed up under (i) staff with benefits (ii) supplies and (iii) the operational expenses.

~~8.1.6~~ (e) Organized Research: Current expenditure incurred on conducting organized research separately budgeted and financed is to be mentioned herewith. Mainly expenditure on staff supplies, operational expenses regarding tour, data collection, processing of data as well as expenditure incurred on report writing and publication is to be mentioned.

~~8.1.7~~ (f) Special Educational Activities: These include running of summer school, extension service, night schools, correspondence courses, short courses, adult literacy classes. Expenses normally would be in the form of staff, establishment and supplies and other operational expenses.

~~8.1.8~~ Finally the total of current Academic Administration expenditure is to be worked out.

~~8.1.9~~ (E.4) Financial Administration:

~~8.1~~ This is to include all expenses of the business offices or officers whose duty and responsibility consists of

collection of revenue, custody of funds, disbursement of funds, utilization or investment of funds, purchasing, and financial accounting and reporting. The cost of investment service if performed by a paid officer of the institution is to be separately mentioned; (but if the investment service and counselling is done by the Life Members and Board of Trustees outside the institution, the expenses are to be mentioned under (1) General Administration the Board of Trustees). Salaries of Accountant, Treasurer, Purchase Agent, Cashier etc. all are to be accounted for herewith.

~~10-0~~ (E.5) State Management:

~~10-1~~ The main function here is the operation and maintenance of the educational plant. The intention is that the net cost of operating educational plant should be worked out. Such a cost includes maintenance and operating expenditure on class room, other instructional buildings, library, laboratory, administrative buildings and the residencies, furnished rent-free to administrative staff. Expenditure chargeable directly or indirectly, to Auxiliary enterprises and activities other than the educational one and the general should not be included in this account, but charged to the respective appropriate activity.

Following points may be noted:

~~10-1~~ (1) Administration and Supervision:

All the expenditure for salaries, wages and supervision down to the payments made to menial and contract staff may be charged to specific activities. Salaries and wages of the

general clerk and personnel, in the administration offices and the office supplies and equipment for building and ground department is to be charged herewith.

10.1.2 (ii) Operations of the Building:

This should include expenditure on sweepers, cleaning equipment, toilet supplies, elevator operation etc. if any.

10.1.3 (iii) Maintenance and Repairs of Buildings:

This is to include furniture and other general equipment as well as minor repair works of the routine type. Major repair or restoration expenditure is to be excluded. If it is the policy to make such provisions regularly and on annual basis (for levelling out Educational plant maintenance costs), then provision for reserves for building, replacement and or major rehabilitation should be included herewith. Under such circumstance the expenditure should not be reported here in, as the assumption^{is} that the expenditure then would be charged to the Reserve Fund. All the housing cost of residence furnished ~~from~~ free to the administrative staff should be included herewith.

10.1.4 (iv) Light, Power, Water, Sewage:

All expenditure for purchased or manufactured utilities and all labour assignable to those must be mentioned. In case, for electric pump or motor etc., a provision on an annual basis, from reserve is made, expenditure on replacement is not to be reported as this will now be charged to the Reserve maintained.

10.1.5 (v) Ground Roads:

All assignable costs cost for material supplies and services as well as cost of repairs and replacement of equipment is to be mentioned.

10.1.6 (vi) Police, Watchman etc.:**10.1.7 (vii) Fire and Boiler Insurances:**

The cost of fire and boiler insurance, if it is a specific coverage of a plant, is to be included. If the coverage extends over a longer period than one year, proportionate cost of coverage applicable to the year is to be worked out and adopted herewith.

10.1.8 (viii) In case the college owns and runs transport or has a vehicle, then expenditure manually incurred for gasoline fuel, maintenance, depreciation, taxes, cost of insurance etc. are to be mentioned herewith.

10.1.9 (ix) Taxes etc. if paid annually, are to be mentioned herewith.

10.1.10 Obviously the total current expenditure on estate management is to be worked out.

11.0 (E.6) Public Relations and Information Services:

11.1 This is to include all cost incurred for establishing and maintaining relations with the general public, Government, Alumni and other institutions. The public relations and information head is to include expenses for news bureaus as well as other publicity and also the expenditure for the preservation and development of sound relationship with all the public, related and connected to the college.

There might be bulletins, or other special publications, providing information about colleges, catalogues, handbook providing standard and useful information about the college, the Campus Information Bureau or the expenditure on Alumni Office including the salary of the secretary, office rent, etc. All such expenditures are to be included herewith.

~~12.6~~ (E.7) Personnel Administration:

~~12.1~~ Main activity is the selection recruitment, training, if any, placement, evaluation, transfer, promotion, administration of service conditions, and supervision. Whatever staff is maintained for this purpose and whatever is the current expenditure in the form of advertisement, calling people for interview, their travelling expenses etc. all that is to be accounted for herewith. Staff orientation and staff development programmes like workshop etc., if organized, their current expenditure must be mentioned herewith.

~~13.6~~ (E.8) Administration of Auxiliary Enterprises:

~~13.1~~ Main enterprises are (a) Hostel and the Residential Hall, (b) Food service (c) Guest House, (d) Books and stationery stores (e) Snack Bar (f) Printing Press (g) Laundry, Haircut Saloon (h) Bakery. All direct cost applicable to auxiliary enterprises should be reported herewith. Costs including plant operation, maintenance, all direct administrative costs, all operating expenses like salaries, wages, heat, light, power, telephone, advertisement, repairs to equipment, depreciation, taxes, interest on borrowed funds, all these are to be included.

~~14.0~~ (E.9) Annuity Payments and Loan Payments:

~~14.1~~ Annuity payments are those made by the institution under conditions attached to the gifts or principle sums stipulating that payments are to be made to annuitants. Here net amount by which payment exceeds the income received on such principal sums, is to be mentioned. Whatever instalment in repayment of loans is paid during the current year, if it is also to be mentioned.

~~15.0~~ (E.10) Contra Payment:

~~15.1~~ These include the payment made of those sums which are specifically received for paying off e.g. University Examination Fee, Migration Certificate Fee, University Eligibility Fee, etc.

~~16.0~~ (E.11) Miscellaneous Expenditures:

~~16.1~~ Items which otherwise cannot be classified in the above said categories are to be mentioned herewith.

~~17.0~~ (E.12) Surplus:

~~17.1~~ In case current expenditure is less than the current income, surplus will have to be mentioned for the tallying of the balances of the debit and credit sides.

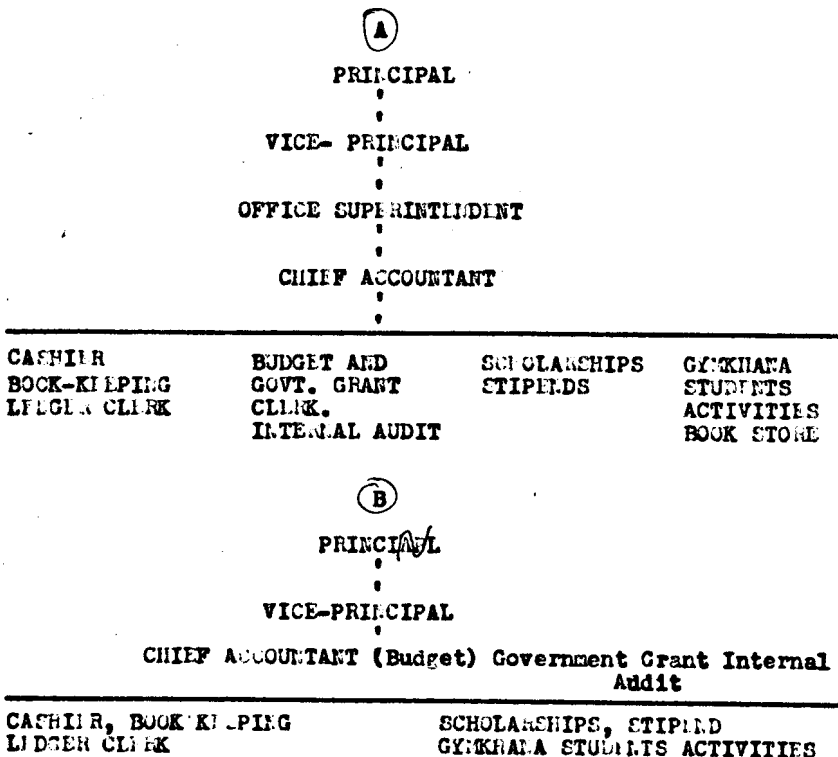
Appendix No. 2

Internal Organisation of the Accounts Department in the College

1. Internal organisation of the accounts section depends on a number of factors. Chief or important amongst these factors are (a) The size of the institution (b) Management attitude towards centralisation, decentralisation (c) the lay out of the college.

2. Functional Analysis indicates that the main identified groups of activities are (a) Preparation and administration of budget (b) Cashier function (c) Scholarships and stipends (d) Government Grants (e) Book-keeping - ledger. Hostels and gymkhana - students. (f) Internal Audit.

3. Organization Structure: Although this differs from institution to institution broadly the structure can be indicated as mentioned hereunder in the Chart A and B.



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Appendix 4Summary

1. While analysing the financial function in the I.H.E. (Institution of Higher Education) in the first part of the note, the subordinate and incidental nature of the function of Account and in Record Keeping is made out. Then having discussed the objectives of keeping accounts in the I.H.E. (Institution of Higher Education) the nature as well as implications of keeping accounts is presented.
2. In the second part, while an analysis of the objectives ^{is} of the presented, it is brought out that being subjected to a number of pressures the existing system has developed manifold confused and even conflicting objectives.
3. Part three attempts a further analysis and examination of the existing system, which is characterised by double entry commercial book keeping system. The procedures and practices adopted in the preparation of budget are discussed, main books of accounts as are usually kept are enumerated, and the way in which they are maintained and operated is examined. It is also examined as to how existing system is further conditioned by the government financial support (Grant In Aid Code) provisions and the provisions of Society's Registration and Charity and Public Trust Acts. It is further stated that the existing system fails to operate as administrative and management tool and a planning technique.

4. In the fourth part, while further weaknesses of our present day system are identified, an attempt is made to make out a case for the development of a suitable system.

5. Part five is mainly devoted to the discussion of various stages through which an objective functional system of financial accounting is to be developed. The need for standardization of income and expenditure classification is emphasised and it is in this context that the fundamental difference between commercial and educational system of financial accountancy is examined. Educational system of financial accountancy differ from commercial system in its (a) nature and aims (b) financial aims of educational institution (c) accumulation of assets and their structure in I.H.E. (Institution of Higher Education) (d) attitude towards accumulation of capital and its treatment in the balance sheet (e) treatment of inventories (f) acquiring of capital and the nature of liabilities emerging out of it and its reflection in financial accountancy and (h) exemption from taxation. Consequences resulting from the neglect of fundamental differences as reflected in the existing ^{deficiencies} have been ^{explained} spot lighted. It is suggested that while evolving and developing a satisfactory system, these fundamental differences in the commercial and educational system of financial accountancy are to be well appreciated.

6. In part six of the note essential requisites of a sound system are mentioned. It is explained that the system of

financial accountancy in the I.H.E. (Institute of Higher Education) (a) should be based on the appreciation of institutional (educational) objectives, (b) should operate as a safeguard to the funds, (c) should provide adequately, information needed for institutional planning and programming administration and financial control. While the system (d) should be simple and (e) should also serve the government administrative and statutory requirements.

7. In the development of the system the cost and accrual basis of financial accountancy is to be understood. In addition to this analysis part seven emphasises the need to coordinate in a meaningful objective manner, both and also the need to develop a feel of "operational core in financial accountancy".

8. In the eighth part while developing - feel of the operational core, the concepts of fund accountancy system are developed and presented. Operational details of this system are presented under identification of the transactions and their segregation, and grouping under specific fund head, self balancing in fund accountancy and the kind of accounts, their nature and operations have been examined.

9. Part nine is devoted mainly to the discussion of the important principles involved in book keeping namely (a) the maintenance of complete files and documents, (b) control and coordination in book keeping, (c) checks and verification of

books of accounts. Significance influence of local factors is also indicated.

10. In the part ten certain administrative implications of operations in the fund accountancy system have been discussed.

11. Finally in part eleven while emphasizing the need to develop fund accountancy and an objective form of accounts (particularly due to the constant anxiety of the administrators of I.H.E. (Institution of Higher Education), explosion in enrolment and expectations, inflation rising prices and costs absence of financial self sufficiency of the I.H.E. (Institution of Higher Education), the need to develop new alternative sources and the shifting of emphasis on different sources the overwhelming importance of self discipline and for that purpose self examination and self evaluation is emphasised. It is stated that for achieving this it is necessary to develop a financial accountancy and book keeping form that would provide a tool for comparison.

In Appendix 1 proforma of this proposed form of financial accountancy consisting of summary sheet heads of current accounts main objectives a detailed explanatory note covering current income expenditure items and fund groupings etc., have been mentioned.

Appendix 2 deals with the internal organization of accounts and book keeping section in the college.

Appendix 3 gives a list of more important references.

Appendix 4 deals with the summary of the note and finally.

Appendix 5 presents a line of action that is to be adopted for future.

Appendix 5Recommendations

- 1) This note has been referred to and discussed with a group of chartered accountants who audit and certify for grant purposes, the annual accounts of the college. However this being a personal reference, it was restricted to a very narrow circle. It is now necessary and therefore recommended that through the joint board of Vice Chancellors this note is referred to (a) The Institute of Chartered Accountants, (b) The Institute of Cost Accountants, (c) Government auditors in the Directorate of Higher Education, (who for the purpose of sanctioning grants check annual accounts) (d) Office of the Chief Accountant Maharashtra Government (e) The Charity Commissioner, (f) Officers and accountants working in the Account Sections of the Educational Societies as well as colleges.
- 2) It is necessary that the reactions of the above mentioned offices and officers are understood. It would then be relevant and convenient to convince the concerned about the basic need to introspect and improve, in the procedures and practices of keeping financial accounts. It is for this purpose that some type of dialogue is to be initiated between the relevant bodies and authorities. With this objective in mind it is recommended that in consultation with

the joint board of Vice Chancellors and under the guidance of Vice-Chancellors and offices of Registrar and accounts sections in universities, University-wise Seminars are to be organised. This work certainly can be entrusted to a small committee (which may be sponsored by the joint board) including a representative from all the above mentioned agencies and offices.

3) However this would not be enough. Quite immediately, it would be necessary to encourage formation of some sort of university wise Associations, the membership of which is to be composed of those, who are either working or associated with the working of the accounts section in the colleges administrators and managers in charge of college a Accounts Department and Chartered Accountants. It is only through the establishment of such an institution of voluntary active members that the work of modernization of the system of accounts in the colleges can be initiated. Under no situation such bodies be confused with trade unions which though necessary, yet operates for completely different purposes. These being the bodies initiating change and modernization, such bodies established and operating under each university, shall have to be recognized and encouraged. Encouragement to these bodies can be given through rendering to them academic service through the organisation of orientation programmes and seminars, production of literature and the circulation of periodic papers as well as through rendering

to these bodies financial service through sanctioning a financial support. It is through a planned and organised conducting^{of} activities through such bodies at each university level, that the definite progress in the process of modernisation of higher educational administration can be ensured.

4) It is necessary to get a feel of the opinion of the joint board of vice chancellors on this paper as well as the actions suggested above. In fact it is earnestly felt that not only for a limited purpose of this paper, but for the important issue of modernization of higher educational administration in the state the joint board should take the first step in creating a sub-committee and a cell for this expressed purpose.

STUDIES RELATING TO HIGHER EDUCATION IN MAHARASHTRA

SERIES 1

STUDIES RELATING TO FINANCIAL ADMINISTRATION OF
PRIVATE COLLEGES

REPORT B: Budgeting in the Financial Administration
of Private Aided Colleges and the
Institutions of Higher Education in
Maharashtra State

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Poona 4

Brief Outline of the Note**1.0 Preliminary observations**

- 1.1 Concept of finance and financial functions in the institutions of higher education.
- 1.2 Classification of financial functions and their operational analysis.
- 1.3 Popular classification of functions.
- 1.4 Cycle of financial functions and the place the budget for the institutions of higher education in the same.
- 1.5 Evolution and background of budget making in educational management.
- 1.6 Dirth of literature and the source material on "budget making" for the institutions of higher education and colleges.
- 1.7 Broad outline of the note.

2.0 Concept and definition of budget for the institutions of higher education and colleges

- 2.1 Most of the budget definitions are in relation to the budget used in corporate business and the government administrative sectors.
- 2.2 Various definitions.
- 2.3 Budget for educations sector and for the institutions of higher education and colleges.

3.0 Purpose and significance of budget for the institutions of higher education and colleges

- 3.1 "Planning function" as relating to budgeting.
- 3.2 "Coordination function" in relation to the budgeting.
- 3.3 "Control function" as relating to the budgeting.
- 3.4 Budget as a "measure of managerial evaluation".
- 3.5 Budget as an "instrument in planning and controlling educational activities".
- 3.6 Although advantages of the system of budgeting are many, yet there are limitations to the system of budgetary control.
- 3.7 Limitations of the system of budgetary control.

4.0 Attitude of management on the system of budgetary control

- 4.1 Discussions, deliberations and controversies on the issue of budgets and budgetary controls.
- 4.2 "Mechanical budget" versus "Functional budget".
- 4.3 "Yearly" (Periodic) versus "Continuous" budget.
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- 5.1 Main pre-conditions.
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- 6.0 Procedure in budget making
- 6.1 Legislative and executive functions in budget making and their order, in the procedure.
 - 6.2 Factors influencing the procedure of budget making.
- 7.0 Size of the institution of higher education or college and the procedure of budget making
- 7.1 Budget procedure and the business and the finance policy of the institution of higher education or the college.
- 8.0 Budget procedure and the business and the financial policy of the institution of higher education or the college.
- 9.0 Type of the budget and the procedure
- 10.0 Budget formulation procedure
- 10.1 Main considerations.
 - 10.2 Determinants of the "budget period".
 - 10.3 Main "segments of budget" and their development.

- 10.4 Expenses or "cash out-flows".
- 10.5 Budget Centres.
- 10.6 Limitations of budget centres.
- 10.7 Establishment of budget centres and guide lines.

11.0 Various stages and phases in budget procedure.

- 11.1 Main stages and phases.
- 11.2 Assigning budget centres.
- 11.3 Budget preparation procedure.
- 11.4 Completion of sectoral budgets and the final balancing.
- 11.5 Review, balancing and the finalisation of the budget.

12.0 Budget presentation, approval and the post approval work

- 12.1 Presentation of the budget to the President of the Governing Body of the educational society.
- 12.2 Discussions deliberations and the approval of the budget.
- 12.3 Post approval work. Intimation of the "Sanctions and Procedures", Monthly reports and the Final Reports.

13.0 List of Appendix

- 1. Budget centres and their allocation.
- 2. Preliminary estimates of enrolment for the year.

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3. Estimates of tuition fees etc. (estimate of income for the year).
4. Sources of incomes.
5. Increase in the current expenses. Classification of details. Budget estimates for the year.
6. Budget comparison sheet. (Incomes and expenditures).
7. Salary data. (Major area of increase in the expenditure).
8. Academic administration. Instructional staff. Salary analysis sheet.
9. Format for 'College budget' (Expenditure details).
10. College budget summary sheet.
11. Operations of budget.
12. Approved budget "Cash In-flow sheet".
13. Approved budget "Cash Out-flow sheet".
14. Monthly report of budgeted expenses and the actuals.

BUDGETING IN FINANCIAL ADMINISTRATION OF COLLEGES AND
INSTITUTIONS OF HIGHER EDUCATION IN MAHARASHTRA

1. Preliminary Observation

1.1 Concept of finance and financial administration in
the institutions of higher education:

Definition of the term 'finance function' in relation to the institution of higher education normally falls under three broad groupings

(a) One defines finance function in education, as simply the task of providing funds needed by the institution of higher education, on terms that are in the light of objectives of the institution, most favourable. It is noteworthy to find that dictionary definition of the term 'finance' is almost exclusively concerned with the "procurement of funds". However, this concept can be widened so as to incorporate, in addition to the consideration of the procurement of funds, even the consideration of the (i) "instruments", (ii) "institutions" and (iii) "practices" through which funds are obtained by the higher educational institution. This logically covers the (iv) legal accounting relationship between the educational institution, the students, the public the donors the (local state or central) government, i.e. the financial relationship between the college i.e. the institution of higher education, and (v) the source of finance. The main logic of this approach is that the expenditure needs and decisions give rise to the demand for funds and the main finance-function

in the college or the institution of higher education is to satisfy this demand.

(b) Although this definition has a merit of highlighting the main central core of the finance function in the college or the institution of higher education, it is generally considered that such a definition is narrow. Finance function is not that of merely procuring funds, it is much more broader function than this. This appreciation results in developing another extreme type of concept namely that finance being mainly concerned with the procurement of current funds and cash and since in all activities and transactions in the institution of higher education directly or indirectly cash is involved, "finance in the college or the institution of higher education is concerned with everything that takes place under the roof of this institution of higher education". Obviously, such a definition would be too broad to serve any meaningful, managerial function.

(c) The third approach, which seems to be more acceptable, visualises finance function as the procurement of fund and their effective utilisation in the higher educational institution. This function gives rise to a number of activities and function for example to: (i) estimate financial needs, (ii) raise the necessary funds, and (iii) put these funds to the most efficient and effective use in relation to the main institutional objectives of the college.

It is in this sense that the finance functions cover: (a) financial planning- forecasting of cash, receipts and their disbursement, ~~disbursement~~, (b) raising of funds, (c) use and allocation of funds, and (d) financial control.

(d) Analysing more objectively and practically rather than academically it is obvious that every institution of higher education including a college has a number of practical financial and business functions to perform. These functions have been identified by various authors and authorities and they are said to be consisting of:

- (a) Financial accounting, book-keeping.
- (b) Preparation of annual budget and its administration.
- (c) Financial reporting and statistics.
- (d) Expenditure function.
- (e) The revenue or cash receiving function.
- (f) Financial relationship with the students.
- (g) Management of investment funds.
- (h) Management of business phase of auxiliary activities such as hostel and the residential hall, co-operative books store, canteen, or cycle stand, etc.
- (i) Financial promotion and the organised efforts conducted through fund raising activity.
- (j) Planning financing of special projects such as building and the construction activity, debt retirement, etc.

- (k) Research on various matters involving consideration of educational institutional finance.
- (l) Purchasing.
- (m) Employment of non-academic personnel.
- (n) Control of sales material, ^{WASTE}water paper junk and other salvage.
- (o) Educational plant management.

However a much more clearer analytic concept of financial function for the institution of higher education is to be developed.

1.2 Classification of financial functions and their operational analysis

Viewed from the point of view of the practical administrative operational point^{of} view, it is stated that every institution of higher education including a college has a number of financial functions. These financial functions have ^{been} identified as:

- (1) Primary functions as the executive functions, and (2) the secondary or the incidental functions. In the primary and the executive functions are included:
 - (a) Estimation of the financial needs of the new and the old colleges or the institution of higher education, including estimates of cash and fund flows, estimation of financial needs for special projects like the financing of new building construction, debt retirement, etc.

(b) Mobilisation of finance and finding out resources to meet the needs. This includes financial promotion fund raising, receiving of income in the form of fees from students, endowment and donations and subscriptions from the public and the receiving financial support from the government in the form of grant as well as borrowing of funds.

(c) Administration of financial resources. This includes expenditure function, management of surpluses, administration of funds and reserves, redemption and retirement of debts and other obligations, etc. Management of business phase of auxiliary services such as hostel residential hall, co-operative books store, canteen cycle stand, etc.

(d) Financial control and checking of the financial performance from time to time.

(II) Secondary incidental functions are:

(a) Financial accounting and record keeping.

(b) Financial Reports and Statistics.

(c) Maintaining financial relationship with the students, endowment holders, subscribers, donors, government, etc.

(d) Research on various matters including financial administration and micro concepts in the educational planning.

1.3 While there exists a difference of opinion regarding the administrative division of these functions into (i) financial functions, and (ii) business management functions,

^{YET} however there seems to be a general unanimity on the point that (1) financial accounting, (2) preparation of budget and its administration, (3) financial reporting, (4) expenditure, (5) revenue, (6) financial promotions and fund raising, (7) investment management, (8) planning financing of special projects like building construction, debt retirement are the important financial functions and not business functions like purchasing, plant management, office management, control of sales, material employment of academic and non-academic staff, etc., which every institution of higher education is required to perform.

1.4 Cycle of financial function and the budget for the institution of higher education-including college:

Observation and operational analysis indicates that the cycle of financial functions in the institution of higher education contains three main elements that can be chronologically listed to be consisting of (a) The budget - containing an outline of financial plan for the year, (b) the accounting system which maintains the records of fiscal transactions as they occur during theyear, and (c) financial reports including the audit summarising and publishing the results of operations during the fiscal period. A discussion about the educational institutional finance may begin with any of these three elements in the cycle and proceed to the other two. Thus one might treat budget as the primary element, the operating accounts as merely the methods of

controlling budgets and the reports as the survey of the operations under budget. Or one might look on the reports as the final and permanent outcome of the years operations, the budget and the accounts being merely means to an end producing the results set forth for the final report. Here in the note under consideration, a position of starting with the discussion on budgets is taken up. This position taken here is that budget is an important instrument of educational management and administration and the significance of budget is not restricted merely to the purpose of maintaining financial solvency of stability but it is also to operate as an instrument of comprehensive planning of micro and macro educational development. Preparation and administration of budget is therefore assumed to be an important financial function in the institution of higher education and a college.

1.5 Evolution and background of budget making in educational management:

It is curious to find that while similarly to government and commercial undertakings an institution of higher education, including a college, is required to prepare its own financial budget, yet there is no comprehensive literature developed on this aspect of educational management. Historically, it appears that government supported private institutions of higher education especially the colleges, are the last in the chronological list of those who organised their collective or corporate performance on

the basis of their financial budgets. Since last two decades it seems that now every college or institution of higher education is attempting to set its programme on the basis of budget. It is now unusual to find a college in Maharashtra which does not claim to operate on budget basis. However, still the observed fact remains namely, that in the large number of publicly and privately controlled higher educational institutions, budgetary procedure are rudimentary either in their character or unsound in many aspects.

1.6 Dirth of literature and source of material on budget making for institutions of higher education and colleges

Emerging out of the fact of late and partial application of budgetary techniques in educational management there is another fact. Institution of higher education including colleges have not, as yet developed any literature on the subject. Such a literature has been developed for both the commercial concerns and government offices and undertakings. In the initial stage one is to rely on this literature on the budgetary techniques and procedures in the commercial concerns. However, while developing such a literature for educational sector, it is always necessary to remember that educational institutions of higher education differ in many fundamental respects and as such a distinctly separate approach and treatment would be necessary. It is on the basis of this background that this note is prepared.

1.7 Broad outline of the notes

This note mainly proposes to deal the issue under the following heads:

- (a) Concept and definition of a budget for an institution of higher education - the college.
- (b) Significance of budget in the educational institutional management.
- (c) Functions of budget.
- (d) Approaches and philosophies governing budget.
- (e) Various stages and phases in the preparation, and administration of budget.
- (f) Development and the preparation of budget.
- (g) Adoption budget.
- (h) The execution of budget.
- (i) Revision and closing up of budget.
- (j) Responsibilities of the business and finance office of the college or the institution of higher education in the budget preparation and administration.
- (k) Observations regarding budgetary practices in the institution of higher education in Maharashtra.
- (l) Concluding observation.

In addition to the above stated aspects, attempt also is made to present certain forms that may prove useful to the institution of higher education and the college in the budgetary function performance.

2.0 Concept and definition of budget for higher educational institution - the college

2.1 Many definitions of budget and budgetary have been formulated. However, most of these definitions apply to the field of corporate business or government administrative activities.

2.2 Various definitions of budget

Budgets have been defined in a number of ways. Webster has defined the budget as a "plan of financing, a host of projections and estimates, controversies and approaches that go into the development of this delicate useful tool". To some it is a "forecast in details of the results of an officially recognised programme of operation based on the reasonable expectation of highest operational efficiency".¹

To other, in the strict sense of the term, it is "complete financial plan for the definite period which is based on careful estimates of both the expenditure on needs and probable income".²

Others have indicated that budget is "essentially a formulation of plans for a given period in the future in specific numerical terms as such budgets are the statements

¹ Bartizal: Budgets Principles and Procedures, Prentice-Hall, Inc. Englewood Cliff, P.1 (1947).

² Arthur E. Buck, Budget making Appleton Croff, Inc. P.8.

of anticipated results.³ It is also said that budget is a "method of worrying before the spending of money rather than after". Gian wesh defines budget as a plan covering all phases of operations for a definite period in future. It is a formal expression of policies, plans, objectives and goals laid down in advance by the top management for the institution as a whole and sub-division thereof. It is a formal statement of management plan and policies for a given period to be used as a guide or blue print in that period. It is also said that budget is a statement of estimated income and authorised expenditure in relation to a specific period of time.

2.3 Budget for educational sector and educational institutions

In the broad sense of the term budget means a plan, the plan for financing a higher educational institution for a period of time in future, usually a year. The plan is usually evidenced by budget document which is an exhibit that shows the plan in all its details. The term budgetary procedure is used to indicate the steps that the top management in an educational institution take, in planning the budget from the beginning to the end. While these terms are used inter-changeably, it is to be clear that the three terms

³ Harold Kootz and Cyrill. ODonnal. Principles of Management, McGraw Hill, 1955, p.435.

refer to various aspects of budgeting. It is frequently thought of budget as the budget document which gives an outline of a plan for financing higher educational institutions.⁴

As related to the institution of higher education and colleges budget may be defined as a plan for institutional income and expenditure, covering a definite fiscal period. This means that it must⁵ be a plan, it must cover both revenue and expenditure and it must be specific period.

2.4 Budget for an educational institution means in relation to a specific period an integrated educational expenditure and revenue plan. Educational plan is the heart of the budget for an institution of higher education, it is the centre around which everything else is built up and it is the determining factor for both expenditure and revenue requests. Expenditure plan is merely a translation of educational plan into costs. For ensuring proper accounting and administration various expenditures are to be classified. Revenue plan is also to be carefully conceived and detailed estimates of receipts that are to be used to finance expenditure, are to be worked out.

3.0 Purpose and significance of budget for an institution of higher education

Budget is considered as an instrument of control. The only justification for budgetary is its service to the

⁴ Mort Reussar Polly.

⁵ Russel, p.66.

management.⁶ whereas accounting can be justified for reasons of public information of participants right, government reports and requirements creditors demands and so on, budgeting is justified primarily for internal use. Budgeting results in definite and tangible benefit directly related to the basic function of management.

In the conduct of business operations, in the institution of higher education, there are three clearly identified basic functions of management, namely, (a) planning function, (b) co-ordination function, and (c) control function. Scientific management has developed a number of tools or techniques that may be adopted to assist management in the accomplishment of these functions and one of such techniques is the budgeting. Appropriately conceived and operated budgeting programme goes a long way in assisting management to accomplish effectively the three basic functions of planning, co-ordination and control.

3.1 Planning function as related to budgeting

Planning involves the establishment of objectives and the organisation required to attain these objectives. Planning also involves finding of finance and the other means of carry out plans and it is in the process of mobilising finance that the budgeting becomes necessary step. It is

6 Welsh Budgeting, p.5.

possible that some of the educational institutions might be planning quite effectively without formal budgets. However, it is a human weakness to defer such activities as are involved in precise planning. However, budgeting programme is consequently such an important technique that it tends to force management at all levels to give timely and serious attention to the planning function. The fact that plans and objectives are being put down in black and white for all to see, results in a more careful consideration. One of the most frequently cited advantage of budgetary programme is the fact that "all levels of management in the educational institutions are brought together for the planning function and are forced to give serious consideration to it". Thinking of many is raised for the first time from narrow concerns with day-to-day operational departmental problems to the consideration of an overall plan and objectives and those of other functional area.

Importance of bringing all the members of management in the institution and making them involved into the planning of the higher educational institution cannot be over-emphasised. There are at least three basic aspects involved.

(a) Active participation of all the managerial and administrative levels in the various sections of the educational institutions in shaping desirable goals and the plans for achieving them has a very healthy effect on interest, enthusiasm and morale as "esprit-de-corps" is enhanced.

(b) Active participation of all the members in the management in the planning function, makes them aware of how their particular functional sphere fits into the total operations of the educational institution as well as the necessity of inter-departmental co-operation. Now the member can well see how arbitrary decision of a single favoured department can create critical problems in the other departments. Such a decision may be within this narrow scope, may appear to be most logical but their overall effect may be quite detrimental.

(c) Junior members in the management of various stages phases and sections in the educational administration having participated in the planning function through the operational mechanism of budgeting are adequately informed as to the future with respect to objectives, problems and other considerations. Nothing is more discouraging to the junior members in the educational institution, nothing is more damaging to their morale than to be in the dark about what is expected in future. Under such circumstances what is the most common, junior personnel and members of the staff find it impossible to make effective contribution and adequate plans for their departments as well as to implement them. These situations can be best corrected by bringing together all sectors and levels in the management and administration of educational institutions into budget planning preparation and operations activity.

- (d) Budget provides an opportunity to review as to what has been accomplished during the previous preceding year. Responsible executives of the college may well ask the departmental heads (as the ministers in the Cabinet are asked in the British Parliament) at the time when they submit budget needs and requests as to what was done of the appropriations that were given to the department in the previous year.
- (e) Budget also provides a coordinated view of the needed expenditure for various purposes. Budget translates educational plans and policies into financial terms. Everything that the institution of higher education of the college prefers to accept during the fiscal period must be expressed in the budget in terms of rupees etc. The introduction of a new department of study, improvement of various facilities offered to the students, extension of resources of Library, any one these new developments as well as the needs of the established function and services must be reduced to financial figures and placed in the budget, if at all these are to be included in the programme of encoming period.
- (f) This task of reducing plans and policies of higher educational institution to the financial terms usually proves difficult for the academically minded members of the college staff. It is much more easier and perhaps much more interesting for them to plan an introduction of a new course than to estimate the cost. Yet in a well-managed

college, it is necessary to calculate all this and enter it in the budget. Thus at the time of the preparation of the budget all hopes for innovations in the programme should receive their due consideration and those that are not included in the budget must be postponed until the beginning of some future fiscal period or probably to a period when revision is made in the current budget. This co-ordinated view of probable expenditure affords a further opportunity to study and to weigh in advance, the relative value of various services and to discriminate amongst many of the activities that compete for available funds. One of the important responsibilities^{ies} of the educational administration is to allocate available resources to those activities that produce most, in terms of fundamental purposes of the institution. For example, a head of the department of history might be worried about the fresh appointment of an assistant and so also the head of the department of Business. Decisions in such cases involve a careful appraisal of the relative contribution of the above departments to two main aims of the institutions including such matters as the number of students to be served, provision of sound educational programme and such values. A decision merely to maintain status quo without considering relative values is the characteristic of un-intelligent or hesitant administration. An institution having such an administration cannot be expected to obtain largest possible values in

return to the resources which the society entrusts to them, to carry out higher educational programmes and to serve the community.

(g) The above stated example can have an easy and ready solution as readjustment may be easy and really not difficult; but the same principle is true. The readily accepted decision to leave the allotment to the department or to the unit, "the same as it was last year" which appears to be the marked characteristics of budgetary procedure in our colleges and most of the institutions of higher education, usually indicates the attitude of refusal to face the facts, and weigh them intelligently. In most of the institutions some department and services are produced at the cost of development and operations of other departments and operations out of proportion to the values produced. The budget affords the best possible opportunity to readjust such situation so that available funds may be used most effectively and academically and educationally most productively.

(h) The next specific aspect of budget as relating to the planning is that it provides an opportunity for a careful review of all sources of income including the sources of supporting incoming. Although administrators are always alert to see that all potential sources of income are producing at the maximum capacity, this question can usually be brought out to a sharp focus in the budget. Comparison

with past years and with similar institutions is quite in order and it is usual experience that many a times such an analysis reveals opportunities for increased income and opportunities of tapping some of the neglected resources.

(1) The next important aspect of budgeting, as related to planning is the limitation of the programme in accordance with the available resources. Budget of a college or an institution of higher education is to provide an assurance that the approved programme will be limited to the resources available for support. While the fields of services in any college or in an institution of higher education is always unlimited and the resources available are always limited. Every intelligent leader in the college can also see the desirable and possible field of service far beyond that can be maintained with the present and potential resources and the leader is always confronted by the temptation to expand services faster than resources. The immediate and inevitable result of yielding to the temptation is a menacing burden of debt, ultimately forcing the institution into mediocracy or discontinuation.

Budget is the best arrangement to prevent the college or institution of higher education from expanding its services more rapidly than its resources, the counter enquiry to any request for expansion being - "is it provided in the budget"? At the time of the preparation of

the next budget a due consideration may be given and a comparison with the existing services can be done and in case the plan be found for the proposed expansion it can be undertaken. Until it is incorporated it may remain as under consideration.

It may be that many a time it may be necessary to wait till the beginning of the next academic year to introduce an expansion as sometimes the current budget may be so revised as to incorporate an unusually desirable new development. Even then the principle may be rigorously adhered to, namely, that the project should not be undertaken until an assurance is given that it can be made a part of the budget. To be continuously embarking on new projects without explicit sanction of the budget is inevitably to invite financial disaster to the institution (unless of course state government is prepared to take over the responsibility).

Thus it may be concluded that budget of an institution of higher education or a college is basically an instrument of planning. Budget reflects the organizational pattern of the institution by breaking down the elements of the total plan into the sectional and departmental components, allowing costs to be more easily estimated. It then forces co-ordination of these elements by reassembling costs as a whole so that the comparison may be made with the

total revenue. This very process requires a kind of orderly planning that otherwise might never take place. Budgeting thus forces the administration and the staff to plan together on what needs to be done, how it will be done and by whom.

3.2 Co-ordination function of budgeting

Co-ordination is a process whereby each division and department of a college works towards common objectives, with due regard for all other sub-divisions and with a unity of efforts. Co-ordination really means developing and maintaining various activities within the educational institution, in a proper relationship to other. It is frequently observed that the educational institution lacks co-ordination, where aggressive sectional or departmental head has expanded his department out of proportion to others or where the general overall decisions are based on the needs of one department or section alone, although such a decision might be implicating other departments. Effective co-ordination at all organisational levels in the college or an institution of higher education is probably the toughest assignment, the principal has. A properly designed and operated budgetary programme contributes greatly to the co-ordination in an educational institution. In the first place, performance of planning function as mentioned above, lays proper foundation for co-ordination. Overall comparative educational plans

for the institution of higher learning that are made sufficiently in advance with the care and details necessary to meet budgetary requirements, are bound to be co-ordinated plans that take into account the objective, problems and possibilities and other considerations of each sub-division and of the educational institution as a whole. By laying down plans and converting them into the form of the budget well in advance of the operations, the educational management sets the basic foundation for effective co-ordination. It should be generally agreed that effective co-ordination depends to a large extent on the adequate communication. It is important that each member in the family of an educational institution from the principal to the student and from the person in charge of business and finance section to Class IV servant knows well in advance as to what is planned and how and when it is to be accomplished. A comprehensive budgetary programme in an institution of higher education requires that these plans be laid down formally in the budget and further that copies of the budget are distributed to all concerned with the management. In addition, such personnel be given adequately and timely information relating to the revision of the original plans and objectives as well as current results. In this way co-ordination can be achieved. It is in this way that co-ordination can well be developed since each responsible sectional and departmental head is fully informed as to the expectations and current results

with respect to his own area of responsibility, related departments and overall operations of the educational institutions.

Finally having laid the basis for effective co-ordination it is necessary to know from time to time, whether throughout the year co-ordination is being really achieved or not. Management must know whether or not policies and plans are being followed throughout the educational institution. It is for this purpose some indications are needed, especially to indicate defects in planning as originally established and its operations. In other words, for ensuring continuous co-ordination, control techniques budgeting is necessary.

3.3 Control function of budgeting

As stated above, in collective action, control is needed to ensure that ultimately plans and objectives are being achieved. As observed by Ralph Davis, the main objectives of control is to ensure correct performance as specified in the plan, a well co-ordinated action, and minimum loss due to interference with the proper execution of plan. Control as applied to budgeting is a systematized effort aimed at keeping management informed of conformances or lack of conformances to pre-determined plans and objectives and policies. Control implies measurement and this requires a yardstick for the entire educational organisation. In the absence of any other qualitative measure, comprehensive budgeting programmes offer such measures. It should,

however, be remembered that budgeting by itself is not a control. It is a device that makes control possible in many ways. Underlying these thoughts there is obviously the comparison for measurement of actual performance against a pre-determined plan and objectives. This comparison extends to all areas of college and higher educational institutional administration. From the point of view of methodology, it involves showing: (a) actual results, (b) budgeted results, and (c) the difference (that is to say a budget variations between (a) and (b)). This reporting is based on the sound principle of management usually mentioned as "exception principle". This principle holds that the principal or the board of management should devote detailed attention to the unusual exceptional items that appear in the daily, weekly, monthly or bi-academic terms leaving over all policy and planning considerations. It is only such unusual exceptional items showing deviations items that need executive attention. It is true that for implementing this concept, new techniques in place of conventional techniques of reporting accounts are to be developed, by which only deviations and 'out of line' items are reported. Thus budgetary control makes it possible for the principal and Board of Trustees feel the pulse of the institution of higher management and the college so that progress or lack of it is evaluated throughout the period rather than after the end of the period when it is usually too late to take any corrective action.

3.4 Budget as a measure of managerial evaluation of alternatives

Essentially administration and academic planning in the institution of higher education consists of basic decisions to pursue a basic course of action, selected from several possibilities. Since evaluation of the probable financial effects of each alternative is generally possible during the process of budget construction, the build up of a budgeted plan of operations involves building, revaluation, tearing down and re-building until the best possible plan of operation is developed under the given circumstances.

However, a delicate question arises here and it is about the agency that is competent to judge the value produced by various departments and units within the educational institution. The operating principle is that budget is the affair of the Chairman or the President of the Board of Trustees or the Principal; that the office of the academic administrator led by senior member of the teaching staff has no determining voice. In fact it is usually argued that it is the academic head, on whose shoulder this responsibility must rest. It is because of this approach that the opinion is expressed that teaching staff members should be given larger or even controlling voice in the determination of such matters especially when the budget is under preparation. Although ^{ADMINISTRATIVE} academic heads may informally confirm with the teaching staff to determine their opinion, there are

sound reasons for believing that the final responsibility of the budget should rest with the President or the Chairman of the Board of Trustees.

It should be clear that the teaching staff, members can rarely be expected to give unbiased judgement on the distribution of funds in the budget, particularly in matters affecting their own field of service. Professor of any subject naturally believes in that subject the most important is that in which he is usually personally concerned and feels to be of great importance in the academic field. The more capable the Professor in his chosen field, the less is his ability to evaluate in an unbiased manner, the entire services of an institution of higher education. Those members who are chosen primarily because of their ability to see the programme as a whole are the officers of academic administration the president, the senior head of the department, senior staff member and it is only the persons with such qualifications that the final responsibility for the preparation of the budget can safely and wisely be entrusted. The officers may profit from the council of representation of the teaching staff, the staff council, regarding the preparation of the budget, but it would be unwise to shift the final responsibility from the duly constituted administrative office to any of the teaching group.

The board of trustees, as the statutory agency must assume the ultimate responsibility. If the academic members (teaching staff) are convinced that the administrative officers are not competent to judge the relative values produced by various departments, the remedy is to appoint a new officer rather than assign such responsibilities to the (teaching) staff committee (whose members would generally be able to provide only biased points of view on important problems) or to a committee of the board whose members would not be competent to weigh the academic issues involved. Of course, the opinion and advice of representative teaching staff (academic members) may be sought and considered but administrative authority of the institution cannot abdicate their final responsibility for the allocation of available resources through their budget.

3.5 Thus budget is basically an instrument planning co-ordinating controlling. It reflects an organisational pattern of the institution by breaking down elements of the total plan into section and departmental components allowing costs to be more clearly estimated. It then forces a co-ordination of the elements into a proper order. It provides an instrument of control as well as a measure of managerial evaluation.

Thus the fundamental significance of budgeting is that it is an important technique and tool of planning, co-ordination and control in the financial administration of

an institution of higher education. These are rather broad aspects. In addition to operating as a tool of planning, co-ordinating and controlling budgeting technique has many more specific benefits. Some of these may be mentioned to be of the following nature:

(a) It tends to remove the clouds of obscurity and uncertainty that exist at many levels and sectors of management of the educational institution, relating to the basic policies and objectives. Budget forces an early consideration of basic policies.

(b) It promotes mutual understanding amongst the members of management at various sections and levels of their co-workers' problems. It creates a necessity of an adequate and proper functional organisation i.e. definite assignment of responsibility in each function. It pinpoints efficiency or lack of it.

(c) It compels the members of management from the board of trustees till down to junior members of teaching staff, to participation in the establishment of specific goals to be achieved within a specific period.

(d) It compels all members in the business finance (administrative), academic and students' departments to make plans "in harmony with the plans of other departments".

(e) It compels management to furnish adequate historical accounting data. It requires an appraisal of the past activities in a background as a foundation to future plan of action.

- (f) It forces management to put down in cold figures all that which is necessary for satisfactory results.
- (g) It compels management to plan specific course of action for the encoming year. It establishes a work plan.
- (h) It forces the entire institution to plan for the most economic use of man-power, material and facilities.
- (i) Budgeting instills into all levels of management, the timely careful and adequate considerations of all actions before reaching any decision. It also forces periodical sub-analysis.
- (j) It also serves as a public information device.

3.6 Advantages or benefits from budgeting process seems to be quite impressive. However, it should not be assumed that budgeting is a full-proof tool without any limitations associated with it. There are important limitations and it is necessary that those who use this device are fully aware of these limitations.

3.7 Limitations

Surveys indicate that failure of the system of budgetary control mostly results from (a) lack of the top management support, and (b) lack of appreciation of limitations involved.

Principal limitations are depended on the fact that firstly, budget plan is based on estimates. The strength and weakness of budgetary programme in the college, depends

to a large extent on the degree and accuracy with which the basic estimates are made and these estimates are made on available facts and good judgement.

(b) Secondly, a budgetary programme must be continually adopted to fit the changing circumstances. It is to be always remembered that the budget programme cannot be perfected in a short time. A budget programme is to be adopted not only for the given educational institution, but also for the entire administration of the society or the body that runs a number of institutions.

(c) The third fact is that the efficient execution of the budget will not occur automatically. Once the budget is completed the plan will be effective, only if all responsible executives and the heads of various sections in the educational institution are behind it and exert continuously towards its implementation. Division and section heads and departmental heads must feel the responsibility of achieving or bettering the departmental goals laid down in the budget. "A budget consciousness" is to be present at all levels of management.

(d) Fourthly, it is to be clear that budget cannot take place of management and administration. Budgeting being merely the tool, it cannot take place of management and administration. It should not be regarded as a master, but a servant. Although it is one of the best tools, it is not the final perfect tool.

Observations regarding the working and operations of the budgetary system of control in the college or an institution of higher education has indicated that the main reasons for the failure of budgetary system are mis-understandings and mistakes as expressed in (a) expecting too much, (b) installing it too rapidly, (c) supervising and administrating it inadequately, (d) bad operations, (e) inadequacies of the accounting system, (f) inadequate costing system, (g) inadequacies in the basic statistical facts of the earlier period, (h) expecting results too immediately, (i) failure to obtain co-operation, (j) failure of top management to give a real active support as expressed in "Budget is a fine idea for all educational institutions but ours is a different one", (k) failure to analyse results and ascertain causes, (l) too much forms and too many details, (m) absence of well-defined routine procedure, (n) absence of flexibility and failure to revise estimate, and (o) insufficient attention towards co-ordination.

4.0 Attitude of management on budgeting

4.1 Over last few years in our country, budget as a conventional tool of management stands accepted by the management of Institutions of Higher Education. Yet it seems that the significance and the practical utility of this has not been fully appreciated by management. This situation is indicated by the absence of any deliberate

objective effort to develop this tool further. In the advanced countries, on the other hand, a good deal of creative thinking and constant experimentation is going on the subject. This is reflected by the emergences of a number of controversies over the approach and philosophies that are at the basis of this operational tool. In fact, there is a constant effort to formalise these approaches and philosophies, into universally accepted systems. The main emerging system can be enumerated to be referring to following controversies:

- (a) Mechanical budget versus functional budget.
- (b) Yearly budget versus continuous budget.
- (c) Management dominated versus participating budget.
- (d) Centralized budget versus decentralised budget.

It may be useful to appreciate a broad outline of these controversies and the approaches.

4.2 Mechanical budget versus functional budget

Mechanical budget usually is presented in the form of two sheets of papers, one sheet showing yearly incomes and receipts and the other one showing expenditure such a budget is presented to indicate the way in which available finance can be divided and distributed in order to keep the educational institution going. Under this philosophy, the "budget is strictly a (revenue) receipt and expenditure operation, a book-keeping chore required by the law, which

is feverishly pored over near the end of fiscal year and is forgotten till the next year rolls around". This approach is based on tailoring the suit according to the cloth. It is usually observed that under this approach any planning that takes place is rather of a negative character, the planning operation being that of calculating what can be eliminated or what can be padded so that the budget will come right according to the revenue side.

On the other hand, in the functional approach of budget building, the budget planners in the institution of higher education, attempt to determine educational objectives of the institution, develop the educational plan that result in achieving these objectives, then analyse the cost implications of these educational plan and on the basis of such costs, approach to the problem of finding out the necessary finance. Distinguishing feature in the mechanical and functional approach is that under the latter approach, budget committee first considers the educational plan before it considers its financial or monetary aspects. Then it translates the qualitative and quantitative aspects of the educational programme into cost and estimated expenditure and then attempts to find out finance and money for the same.

4.3 II Yearly budget versus continuous budget

To those institutions of higher education who follow yearly or periodic budget building approach, budget is a

chore that must be accomplished once in every year, during 4 to 6 weeks before it is presented to the top management level, the board of trustees, etc. It is during this period that the administrative staff works at high speed, towards the end of the nerve, alone to gather figures and the supporting data. Usual observation is that in the face of emergency the thoughtful long term considerations regarding academic programme, personnel etc., are brushed aside. Well-thought plans to study needs of the community and the adjustments of the institutional organisation and working to satisfy these needs are discarded. In the continuous budget approach on the other hand, budgeting is taken to be consisting a part of planning process and is accepted as an integral part of daily operations. The day the budget is formally approved by the top management, the work on next years budget is immediately started, strength and weakness in the operations of the previous years plans are appraised and proposed budget corrections are made. Hastily conceived educational programmes, teaching and non-teaching staff additions are eliminated by long range planning which includes proposed financing with planning. With the year round budgeting activity, various areas of administrative operations are better co-ordinated. However, it is to be well understood that continuous consideration of the budget is certainly not an automatic operation. Certain well-planned objective

administrative devices are to be used. In order to ensure that budgeting becomes a part of the machinery of continuous operations, management is: (a) to schedule discussions on the budget all around, throughout the year. This is to be done at teaching staff meetings, administrative staff meetings, as well as the board meetings; (b) to set people to assigned tasks providing them all facilities regarding the access to files, financial records, etc., and make the people think in an objective manner; (c) to establish budget calendar which distributes various phases of budget making over 12 month basis.⁷ (d) to insist on reports which initiate and force considerations on items that are to be included in the budget.

4.4 III Administration dominated versus participating budget

Under the "administration - dominant" budget, the philosophy is that budget-making is strictly and exclusively the responsibility of management and therefore, neither any help is to be asked nor desired from any other sector of administration and activities. The teaching staff is to take what they get from the budget. The central office creates an impression that the budget process is beyond the understanding of ordinary human beings and there is something

⁷ University of the State of New York, Budget Handbook published by the State Education Department, Albany, N.Y. 1956 p. 70-75 gives an excellence on the subject as well as a good example of budget calendars.

secretive or mystic or exclusive, which is not to be shared by the others. Only that much budget reporting and communication is to be done as is either required by the law or as represents the essential minimum without the communication of which, working would be impossible. Even here also the minimum information is to be presented in a complicated and ambiguous manner, so that questions would not be asked so that in effect the budget becomes a "strict jacket rather than a dynamic plan". The administrative dominated budget is used as an administrative device to deny teaching staff and students many needed and requested facilities as well as a particular course of action which they intend to follow and any participation in the affairs. As observed, fact is that in such a case administration maintains certain undisclosed unusually large unallotted emergency funds, even enabling the management to do anything by legal, through ethically questionable procedures, during the course of an year.

Philosophy of participating budget is founded on two basic considerations. Members of teaching as well as non-teaching staff of the institution who use the equipment and facilities of the institution should be given the opportunity to suggest procedures and materials which they believe to be the most effective one in achieving the educational objectives of the institution. Ultimately, these being public service institutions and being supported by tax revenue,

citizens must be consulted in the planning process and they must be concerned of the desirability of a particular programme before they support it.

Participating plan involves and provides for an interplay of the staff and even public representatives on various levels of budget-making. The actual process may be a combination of formal and informal methods to get people together to share budget-making process. Staff members through their heads of departments may be asked to report and recommend the ideas on the institutional educational plans as well as to report individually on their own requirements regarding supplies, equipments, personnel. They may be encouraged to offer suggestions that would benefit the entire institution. In addition, they may be asked to serve on formal committees, e.g. salary schedule committee, building committee, plant management committee, teachers' budget advisory committee. Another method to encourage staff participation would be to hold staff hearing and in service meeting on the budget. Leaders in citizens may be invited to act as members on the budget advisory committees and on study groups. Advisory committees or groups are designed to study short range problems and to give to the management balanced advice on educational programme and the needs of personnel and facilities to accomplish the same. Citizens participation helps to create better understanding

of the education for the future and provides indications of the ^{prosperity} prosperity of the staff and public to undertake change.

4.5 Centralized versus decentralized budget

A recent innovation in the budget making is the decentralization wherein each distinct section and division of the educational institution establishes its own budget. wherever possible in the accounting process, decentralized budget treats each section or division as an independent unit. As opposed to this, the centralized budget treats the entire institution as one unit. Arguments are presented on either sides. A decentralization in budgeting, by its very nature, forces wider participation in budget making. It creates a situation under which the principal and the teaching staff are to work together and plan together. It also emphasises the individuality of each sector, division or the section and there is a direct personnel commitment and involvement. This permits face to face planning and follow throughout. However, other effects are that such a decentralization tends to compartmentalise the institution into various sections, divisions, departments, etc. Not only confusion due to the variety in methodology, the apparent differences in philosophies and the lack of overall unit, but even competition and rivalry often develops. There is another observation, namely, that the principal and the teaching staff become so much involved and tied up with the mechanical aspect of budgeting that they do not have any

time for personnel and programme improvement. Pressure groups develop and in their attempt to gain particular advantage for their own section, division or department, an aggressive approach is developed. Internal politics becomes rampant and the central office and various sections go completely out of tune.

Carefully conceiving a central budget and then circulating it and throwing it open for discussion and inviting suggestions for improvements seems to be a better proposition, for teaching staff and citizens participation. Such a plan is likely to reap all the benefits of the decentralized budget without running into the danger of over-compartmentalisation of the educational process in the institute of higher education.

5.0 Essentials for effective budgeting

5.1 Main pre-conditions for the success of budgeting programme in the institution of higher education are:

- (a) The entire and total programme must have active and whole-hearted support of the top management.
- (b) Principles of formal organisation and delegation of authority and related responsibilities are to be applied at all levels.
- (c) Responsibilities and authority for budget preparation, operations and supervision are to be definitely determined and formally laid down and the delegation of authority

and responsibility is to be consistent with the delegation of authority of operational responsibility.

- (d) Relationship between budgeting and accounting is to be clearly defined.
- (e) Uses and limitations of budgeting are to be thoroughly appreciated and for that there is to be a continuous budget education throughout the educational institution.
- (f) Budget objectives are set forth and clearly stated.

5.2 Support of top management

For the success of budgeting programme it is necessary that there should be a full support of every member in the management including the Board of Trustees and its President. Development of budgetary programme has many problems and situations of active and passive opposition is one of the real problems. Budget director, all alone, cannot make any wonders. It must be prepared by the people responsible for its operations and fulfilment and therefore, efforts and time of many heads of divisions and departments must be involved in the budget preparation. Whole-hearted support of the top management (President, Board of Trustees, Joint board of life members, etc.) will result in the active support of the programme all the way down.

5.3 Organisation for budgeting

By the term organisation is meant the structural relationship that exists between various sector in the educational institution. It is necessary that prior to

successful budgeting a definite plan of organisation must be established. It is not sufficient here merely to indicate organisational charts. These charts should be supplemented with written directives, specifying exact area of authority and responsibility, relationships, policies, methods, measuring performance, etc. From the accounting and budgeting point of view, definite specification of areas is needed, because accounting and the budgeting for management attempts to report and measure accomplishments in terms of individual responsibilities. For drawing up of budget, it is necessary that the overall plan be broken in terms of responsibilities of each member in each sector, before responsibilities can be budgeted and performances measured.

5.4 Responsibility for budgeting

Budget programmes must be definite responsibilities of a specified individual or a group. A delicate question obviously arises. The chief executive may be the President of the Society or the Principal - is ultimately responsible. However, the responsibility regarding formulation and preparation of the budget may be delegated to the Budget Director. The work may either be delegated to the head or chief of the finance and business division. In the case of large higher educational institutions or a college, it is desirable to have a budget director who should be responsible for the technical analysis needed by various sections and departments and for the final preparation of the budget report.

The main duties of budget director can be enumerated

as:

- (a) To advise the President of the educational society or the principal, members of the budget committee and all others on budgetary matters.
- (b) To recommend budgeting procedure and technical requirements for each part of the budget.
- (c) To assume responsibility for budget organisation and necessary time schedule.
- (d) To provide overall technical supervision of the budget programme.
- (e) To design and recommend essential forms, schedules and reports necessary for budget procedure.
- (f) To supervise the preparation and revision of the budget manual for the approval of the top management.
- (g) To furnish analysis of the past and future costs to the concerned heads of the sections.
- (h) To translate preliminary policy decisions into the probable alternative effects on future educational operations.
- (i) To prepare budget reports on individual and group reports on the performance of the budget team.
- (j) To analyse and interpret variations between actual and budget allowances.
- (k) To be responsible for certain budgetary clerical work.
- (l) To perform statistical analysis of various types on request.

5.5 Budget committee

It is advisable for the college as well as the institution of higher education to have a "standing budget committee" composed of the president, the principal, vice-principal or the director in-charge of financial operations, the director for budgets and the heads of various administrative academic and students departments. The committee should be in advisory nature. Budget manual should specify exact duties and responsibilities of this committee. However, important aspects regarding duties and responsibilities can be mentioned to be consisting as follows:

- (1) Receiving and reviewing budget estimates from various divisions and departments and to make recommendations.
- (2) To recommend decisions on budget matters where there may be conflict between departments and divisions.
- (3) To recommend changes and also approval of the planning budget.
- (4) To receive, study, analyse periodic reports comparing the budgets to actual performance.
- (5) To consider the policy with respect to follow-up procedure.
- (6) To consider and recommend the revision of the budget when conditions warrant so.
- (7) To consider changes in the budget policy and procedures.
- (8) To make recommendations for the budget manual.

The common tendency seems to be that of establishing budget committee and then assigning to this committee the responsibility for budget programming. This would not be desirable. Committee works too slowly involves so many diverse interests that do obstruct the day-to-day budget working. It is felt that ~~if~~ the committee would be really effective if it is used in the consultative capacity. It would also be in a position to establish effective coordination.

5.6 Approaches

It is most desirable, in fact axiomatic, that all budget objectives should be determined through full cooperation of those who are responsible for achieving objectives. Intelligent persons resent arbitrary orders. They normally take more interest in accomplishing objectives and plans which they have a part in formulating. Observations indicate that there is a good deal of extreme type of doubt in the minds of many heads of various department, especially in the mind of many in the academic departments. This is because they are not in the picture. The result is that there is an absence of active participation. They make little effort to following budget.⁸

⁸ Many managements have indicated that there is no need that they should. "They should not dabble in the financial matters, nor should they feel concerned about finance, their job being to lecture on the subject assigned to them and they are not expected to ask any embarrassing questions like, how, why, etc. and they even try indirectly to make the budget unworkable."

One of the remedies that can be suggested to meet the situation is that the budget director should not make their budget, but he should merely supervise its compilation. The budget director, the chief accountant and statistician, the departmental heads working in close collaboration with each other should construct the budget. Letting departmental heads, actually, help to set their own budget estimates has several advantages and the most important just now relevant advantage is that the feeling of co-operation and responsibility is very much greatly enhanced, and then there is no place for the feeling that the budget estimates are not fair.

This does certainly not mean that the estimates of the heads of the department should be treated as final and be accepted as they are. No plan or estimate submitted by a financially subordinate authority, should be accepted without a careful analysis and study. Top executive in the educational institute, namely, the President/Chairman of the Board of Management, the Principal must make the final decision. However, heads of departments must be properly heard.

5.7 Budget manual

Budget manual is a statement incorporating details regarding organisation, responsibility and the standard procedure that is to be followed in budget preparation and

administration. In addition to the essential details regarding the objectives and organisational set-up, etc. The manual should necessarily indicate details on:

- (a) Budget preparation -
 - (i) Instructions and forms to be used,
 - (ii) Responsibility - (a) operational executives
 - (b) budget committee
 - (c) budget director
- (b) Budget calendar, specifying definite dates, for completion of each part of the budget and submission of reports.
- (c) Managerial budget reports -
 - (i) Responsibility for preparation - (a) Actual data, (b) budget data & variations, (c) analysis.
 - (ii) Forms and contents
 - (iii) Distribution
- (d) Follow-up procedure

6.0 Procedure

6.1 Procedure for making and administering a budget for the institution of higher education involves both the legislative and executive function. The preparation of the budget plan and detailed estimates is generally regarded as an executive function and this is usually carried out by the chief executive officer - namely the Principal of the college and his both academic and non-academic colleagues.

Lay broad policies of the institution and the specific decision regarding the amounts to be raised is thought as a legislative function.

6.2 Factors influencing the process of emergence of the budget procedure

Budget procedure of a college is influenced by a number of factors. First factor - This procedure would vary with the philosophies and policies, approach and the size of the college as well as the type of the budget. Budget may be either taken to be a flexible document, that is merely expected to serve as a mere guide line, an efficient effective tool for college administration, or an inflexible document having a sanctity and as such a document that cannot be easily altered or changed. Secondly, one approach to the preparation of the budget is that of firstly estimating income from all sources, expenses are then estimated and matched against the expected income. If the income is in excess, the problem of preparing the budget and the procedure is very much simple. However, if the necessary expenses exceed income, it is essential either to find out a new source of income or reduce expenditure. In such a case the procedure requires a careful review of all estimates of income and expenditure so as to ascertain that no error has been made. Another approach in the development of budget is that of giving primary emphasis to the expense budget, on the theory that academic programme and its objectives are

more important and therefore, no matter whatever may be the costs, money must be found out to finance budget requirements. This may result many a times in a deficit financing. Deficit budget can be brought to balancing by either through fund raising operations or through specific activities or by borrowing from banks. (However, it is to be well appreciated here that if the funds needed to meet the requirements of the deficit budget do not materialise and if the college does not possess reserves to absorb a continuing deficit, they may be headed for a financial crisis).

6.3 Procedure involves the preparation of educational expenditure and finance plan. In this approach, therefore, the procedure is firstly to prepare (a) an educational plan indicating the scope of academic programme proposed for the incoming year, together with all specifications, reflecting educational philosophy developed over years and policy, organisation, number of students expected to be served, kind of personnel required to be employed, the work programme etc. developed on the basis of faculty, department classes etc. It has been observed that very few institutions of higher education set forth, even in the budget preparation procedure, not to talk of educational philosophic objectives, as reflected through the work schedule for a given fiscal period. Very few budgets show clearly what the educational objectives are and still very few set forth the purpose of higher education, special needs of the community the type of

the organisation, the extent of programme of the institution, the institutional personnel to carry out the programme, their salaries together with the benefit, the nature of various supplies needed, the number of students to be served, the size of the class, teaching material, the book supplies, the kind of the educational plant through which the plan is to be operated. Educational plan is to be followed by expenditure plan, which is really translation of the educational programme into expenditure programme - a kind of a technical activity involved in budget making. Such a translation requires the base of past experience and the ability to have cost approach e.g. Cost of personnel services, in the expenditure, programme based on salary schedules adopted and the placement of various personnel in the various grades in the salary schedule. This requires information that is collected ^{over a} on period of time and is to reflect any changes that may be needed during the period. Estimates of material supplies, etc., are to be based on accepted standards of consumption and quality. This is the data that is to be assumed over a period of time and can beneficially be included in the "Budget work book" which is a source material from which detailed estimates can be worked out. Although adoption of such a work book has been repeatedly advocated, a number of institutions have not adopted them. Another aspect requires attention. It is actually possible for the

administrative authorities to make what is termed as "lump sum budget" on which largest items of expenditure are estimated and set-forth, budgets that are based on the preceding year's figures without such analysis of the educational programme. In contrast to this method, there is another approach in which there is the translation of the educational programme in the expenditure in a most detailed manner. Expenditure is broken in the categories such as General Administration, Academic Administration, Students Administration, Plant Administration, Maintenance fixed charges, Capital Outlay, Debt servicing, etc. This expenditure programme is given in the tabular form, giving, not only the details of the current year but also figures of preceding years. Next aspect is the financial plan which shows the complete picture incorporating income from all sources and it is to be seen as to how the expended revenue is satisfying the demand of expenditure plan. In fact, it is argued that an unbalanced budget really ceases to perform its function.

As regards the approach it must be made clear that if the funds needed to meet the requirements of the deficit budget do not materialise and if the colleges do not have reserves to absorb continuing deficits, they are headed for financial disaster.

7.0 Size of the college and the budget procedure

Budget procedures of the college would vary mainly in accordance to the size of the institution. A very small college can prepare a budget on a simple form and administer its outgoing financial operations by the use of very simple budget reports (as mentioned in the Appendix _____). However, as the college becomes more and more complex in its organisation, the budget procedure is to become more sophisticated. Institutions having an enrolment of more than 1000 students and multi-faculty composite colleges should have sophisticated budgets and budget procedures.

8.0 Budget procedure and the business and financial policy of higher educational establishment

8.1 Another aspect of business and financial administrative policy, ^{IN FACT} one of the important pre-condition of financial administration through budget, is formulation and communication of business and financial policies through the issue of manual. It is desirable that there should be clear policies regarding: (a) funds, policies governing their system of accounts, enumeration, classification, designation, authority to expend, investment of funds, (b) authority for expenditure, control, depositing, (c) policy regarding compensation - salary (d) policy regarding academic, non-academic staff benefits, (e) budget policy, tuition fee policies, (f) loans, facilities equipment, capital assets and expenditure, (g) financial policies regarding non-specific activities, etc.

9.0 Type of the budget and the procedure

9.1 It is the type of the budget, that also influences the procedure. It appears that in addition to the normal routine type of traditional budget for the higher educational institutional activity on a specific year (this may be academic or financial year), there are the systems of multiple year budgeting, and (b) programme budgeting. A multiple budget forecasts development of budget programme, over a given number of years. It is usually developed year by year, such a budget formulation requires a long range planning projecting and co-ordinating, than in the single year budget programme. Here, in addition to routine factors that are to be considered in the formulation of a single year budget programme, factors like trends in enrolment, related institutions and their programmes, economic conditions, government policy and programmes as well as the physical and fiscal limitations of the institution. ^{ARE TO BE CONSIDERED} Multiple year budget is said to be more desirable, as it provides a measure against which individual year's performance may be related and judged. Multiple year budget can be adjusted to indicate changing conditions, as each individual year's budget is developed.⁹

⁹ The Budget and the College Planning Association of American Colleges, Washington D.C. 1966.

10.0 Formulation procedure

10.1 This involves the consideration of: (i) budget period, (ii) segments, (iii) budget centres, (iv) assigning budget centres, (v) preparation of draft proposals regarding cash inflow, cash outflow plans, (vi) development of standard form of plan, (vii) compilation, evaluation, balancing, (viii) review, referring back and readjustment, and (ix) formulation of final draft proposal.

10.2 Determination of budget period

The period may be month, term, semester, half-calendar or total calendar year. The budget may even be prepared for two to five years in advance. However, by increasing the time range, a budget is made a part of the planning process in the institution of higher education. Most of the institutions are preparing budget on the basis of calendar fiscal and academic year, the academic period being from 1st July to 30th June. However, the length depends on the purpose of the budget.

10.3 Main segments of the budget and their development

There are two important segments of the budget for the institution of higher education: (a) Income or estimated cash flow, and (b) Expenses or estimated cash outflow.

In preparing the income or estimated cash inflow, budget, estimates of income from all sources is to be made. It is said that the budget operation is the most successful one which develops an income estimate very conservatively.

(Representation chart attached).

Factors that are to be considered here are: (a) expected enrolment and its pattern, and gross and net income from fees, (b) endowment income, (c) financial support or grant in aid income, (d) short term balances that are received in excess of immediate needs (although the good administrative feature is to convert the short term investment into reserve that may be used for meeting unforeseen contingencies, (e) income from book store and other auxiliary services, (f) income from sales of product, and (g) income from events like dramas, from rental facilities provided, etc.

10.4 Expenses or cash outflow

The preparation of cash outflow budget is to accompany by listing all expenditures for which higher educational institution has a continuing commitment including salaries of the administrative staff, teaching staff. To these must be added: (a) increase in salaries, (b) increment in the employment budget, (c) new programmes, (d) new staff, (e) rennovations, (f) costs due to revision of curriculum - upgrading and the improvement of quality of the institution and others. Totals of these would provide an estimated total expenditure figure. Calculating this expenditure figure and anrelating it to the projected income or cash inflow will show, whether or not the institutional income is adequate. At this point in the budget procedure, it is necessary to review income or cash inflow estimates and expenditure

projections to determine whether the total estimated figure is in excess of the total estimated expense. A preliminary budget might have had a series of miscalculations that ought to be corrected here.

10.5 Budget centres

(a) Budget centres are used in large institutions to bring together and control expenses for specific types of activities. These activities may be "departments", "buildings", "projects", "programmes". The final decision regarding how many activities the institution must have will depend on the policy regarding budget centres. However, it must be remembered that it is not desirable to have too many budget centres as they may result in the loss of efforts.

(b) A smaller college also may use budget centres.

(c) Each budget centre may be designated by a number and all expenses of each budget centre can also be designated by a number. (Illustration in the Appendix.) The number of budget centre and expense classification should be set forth in sufficient details to assure proper budget control when once the budgets are prepared. A system of coding also be adopted.

It is not possible to classify every expense strictly on the basis of budget centre and that is why sometimes the problem of allotting unclassified expenses arise? While it is always desirable to classify expenses on the basis of budget centres, yet certain over runs do occur. Many expenses

materialise which are not budgeted for. Here at least for the subsequent period, it is desirable to classify them accurately. Minor over runs of a budgeted classification or minor changes to an unbudgeted classification may be allowed automatically, provided there are sufficient savings, in other classifications (except salary classification) to off-set the charge in question. If the charge is beyond the amount allowed by policy, then the budget adjustment request is to be issued and approved by the relevant authority.

Budget control guidelines must be established. These are the policies which indicate the use of funds. The control may be by line - (i.e. one budget item or classification group)^{or} the budget - as a whole). Concept of budget centre is sometimes adopted in another fashion. This is particularly so where the approach is that of programme budgeting. The approach is basically a cost approach. In a programme or project budget, the programme or the project becomes the budget centre, and it is the programme or the project that all services etc., that are received from every other programme are charged. (e.g. salary allotment to the programme in proportions of efforts where the same person is working in two capacities. The end result is the indication of the cost of the programme. Exact result would be based on the accuracy of various assumptions. However, the worth of a college programme cannot be judged merely by fiscal operation

alone, as educational programmes are not intended to be evaluated in that manner.

11.0 Various stages and phases in budget procedure

11.1 Although the governing board, usually through its budget committee, is to approve the budget, its preparation is to proceed through various stages. Before they can be considered and approved by the rightful authority, budgets are to be prepared in the form of proposed draft budgets. They are to be developed by the heads of the departments and then collected and presented by the Principal to the final approving authority. For such a preliminary preparation, an orderly line of procedure is to be developed.

11.2 Assigning budget centres

It is for this purpose that it is desirable to assign budget centres. In the appendix a proposed plan of the distribution of budget centre is given. The working arrangement is that the necessary control guidelines are communicated through various control centres (Appendix NO. _____) to the offices under administration. These in turn are communicated to the department or budget centre directors (departmental heads). It is at this level, namely, the level of budget centres, that the budgets are initially compiled.

11.3 Budget preparation procedure

The first requirement on the actual preparation is to develop required forms (Appendix) incorporating the necessary

information therein. Initial form should be such as can present sufficient information.

It may be desirable to incorporate in the form, approved budget of the preceding year as well as the actual results of the last completed years. Sometimes the budget preparation itself takes sometime and during this period there might be actual expenditure of the present year. In addition to the classification forms (Appendix _____) there might be a number of supporting details, explanations, etc. Then there is the letter of transmission. It is necessary that these forms and draft letter of transmittal together with the special guidelines to the budget centre, should be communicated as early as possible before the budget year starts. Actually, it seems to be desirable that succeeding budget preparation may start as soon as the current budget is approved. However, this is possible only if the necessary budget procedures, forms and schedules are well established.

11.4 Completion of sectoral budgets and balancing

When the "sectoral budgets" are compiled they are then to be forwarded to the next level, which for the college would be that of the administration office under the Principal. Here the main activity is to review all the sub-budgets received from various budget centres and to co-ordinate them. It is the office which reviews, evaluates and approves the budgets and relates them to the total allowance approved, when they are found to be apparently in order, then they are

forwarded to the budget director (Finance Office) to be compared with the guideline appropriations; if in order, they are to be presented to the Board of Trustees, ^{as} the final budget proposal. All the budget centres are to follow the same procedure through their respective channels. It is found to be very much useful, during this procedure, to process budgets to ^{and} modify budgets to acceptable stage as frequently as possible, so that the entire institutional budget development may proceed accordingly. If the entire institutional budget is developed progressively, then it is possible to adjust guidelines to the centres having the difficulty to stay within the allowance.

11.5 Review, balancing and finalization of budget

When individual budgets have been generally approved and assembled, it is always found that expenses exceed the amounts available. In such a situation, it becomes necessary to review "income computation". It may be that certain source of income might have been overlooked. There may be programmes and proposals in the expense categories whose incomes have not been taken into account. In such a case an addition (income) to the cash flow might have been in effect overlooked. When incomes have been verified and all the new factors considered, the budget director is to assemble again the information, get it typed and ^{TAKEN IN IT} transit it, as referred back, to each in-charge of a major area of responsibility - in-charge of budget centres - with a recommendation to review

and readjust. After receiving, reviewed and readjusted statements, these sub-budgets are to be reassembled. It is to be found now, whether the balancing takes place. If the budget is still out of balance, a variety of measures can be adopted. One of the methods to enforce a percentage cut to the amounts demanded and assigned to each department or budget centre. However, prior to this method of enforcing a cut, it is desirable to do efforts to readjust and balance by discussion, compromise, etc., and thus through discussions, deliberations and negotiations, to bring the budget to balance. After all direct cuts are arbitrary and undesirable and they therefore, are to be as far as possible avoided. A third alternative sometimes seems to be that of accepting deficit budget, accepting, to carry deficit over the year, either expecting that some unexpected miracle might happen and in its ultimate situation, budget may be found to balancing or expecting that additional efforts in fund raising might result in the balancing of the budget in actual effect.

12.0 Budget presentation and approval

12.1 Compilation and presentation to the President together with supporting data.

After these reconciliations and readjustments have taken place, and ultimate figures are assembled and analysed, under major expense categories, it is necessary to verify that all the expenses are in line. Then all these papers are to be presented to the President/Chairman of the Governing Body.

It is desirable that all these papers may be condensed and presented, so that while they are concise and they do present sufficient and adequate information. In addition to these papers, sufficient supporting data is also to be presented.

As regards these supporting data, no specific form or contents can be suggested. This data is to be collected and presented in a manner, that suits best to the person who is presenting the budget. The main theme that is to be kept in mind is that whereas the board, the primary authority, on whom ultimately the responsibility of the institution rests, the board must be given full, complete and accurate information.

12.2 Discussion and deliberation and approval on budget

The budget then would be discussed. Various alternative courses are open to the Board. Either the budget may be approved or not approved. It is possible that budget may be approved with certain qualifications or modifications. In such a situation these qualifications and modifications together with explanatory observations for the same, be communicated back to various budget centres. Another alternative is that the proposed budget may be referred back. This process of review, referring back, readjustment, etc., is to continue till the ultimate approval of the budget by the Board takes place.

12.3 Post approval actions and procedures

The budget is usually accepted by resolution, indicating that the operational budget of the college for the specific year and as presented by the President with the estimated receipt of rupees and estimated expenditure of rupees has been approved.^A

As soon as the budget is approved by the Board, its copies are to be prepared and these copies, one to be immediately transmitted not only to the persons incharge of budget centres but even to individual departments. This is to be done through the same chain of authority in the reverse sequence in which budget proposals were received. The main objective here is that everyone involved will have a copy of the budget for his own area (Appendix _____). It is desirable that the President sends a letter to all together with the master sheet of the budget together with a separate document expressing the sanctioned budget for a specific budget centre or department indicating thereby that this is an official budget for the specific department for year noted. It is also desirable that this letter emphasises personally the importance of supervision and control and the importance of operating within the financial limits sanctioned. It is also desirable to send along with this letter and documents a cash flow form with an information letter (Appendix _____) requesting the departmental head to project as far as possible, accurately his plan of expenditure. It is to be

noted here that the income estimates are already put on the cash flow basis by the finance officer. The expense cash flow projections (instead of following the chain of supervision developed in the preparation of budget) is to be sent directly by the department to the finance officer. Finance office is to group this up, with others, so that the projected plan of the total cash outflow for the entire institution may be developed. Finance office is to project and compare this with the estimated/projected Cash Inflow. If the Cash Outflow picture of the department is not favourable, a discussion with the department is not favourable; a discussion with the departmental head is very much desirable. It is through such a discussion that favourable programme may be developed. If the programme balance is favourable or acceptable, then the finance officer is to send to the head of the department, an Official Cash Outflow Plan. This document is expected to serve as a guideline to various departmental heads in their fiscal management. Copies of this Official Cash Outflow plan may be sent to all those who are interested. This official cash flow chart is usually identical with the work-sheet cash outflow.

(a) Monthly Reports

A schedule of cash outflow for specific budget centres and departments is to be maintained by the finance office by months and programme accumulations. These schedules are used for comparison and review of monthly operating results - (for

reports to the principal, treasurer and quarterly reports to governing board). Arising out of this is another important aspect. One of the necessary tool of effective budget control is the use of periodical reports, that will be meaningful and useful in budget supervision. Such reports are expected to indicate accumulated actuals through prior month - current months payments (cash expenditure) accumulated payments to date, outstanding requisites, total expenses to date - budget allocation to date, budget allocation gains or losses, overdrafts, etc. The main idea is that the variance between estimated budgeted and actual outlay is to be corrected. In case an overdraft item occurs then there should be an immediate review by the concerned persons. It is necessary to examine that whether the overdraft or unspent balance is temporary. This difference may be the consequence of the shortcomings in Cash Flow planning and possibly it might not be reflecting any deterioration in the situation. If the situation is not such as can be corrected automatically, then a consideration for adjustment and correction in the budget is to be done. Possibly there might be savings unnoticed, within the budget classification and these can possibly be used to offset apparent deficiency. Necessary transfers can be done. However, they are to be authorised and done at the appropriate level. If the overdraft cannot be adjusted in the above mentioned manner, then a policy matter becomes involved. Whether the overdraft is to continue, or whether it

is to be wiped off through budget adjustments and increase of the original allowance, is a matter of policy. A standard procedure is to be developed even for making such readjustments, a procedure which ensures satisfactory authorisation and documentation.

Along with the monthly expenditure reports, the department is to send supporting information and documentation. These are expected to be helpful in the interpretation of monthly reports.

(b) The final reports

The final reports are to be presented to the governing board - Principal - treasurer. These reports should be concise. However, they should be supported by documents and whatever additional information, requested must be furnished. The budget director and finance officer must have full and complete information.

Appendix No.1: Budget Centres and their Allocation
(Main five centres further divided into a number of sub-centres)

1. The President or Chairman of the educational society and the secretary
 - a) Office of the educational society
 - b) Developmental office

2. Office of the Principal, the Chief Executive
 - a) Office of the principal
 - b) General office
 - c) Public relations
 - i) Relation with university
 - ii) Relationship with government
 - iii) Relationship with the academic bodies
 - iv) Personnel administration

3. Office of the Vice-Principal dealing with students administration or Dean of students and student officers
 - a) Students general administration
 - b) Administration of students welfare services
 - c) Administration of students activities
 - d) Hostel

4. Office of the Vice-Principal (Academic (or head of department, senior professor)
 - a) Instructions
 - b) Library
 - c) Laboratory

Appendix No.1 (Continued)

- d) Garden, museum
 - e) Organized research
 - f) Special educational activity
5. Office of the Vice-Principal Business Finance and Plant Management
- a) Business and finance office
 - b) Estate and plant management
 - c) Auxiliary enterprise

Appendix No. 4: Sources of Income for an Institution of
Higher Education

	Previous year actual	Estimated for cur- rent year	Remarks
1. Opening balance from previous year			
2. State grants and govern- ment appropriation			
a) Maintenance grant			
b) Salary D.A., H.R.A. grants etc.			
c) Other recurring grant			
Total			
3. <u>Fees and Fines</u>			
a) Tuition fee			
b) Tutorial fee			
c) Laboratory fee			
d) Library fee			
e) Admission fee			
f) College examination fee			
g) Transfer certificate fee			
h) Gymkhana or students activities fee			
i) Administration fee			
j) Admission charges for games			
k) Athletics fee			

Appendix No.4s(Continued)

	Previous year actual	Estimated for cur- rent year	Remarks
l) Auxiliary enterprise fee			
m) Student centre fee			
n) Deposits forfeited			
o) Health services fee			
p) Excess of food service			
q) Orientation fee			
r) Student union fee			
s) Cycle stand parking fee			
t) Funds held in trust			
u) Fines - late payment			
v) Late registration			
w) Special examination			
x) Breakage fine			
y) Penalty			
z) Housing operations			
Miscellaneous			
Total			

Appendix No.4:(Continued)

	Previous year actual	Estimated for cur- rent year	Remarks
4. <u>Subscription donations</u>			
<u>From</u>			
a) Income from endowment			
b) Subscription donation from			
i) Staff members			
ii) Management			
iii) Others			
iv) University			
5. Miscellaneous receipts			
Total			

Appendix No.6Budget Comparison Sheets
(A) Income & (B) Expenditure

	Preceding year		Proposed budget for current year	Difference (3-2)	Remarks
	Budget	Actual			
	(1)	(2)	(3)	(4)	(5)
(A) <u>Income</u>					
a) Govt. appropriation					
b) Fee & fines					
c) Endowment					
d) Gift donations					
e) Organized educational activities					
f) Auxiliary services					
g) Other sources					
h) Current borrowing					
i) Scholarships					
Total Income					
(B) <u>Expenditure</u>					
a) General administration					
b) Students administration					

Appendix No. 6 (Continued)

	(1)	(2)	(3)	(4)	(5)
c) Academic ad- ministration					
d) Business fi- nance ad- ministration					
e) Plant ad- ministration					
f) Public relations administration					
g) Personnel ad- ministration					
h) Administration of auxiliary services					
i) Annuity and loan repayment					
j) Miscellaneous					
Total Expenditure					
Surplus or deficit					
Total Expenditure					

Appendix No.7

Salary Data

Major area of increase percentage of increase and added personnel

Year

	Amount \$.	No. of personnel
1. Total increase (including salary increase promotion added responsibility new personnel)		
2. Salary increase: added responsibility promotions		
1. Administrative staff		
2. Academic staff		
3. Clerical staff		
4. Class Four non-academic, non-administrative staff		
Total		
3. New programme and major expansion and new added staff		
1. <u>Full time</u>		
a) Administrative		
b) Academic		
c) Clerical		
d) Menial class Four staff		
Total		
2. <u>Part time</u>		
a) Administrative		
b) Academic		
c) Clerical		
d) Menial class Four		
Total		

Appendix No.7 (Continued)

	Group	Average group
Average percentage of increase by rank or class		
1. Administrative staff		
2. Academic staff		
a) Professor		
b) Asstt. Professor		
c) Lecturers		
d) Demonstrators		
3. Non-academic administration		
4. Clerical		
5. Maintenance staff		
6. Overall average		

**Appendix No. 8: Academic Administration
(Instructional Staff Salary)**

Year (1972-73)

	No	Low	Highest	Average
1. Academic administration				
2. Head of department				
3. Professor				
4. Asstt. Professor				
5. Instruction demonstration				
Overall Total				

Inrolment Comparisons

	Estimate 1972-73	Estimate 1971-72	Actual 1971-72
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Under Graduate

- Arts
- Science
- Commerce
- Education

Total

Post Graduate

- Arts
- Science
- Commerce
- Education

Total

Total graduate and

Appendix No.11: Operations of Budget

Year - 1972-73

	Receipts Rs.	Expenditure Rs.	Balance Rs.
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1. Arts

Pre-degree

First year

Second year

Third year

Total under-graduate

2. Science

Pre-degree

First year

Second year

Third year

Total under-graduate

3. Commerce

Pre-degree

First year

Second year

Third year

Total under-graduate

4. Education

Appendix No.11: (Continued)

	Receipts Rs.	Expenditure Rs.	Balance Rs.
<u>5. Post-graduate</u>			
Arts			
Commerce			
Science			
Education			
Total			

Appendix No.14: Monthly Report of Budgeted Expenses and Actuals

Budget Centre

Sanctioned Amount

Month

Year

Balance

Department	Expense A/c.No.	Accumulated actuals through prior months	Current month	Accumulated payment	Sanctioned amount	Balance
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Summary

1. This note on 'Budgeting' and Financial Administration of colleges and the institutions of higher education in the State of Maharashtra, opens with an analysis of the concept of financial administration in relation to I.H.E. (Institution of Higher Education) and colleges. The first part deals with the financial functions, their operational analysis, classification financial cycle and the place of budgeting in the subsequent part of the preliminary observations, evolution and the under developed stage of budget making in I.H.E. (Institution of Higher Education) and colleges in Maharashtra has been discussed. It is in this connection that the dirth of literature on this subject is pointed out. At the end of this first part, a broad outline of the proposed note is incorporated.

2. In the second part of the note certain conceptional and definitional problems have been considered. While it is mentioned that most of the definitions on budgeting are in relation to the corporate business enterprises and government sector, an attempt is made to develop a concept of budget for the institutions of higher education.

3. Part three deals with the purpose and significance of budgeting in I.H.E. and colleges. It is in this context that the significance of budget as a "tool of planning, controlling, coordinating" in the conducting of an institution of higher

education or the college is brought out. While explaining the budget as an "instrument of management" administration short comings and limitations of this instrument have also been presented.

4. In the next part, analysis of the attitudes of existing managements on budgeting have been reviewed. Existing controversies and main issues involved there in , especially on 'Mechanical versus Function budget'. Periodic (yearly) versus Continuous budget, Administration dominated versus Participating budget and Centralized versus de-centralized budget have been presented.

5. It was felt necessary that essentials of an effective efficient sound system of budgeting ought to be brought out. Accordingly in the Fifth part of the note main pre-conditions to sound system of budgeting namely, the support from the 'top management', development of a suitable organisation for budget work. Budget staff and their work, appointment, authority and the responsibilities of the Budget Director, the creation of the budget Committee, Development of suitable approaches and procedures and their incorporation in the budget manual all have been presented.

6. Subsequently in note from part Six to Eleven, Budget Procedure is discussed. Here the entire approach being a positive one instead of spot lighting the existing deficiencies in the operating approaches and procedures, correct

approaches and procedures have been pointed out. It is in this connection that the legislative and the executive aspects in budget making, factors influencing the procedures and practices in budget making, including the size and type of the institution or the college, business and financial policies of the institution or the college, type of the budget, budget period, main segments of budget, and their development, budget centres, cash out flows and the establishment of guide lines have been discussed. Finally various phases and stages including the allocation of budget centres, preparation procedure, compilation of the sectoral budgets, their balancing and for that purpose review, readjustment and finalisation have been discussed.

7. Next the actual presentation of the budget to the President of the governing body of the society, representing the 'top management' discussions and deliberations over the same and the approval procedure have been discussed. Finally, in this part, the post budget approval actions and procedures including intimating "sanctions" to respective budget centres and through them to the respective departments and Sections as well as the procedure that is to be followed in getting to the Top Management, monthly and the final reports on 'cash Out-flows also have been discussed.

Part 13 gives a list of Appendix. Here an attempt is made to develop a number of forms and formats. These mainly include a statement regarding the identification of budget

centres, proposed forms for preliminary estimates on enrolment, incomes from tuition fees etc, source of income analysis sheet for studying the estimated increase in the expenses, cash out flows comparison sheet have been presented. Whereas salary expenditure (representation 65% to 85% and again in that expenditure on salary, payment to the 'academic staff' forms the major item of expenditure, forms for the analysis of salary data and more particularly for the salary data of the instructional staff have been developed. Subsequently a detailed format for the college budget and the format for the summary analysis also have been developed and presented. For control in financial operations subsequent to the approval and adoption of the budget centres, Cash Flow distribution and operations sheets as well as sheets for the Monthly reports on Cash Out flows have been developed and presented. Finally sheets for the Summary final report on budgeted and actuals also is incorporated.

Appendix No.4Recommendations

- 1) In the preparatory stage of this note some discussions and deliberations with (a) Business and administrative officers and (b) Senior persons in the college offices and (Office Superintendents) and (c) The college auditors auditing annually the college accounts, were carried out. It is however clear that in the process of development, application and extension of these new techniques in budget making, this obviously is not enough. It is therefore necessary that, from important observations from this paper, a summary be prepared and be circulated to the business and finance offices and officers in the colleges.
- 2) It is true that, at present, different offices and different persons and officers are carrying out business and financial function in the colleges. So far, these offices and officers have not even been distinctly and separately identified. It is therefore necessary to request Educational Societies conducting the colleges and the college principals to name those offices and officers who are in charge of Budgets and general financial administration functions in the colleges.
- 3) Having received the names of these offices and officers, the next important step is to organize university or region-

wise (where there is more than one university operating in the region) meetings and seminars. It is through the organisation of such meetings and seminars that a system of closer communication be established, leading to open hearted dialogues between all those who are earnestly concerned with the modernisation of higher educational administration in the State.

4) A good deal of follow up would then be needed. For this purpose it is strongly recommended that Associations of Business and Finance officers be created. These should be registered and recognised. These associations have got a lot of pioneering work to do. Such associations are to establish relations not only with the similar organisations operating in region or in each university area within the state, but even with national and international organisations. This is quite necessary.

5) Having being convinced that that modernisation of higher educational administration is a "must", then government through its Directorate of Higher Education shall have to play a very dynamic part, (a part which in other developed countries universities play). As a declared policy government shall have to insist that (a) the college should be reported as a distinct and independent entity, its budgets and accounts not being mixed with that of the educational society (which conducts a number of educational institutions) (b) College shall have to prepare and submit its 'five year

institutional plan' incorporating relevant programmes and budgets. (c) That it would be only on the basis of a 'performance budget and actuals' rather than on the basis of "a deficit oriented maintenance" that the financial support policy be operated. (d) As a definite policy measure it is to be insisted that budget is to be submitted in the new developed form to both the University authorities as well as to the Directorate of Higher Education.

5) In this process, regarding the exact role of the University office a problem arises. Observation is that even so far, university administration is not even aware of the pressing need of modernisation of financial administration in educational institutions. In fact in regard to internal financial administration of the college, there is a peculiar non-concerned attitude of the university administration. This has resulted in creating a very peculiar pattern of financial administrative inter-relationship between the university and the colleges. This is a problem by itself. In case government through its Directorate of Higher Education is in a mood or position to convince the university administration and make them committed to the programme and undertake this as their own responsibility, ^{if} ~~this~~ would be ideal. In that case for this purpose, a supplementary administrative cell shall have to be created in each university. This cell working hand in hand with the University or Regional Association of Business and Financial Administrators, operating at the college level can certainly ensure a rapid progress in modernization movement.

6) However it is to be appreciated that within immediate future this ideal situation may not be possible. Even upto now there are the peculiar out dated regulation of affiliation governing broadly the pattern of inter relationship between the university and the college offices. It may not be immediately possible to amend these regulations. In that case in collaboration with the university authorities the Director of Higher Education is to establish a direct relation with the University-wise/Regional Associations of College Business Administrators (particularly in matters of organising work shops on the subject).

7) It is of utmost importance that a fresh thought is to be given to not only the existing but the needed staffing pattern at both the Directorate of Higher Education as well as at the university level. Broad observation is that the existing staffing is not done either from the developmental or modernisation point of view. It is therefore clear that while the existing "staff development" is to be initiated through the organisation of "work-shops seminars" etc., new staff shall have to be recruited on the basis of these new objectives and resulting new, improved job specifications and qualification standards.

8) It is earnestly felt that attached to each university and operating for each region, a sub-office of the Directorate of Higher Education shall have to be created.

- 9) Finally it is to be submitted that this note is to be referred to the Joint Board of Vice Chancellors. Joint Board can certainly (provided it is prepared to come out of its conventional cells) contribute quite significantly to the cause of modernisation of higher educational administration. An immediate action which the board can take up is to appoint a Committee and a Follow up Committee for this purpose.
- 10) Any type of critical and adverse reactions on the report are welcome. The only thing is that they are to be communicated to the author.

APPENDIX NO. 3References of more important books and works

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