CHAPTER FIVE

FINANCIAL POSITION
5.1 Introduction

Finance plays pivotal role in the establishment and development of any institution, Society or nation. Sound economy, a design of national progress, is a key to success of institutions. This is particularly true of educational institutions, such Adventist schools which stood wedded to social cause. Financial position of educational institutions depends not on the surplus of the money but the good accounting system of that institution.

Accounting is a fundamental and comprehensive tool to measure the financial health, profitability, viability and consistency of a business. Accounting is the information system that provides valuable information to management for decision making. Hence, a proper understanding of accounting concept, procedures and techniques is a must for accounting as well as for non-accounting professionals. Accounting is the language of business and like any other language: its main objective is to communicate. It communicates the results of business operations to various parties who are interested in business, e.g. Proprietor, Creditors, investors, government and other agencies.

5.2 Adventist Accounting System Defined

Accounting is often characterized as “the language of business.” The accelerated changes in our society has contributed to increasing complexities in this “language”, which is used for recording and interpreting basic economic data for individuals, business, governments, and other entities. Sound decision is based on reliable information. Accounting, therefore, plays an important role in our economic and social system.

The American Institute of Certified Public Accountants [AICPA] defines financial accounting as “the art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part at least of a financial characters, and interpreting the results there of”. Therefore, the function of
accounting is to provide quantitative information of financial nature of economic entities needed in making economic decisions.

5.3 Functions of the Adventist Accounting System

There are many objectives of Adventist Accounting System. These make a good sense of dealing financial issues for the betterment of good financial position in the schools. Today Adventist schools in Maharashtra are one of the top schools, because of the good objective functions of the Adventist Accounting system.

In order for accounting to fulfill the objectives, it performs the main functions:

1. Recording

This is the first step in accounting. Daily business transactions are recorded in a systematic manner in proper books of accounts. The initial recording is done in the books of original entries, called Cash Receipts, Cash Vouchers, Bank Vouchers, Journal Vouchers and Payroll Journal. The books of original entries are further summarized into Cash Journal, Bank Journal, and General Journal.

2. Classifying

Classifying means analysis of recorded data into group transactions of similar nature at one place. This is done in a ledger. In the ledger, a separate account head is created for each category of transaction, such as, office expense, travel expense, property maintenance expense, etc.

3. Summarizing

This means presenting the classified in the form of Financial Statements, in a manner that will be understandable and useful to internal as well as external users of accounting information. Trial Balance, Balance Sheet, Statement of Financial activity is prepared to summarize the data. The broad classification of data is summarized into schedules. Accounts containing multiple classifications are disclosed in Exhibits.
4. Analysis and interpretations
After recording classifying and summarizing, the next step is to analyze and interpret the recorded data in such a way that it becomes meaningful and helpful to the users of accounting information. This is done by using various tools and techniques of analysis and interpretation, such as statement of change in financial position, statement of working capital and liquidity and statement of fund balance and so on.

5. Communications
After analysis and interpretation, the meaningful information about the activities of business must be communicated to parties involved in decision making. This is done in the form of ratios, graphs, diagrams, charts and so on.²

5.4 Generally Accepted Accounting Principles of Adventists
Accounting System
All languages have their own vocabulary of words, conveying the same meaning to all people communicating in that specific language. Besides every language also have its own rules of grammar and usages. Similarly, financial language has its own grammar in the form of rules, procedures, doctrines, tenets, assumption, postulates, concepts and conventions known as Generally Accepted Accounting Principles. They bring about uniformity in recording, classifying, summarizing, interpreting, reporting and presentation of accounting information. These principles enable the finance people, all over the world to convey the same meaning.³ The basic Adventist accounting principles or concepts relating to Balance Sheet and statement of Financial Activity are separately discussed below.

5.4.1 Balance Sheet Concepts
There are several concepts related to the Accounting System. The Balance Sheet is the main tool which will enable the smooth flow of the finance in any units. Without a Balance Sheet no accounting can be called as an accounting. Let’s see and discuss the financial activity or various Adventist concepts of Balance Sheet:
• **Business Entity Concepts**

Accounting to this concept, for the purpose of preparing a Balance Sheet. Every business concern is considered as an entity separate and distinct from its owners irrespective of the nature or type of organization like Proprietary, Partnership, or Joint Stock Company.

• **Going Concern Concept**

Accounting to this concept, while preparing Balance Sheet, it is presumed that the business entity is a ‘going concern’, and not a ‘gone concern’. It means that the business enterprises would continue to operate for an indefinitely long period of time and is not likely to be wounded up in near future.

• **Monetary Measurement Concept**

According to this concept, in the Balance Sheet, Common money is used to enable meaning comparison. Every item such as land and building, Furniture and equipment, inventories, goodwill and patents are all expressed in monetary terms. Items which cannot be expressed in monetary terms such as level of moral, employees motivation, technological competence, market image, and so on can no become part of the Balance Sheet.

• **Cost Concepts**

According to generally accepted principle, all fixed assets are computed at the historical cost or cost price at which they were initially acquired, irrespective of their present market value. Similarly, depreciation is charged on the basis of original cost of the fixed assets whatever may be their present market value.

• **Conversion Concepts**

This is also known as Doctrine of Prudence. This refers to the policy of playing safe by providing for possible losses but not for anticipated gains.
Accordingly, Current assets are valued at the cost or the market price which ever is the lowest.

- **Duel Aspect Concept**
  
  This is the basic concept of Accounting. According to this concept, every business transaction has two aspects. It may be either receiving the benefit or giving the benefit. It is based on double entry system. For every debit, there is an equal and corresponding credit entry.\(^4\)

### 5.4.2 Adventist Statement of Financial Activity

There were many Adventist statement of Financial Activity which will be help further in developing various methods, dealing finance in a unit of any educational units. These various concepts are noticed below:

1. **Accounting Period Concept**
   
   According to this concept, the life of a business is split into annual intervals which are known as ‘Accounting Period’ which is normally of one year period. It may be calendar year (1\(^{st}\) January to 31\(^{st}\) December) or financial year (1\(^{st}\) April to 31\(^{st}\) March).

2. **Accrual Concept**
   
   According to this concept, income is recognized when it is realized that is when goods and services are delivered. It is not important whether cash received or not. Whether the cash is paid or not. Therefore, to show fair financial position of the business, all expenses and income relating to the accounting period are recorded, whether actual cash has been paid or received or not. Thus recording of outstanding income (receivable) and expenses (payable) is necessary.

3. **Realization Concept**
   
   This concept is also known as ‘Revenue Recognition Concept’. As per this concept, the income is considered, as being earned when a transaction rendering goods and services is effected, be it in cash, in credit or in
installment. This also means that the income is considered as being earned on the date at which the goods and services actually pass to the buyer and he becomes legally liable to pay and not when a purchase order or a contract is signed.

4. **Matching Concept**
   This concept is based on accounting period concept. In order to calculate the profit of a business during a period, it is necessary that income of that period be matched with the expenses incurred in generating such income of that period. It is to be noted that expenses are matched to income and vice versa. This process of recognizing and relating expenses with income is called matching concept.

5. **Materiality Concept**
   All fixed assets of an institution are required to be recorded in equipment ledger, for the purpose of accounting, control and verification. This involves time and expenses. Accordingly, only the items of material(substantial) value are recorded as fixed assets. Based on this principle, small and low cost purchases are presumed to have been consumed during the current financial year itself, through such items may last for , at least, a couple of years, or even more. Different organization, depending upon the size and nature of activity, may take administrative decision with regards to materiality amount. But with a view to keeping track of and due control on, even such item that are expensed but have life more than one year, must be recorded in some other with an appropriate name.

6. **Consistency Concept**
   This concept assumes that accounting policies should be consistent from one period to the other. It implies that rules, principles and methods adopted by Seventh Day organization for the purpose of preparation and presentation of accounts should not be subject to frequent changes.
7. Full Disclosure Concept
The primary object of accounts is to provide information with minimum uncertainty to enable the user to make informed decisions. This concept specifies that all significant information relating to the financial affairs of the Seventh Day Organization should be complete and fully disclosed. This is done by providing footnotes, summaries and exhibits where deemed necessary.\(^5\)

5.4.3 Seventh Day Accounting Standards
The British introduced the term ‘standards’ in place of ‘Principles’ in 1969, when they set up the Accounting Standards Steering Committee while the Americans continued using the same terminology. In India, the term ‘Standards’ has been commonly used since the formation of the Accounting Standards Boards in 1977.

The objective of developing Adventist accounting standards or principles for the preparation, presentation and reporting of accounting information is to bring about uniformity and enhance credibility and reliability of Adventist financial statements. In the absence of definite standards or principles, the users cannot interpret the accounting information for the purpose of decision making. If each business organization develops its own standards and policies for preparation and presentation of financial statements, then the users cannot draw right conclusion because of non-comparability of financial position as well as operating efficiency of various organization should have some similar accounting standards.\(^6\) Seventh Day Accounting standards are having a great impact on the financial position of the Adventist units, schools and churches.

5.5 Adventist Assets Accounts
Adventist Assets Accounts mainly has Ten Assets Accounts which play an important role in the financial functioning mainly in Adventist schools. These Adventist Asset accounts are as follows: Cash Operations, Bank Operations, Investments, Accounts Receivable, Provision for bad and doubtful debts, closing inventories, prepaid deposits and expenses, Fixed Assets, Depreciation, Capital work in progress. All these
assets accounts serve a great need for the growth and progress of finance in Adventist schools. These are fairly discussed below:

**5.5.1 Cash Operation**

Cash is very essential part for any institution. Francis Bacon Rightly said “Money is like muck, not good except it be spread.” Many units have good flow of money but they are not one of the best units. Many units have good amount of yearly turnover but no proper judgment is done in dealing money. Cash operations play an important role in all around development of that unit.

Adventist schools have a good system of cash operations which led to the all round development. Cash operations are below discussed in four main groups:

1. **Cash Control : General Policies and Practices**

A good system of internal control for cash should provide adequate procedure for protecting both cash receipts and cash disbursements. There are two basic principles that should always be observed: Firstly, all cash receipts should be deposited daily, intact: Secondly, all disbursements, except those made from imprest cash fund, should be made by cheque. Requiring the prompt deposit of receipts intact prevents a person from making use of the money for a few days before depositing it. Requiring all disbursements to be made by cheque provides a separate external record of all cash transactions.

2. **Imprest Cash Or Petty Cash**

Imprest Cash, also known as petty cash, is a fund established for making small payments that are impractical to pay by cheque. Mainly like postage, office supplies, and numerous similar items. The initial establishment of imprest cash fund begins by making out a cheque for cash, preparing a Bank Voucher changing Imprest Cash. When the cashier makes disbursement from the fund, cash vouchers are made as an official evidence of expenditure.

Imprest Cash Fund is subject to periodic unannounced audit by the financial officer of the institution. Imprest Cash Fund, at any point of time should equal
the authorized imprest cash amount. That is cash on hand plus suspense and
the disbursements (total of unsettled cash vouchers) should equal the
authorized imprest cash amount. Hence, imprest cash Reconciliation statement
(CRS) will always show a constant balance.

3. Imprest Cash Fund Establishment Guidelines
Imprest Cash Fund establishment guidelines are very much needed in any
institution. An Adventist school follows these guidelines to have a smooth
financial functioning. Let’s study the following guidelines:

a. The Governing Board or Administrative Committee of the institution
should approve the imprest cash establishment with regards to base amount
and the maximum limit of cash disbursement.

b. An imprest cash fund should be limited to an amount that is reasonable
and necessary to carry out the essential activities of a week’s estimated
expenditure.

c. The base amount should be 3% to 8% of monthly operating expense of the
previously concluded financial year, rounded off to the nearest thousand, up to
a maximum of Rupees 50,000.00.

d. The maximum limit of cash disbursement should be either 25% of the base
imprest cash amount. But not more than Rupees 5,000.00, rounded off to the
nearest thousand or local bank restrictions, the lower of two.\(^7\)

4. Imprest Cash Fund Operating Guidelines
Seventh Day Adventist Schools have a good record of imprest cash. Every
schools has a good single individual to deal with the in and out flow of the
cash. It is fairly collected, recorded and maintained. Let’s study the imprest
cash fund operating guidelines:
a. In order to get the expenses entered in the proper accounting period. It is necessary to replenish the imprest cash fund at the end of each accounting cut off period i.e. monthly.

b. Bank account should be reconciled monthly.

c. Employees shall not co-mingle private monies with institution funds.

d. Imprest cash fund is assigned to one individual who is the fund custodian and is responsible for accounting, safeguarding and reconciliation.

e. Fund reconciliation must be done at the close of each working day. If the fund is not very active, the reconciliation may be done less frequently. The financial officer will certify fund reconciliation monthly.

f. Custodian cannot transfer any portion of their cash funds to other individuals without the prior approval of the financial officer.

e. The custodian continues to be personally accountable for the fund until him/her either:
   - Deposits the fund back into the end of the accounting year or
   - Transfer the fund to another custodian approved by the Financial Officer.

5.5.2 Adventist Schools Bank Operations

1. Bank Account
Most business organizations deposit all cash receipts in a bank and make all payments by cheques drawn against the bank account. The forms used by the depositor in connection with bank accounts are signature card, deposits slips, Cheque, and record of deposits and withdrawals i.e. passbook.

a. Signature Card
When a bank account is opened, an identifying number is assigned to the account and the bank requires that a signature card by signed by each individual authorized to sign cheques drawn on the account. The card is used by the bank to determine the authenticity of the signature on cheques presented to it for payment.
b. Cheque
A cheque is a written instrument signed by the depositors, ordering the bank to pay a specified sum of money to the order of a designated person. There are three parties to a cheque: the drawee, the bank in which the cheque is drawn; and the payee, the one to whose order the cheque is drawn.

When the cheque are issued, they are recorded as debit to the payee or expense for which it is issued and are recorded as credit to the drawee, the bank on which the cheque is drawn. Cheque forms are of variety of styles. The cheques are usually serially numbered to facilitate the depositor’s internal control. Banks usually print its identification number and the depositors account number on the cheques when issuing the cheque book to the depositors.

c. Passbook
It is a small booklet that provides space for recording the deposits and withdrawals. The passbook begins with the opening balance, lists debits (withdrawals & Commissions) and credits (deposits & interest) and ends with the balance at the close of the period.9

2. Bank Reconciliation
When all receipts are deposited in the bank and the payments are made by cheque, they are recorded in the account entitled ‘Bank’ (Specifying the name of the bank). This account in the depositor’s ledger is the reciprocal of the account in the banks ledger. Bank account in the depositor’s ledger is an asset with a debit balance, while the account in the banks ledger is a liability with credit balance. It is supposed that the two credit balance. It is supposed that two balances should be equal, but they are not likely to be equal, on a specific date because of the following reasons:
  e. Delay by either party in recording transactions.
  f. Error by either party in recording transactions.

Usually, there is a time lag between the date a cheque is written and the date it is presented to the bank for payment. On the other hand, the bank may debit or credit
depositors account for transactions about which the depositor is not aware of. For example, bank commission is charged and interest is credited by the bank. In order to determine the reasons for any discrepancy and to correct any errors that may have been made by the bank or the depositor. The depositor’s ledger account should be reconciled with the bank passbook or statement.

The Bank reconciliation is divided into two major Sections: One section begins with the balance according to the bank passbook or statement and ends with the adjusted balance: the other section begins with the balance according to the depositor’s ledger account and also ends with the adjusted balance. The two amounts designed, as the adjusted balance must be in exact agreement.

3. Bank Reconciliation Procedure

Seventh Day Adventist Schools have a clear cut Bank reconciliation procedure. This procedure has been followed in all the Adventist schools. The procedure described below are followed and used in locating the reconciling items and determining the adjusted ledger balance:

a. Cash deposits listed on the bank passbook or statement are compared with unrecorded deposits appearing on the preceding reconciliation statement and with deposits recorded in the ledger. Deposits not recorded by the bank are added to the balance as per bank or statement.

b. Cheque issued is compared with outstanding cheques appearing in the ledger. Cheques issued that have not been dishonored by the bank are outstanding and are deducted from the balance as per bank passbook or statement.

c. Bank credits (interest given) that appear in the bank passbook or statement and are not recorded in the ledger are added to the balance as per ledger account.

d. Bank debits (commission charged) that appear in the bank passbook/ statement and are not recorded in the ledger are deducted from the balance as per ledger account.

e. Errors discovered during the process of making the bank reconciliation are listed separately on the reconciliation statement. For example, if the amount for which a cheque was drawn had been recorded erroneously, the amount of
error should be added or deducted from the balance as per bank passbook / statement.\textsuperscript{11}

It should be noted that in as much as the bank account in the ledger is an asset account and it the bank a liability account, the debit entries recorded in the ledger account appear on credit side of the bank passbook / statement and the credit entries recorded in the ledger account appear on debit side of the bank passbook / statement.

4. Accrued interest

Banks are a great boon to the world today. They help us save money. They provide a sense of security. In addition to both these factors, banks also allow us to earn interest on our savings.

There are many ways by which our money can be invested in a profitable manner. We can invest in bonds or in the stock market. We can even decide to purchase some real estate. However, in a bank, unlike in the case of property, the money is liquid one of the commonest from of bank investment is the fixed deposit. A fixed deposit is an investment comprising a single deposit, for a fixed term at a guaranteed fixed rate of interest, for which a fixed deposit certificate is issued indicating deposit amount, maturity amount and date and the rate of interest. It can be used for both short term and long term investment purposes. Accrued interest is the interest that is due on a fixed deposit, which could be for thirty days, sixty days, ninety days or even more, but the interest is accrued by the certificate holder on a day to day basis. Accrued interest is calculated on actual calendar day’s basis.\textsuperscript{12}

5.5.3 Investments

Adventist schools have various investments under different norms. Thus Adventist schools investments may be broadly classified under two categories, viz…, long term investments, and short term investments.
1) **Long term investments**
As the name suggests, these are in the investments are held for a longer period of time and not to be sold off in near future. Such investments are held by joint stock companies for the purpose of exercising control over the management of the company in which invested. The denominationally operated units usually do not have long term investments.

2) **Short Term investments**
Short term investments are such investments where the amount is held only for a short period of time. They are to be cashed as and when the school requires funds for operation. For example, fixed deposits or term deposits with the banks or with any financial institution is considered as short term investments as the same can be cashed as and when the school require funds by forfeiting one or two percent of interest. Hence they are classified as current assets.

### 5.5.4 Accounts Receivable System

Adventist schools maintain a good recording system of accounts Receivable is the amount owed by an individual or institution to another entity. Receivables are usually due with in relatively short period of time unless classified as long term receivables.

On a balance sheet, accounts receivable is recorded as an asset because this represents a legal obligation of the debtor to remit cash. For employee, salary is a receivable from the employer for the services (work) already provided. This is recorded as payable in the schools books of accounts. For an employer, loans advanced to workers, dues from intra and inter organizations; excess payment to suppliers, etc. is recorded as Receivable in the schools accounts books. Accounts Receivables may be recorded under various groups such as loan Receivables and other Receivables but the main classifications are as follows:

1. **Intra- Organization Receivables**
The ‘Intra Organizational Receivables’ refers to receivables from units of the same company or Trust itself. For example, all the units at Mattison Educational Trust will be intra-organization units for the school who is part of Mattison Educational Trust.
2. **Inter-Organization Receivables**

The ‘Inter-Organizational Receivables’ refers to receivable from units, which are not part of the company or the Trust. For example, a school that is a unit of Mattison Educational Trust, for it all other units will be Inter-Organizational units except those that are part of Mattison Educational Trust.

The Adventist schools and their financial administrator always follow system called “Accounts Receivable Confirmation letter.” This is a letter sent by the school financial administrator to its period, requesting verification of the amounts of receivable balance shown in the statement under their names in the schools books. A positive confirmation asks for a reply whether the balance is correct or not. A negative confirmation asks for a reply if why error is found. No reply in negative confirmation is assumed correctness of the balance.

Confirmation letter at the close of the accounting period is necessary to eliminate errors while carrying forward the accounts receivable balance to the next year. A detailed statement of accounts may be enclosed with the confirmation request letter.

5.5.5 **Provision for bad and doubtful debts and closing inventories**

All the Adventist schools have the provision for bad and doubtful debts. Sometimes a unit feels, at the end of the year, that certain debts may not be recoverable or doubtful of recovery. Hence, a provision is created to cover such debts, which is known as provision for bad and doubtful debts.

All the Adventist schools have a procedure of closing inventories. Closing inventory is the stock of unsold goods at the end of the accounting year such as books and stationary, uniforms, etc. At the close of accounting period, physical count is taken to ascertain the inventory at hand. The valuation at the inventory is done at the cost or purchase price. The inventory at the end appears in the balance sheet and its balance is carried forward to the next year as the opening inventory. Subsequently during the year, all purchases are debited to this account. When the inventory is sold out the respective department income account is credited with the total sale. Simultaneously, a journal voucher is made debiting the corresponding department expense account of
cost price for the items sold and crediting inventory account to reduce inventory for the goods sold.

The process of physical count is repeated again at the end of accounting year. If a difference appears between the physical count of inventory and the inventory account in the ledger, adjusting entries are made to match the account with inventory at hand.16

5.5.6 Prepaid Deposits, Prepaid Expenses and Fixed Assets
Seventh Day Schools have a good system of entries for all sources of expenditure made in daily service. Let’s examine how prepaid deposits, prepaid expenses and fixed assets are maintained in the schools:

1. Prepaid Deposits
Prepaid deposits are those deposits, which are paid as security to avail services on a continuous basis such as, electricity connection, telephone connection, water connection, cooking gas connection etc. The amount thus paid as security is held as prepaid deposit till such time when the service is terminated. At termination, the prepaid deposit is either returned by the service provider or is converted into expense. The entries are done accordingly for better financial transactions.

2. Prepaid Expenses
Prepaid expenses are those expenses, payment of which are made in advance in the current accounting period but relate to the next accounting period. These expenses have to be adjusted for the value of benefit, when is to be received in the next accounting period. For example, Vehicle insurance of Rupees 1,000.00 is paid for the period October 1, 2007 to September 30, 2008. If the accounting period ends on March 31, 2008, half of such expenses shall be treated as expenses paid in advance.

3. Fixed Assets
A fixed asset according to Adventist System of accounting is defined as “An asset held with the intention of being used for the purpose of producing or
providing goods or services and is not held for sale in the normal course of business.” All fixed assets are computed at the historical cost or cost price at which they were initially acquired, irrespective of their present market value. Adventist schools follow and determine the cost of fixed assets as given below:

- The cost should comprise of purchase price plus cost of bringing the asset its working condition.
- The cost of self-constructed fixed asset should comprise of direct material cost plus cost of constructing activity in general.
- Subsequent expenditure on the fixed asset should be added to its book value only if it increases the future benefits from the asset.
- Fixed asset that has no further benefits from its use should be removed from the financial statements.
- Gains or losses arising from disposal of a fixed asset should be reflected in the income and expenditure account.

Fixed assets are to be classified in equipment ledger and fixed asset schedule, in the following categories and in the sequence given below: Furniture & fixtures, Equipments, Computers, Vehicles, library books and livestock.

5.5.7 Adventist schools accounting depreciation and its calculation

Depreciation is the decrease in the value of the fixed assets as a result of wear and tear, constant use or obsolescence. It is an expense. So it is charged on the debit side of the statement of financial activity account. The amount of depreciation is calculated by charging a fixed percentage on the original cost of the fixed assets irrespective of their present market value.

Adventist depreciation calculation is based on the following important concepts. Assets having original cost less than Rs. 5,000.00 are depreciated 100% and depreciation date of purchase till end of the accounting year. For new assets depreciation is calculated from the date on which the fixed asset is purchased till the last day of the Accounting year, at the appropriate depreciation rate. Thus depreciation is calculated as follows:
Cost of Asset $ \times \ $ Depreciation Rate $ \times \ $ Days of Existence $ = $ Days of the year

In the subsequent years, depreciation is calculated on the previous years net cost of the asset at the appropriate depreciation rate. Thus depreciation is calculated as follows:

Net Cost of Assets $ \times \ $ Depreciation Rate $^{18}$

### 5.5.8 Adventist Procedure of Capital Work in Progress

Adventist schools have no right to sell or purchase any capital property. Let us study how capital work in progress for the Adventist set up schools. Expenses incurred on addition, major renovation and procurement of immovable properties such as land and building, are recorded as Capital work in progress in the Fixed Asset Schedule. All subsequent transactions are recorded in this account till such time when the project is completed and put to use. Once the project is completed and put to use, the total expense incurred on such immovable properties is transferred to India Financial Association of Seventh Day Adventists (IFA). This transferring of properties to IFA is called capitalization.

Any part payment given towards purchase of land or advance given to architects, contractors, etc. should not be part of capital work in progress account, instead should be recorded as receivables till such time when the advance is converted into expenses bills. Only expenses should become part of capital work in progress account. Further, the details are to be given or provided for accounting. Giving the name of the project, commencement date, opening balance, addition, deduction and the current balance.

To facilitate capitalization and transfer of immovable properties to IFA, the following documents for land and buildings are required. These are strictly followed in all the Adventist Schools:

1. **For Land Capitalization**
   
   a. Registered original purchase deed / lease / mortgage documents.
   
   b. Certified translation into English for documents written in Vernacular.
c. Encumbrance/Mutation Certificate

d. Patta/Katha documents.

2. For Building Capitalization

a. Approved building map (by governing and statutory body)
b. Approved building Contract.
c. Completion Certificate by Contractor indicating location, size and
cost of construction.
d. Tax and electricity paid receipts for already constructed buildings.

Thus all the Adventist schools need to consult the IFA in any
capital work. All the work is well recorded and maintained through
proper accounting system.¹⁹

5.6 Adventist Schools Fund Balance or Net Worth

In business, Net Worth/Fund balance is the total assets minus total liabilities of a
company. This is also called Owners Equity. For an institution, Net worth is used to
refer to an institution's net financial position at a particular point in time. Net worth is
expressed in two forms, Allocated Funds and Unallocated Funds.

5.6.1 Allocated Funds
An allocated fund is the amount that is signed to a specific purpose. Allocated funds
are restricted funds whose use is restricted for the projects allocated for they are
reflected separately in the balance sheet. Such funds may be received for meeting
revenue expenditure or capital expenditure.²⁰

When expenditure is incurred in respect of which program fund income has been
credited, the same is debited to the corresponding program fund expense account. At
the close of the financial year, the balance amount, if any, is transferred to allocated
Fund account, through Transfer out account, to be reflected in the balance sheet. In
the subsequent year, if the amount is used up, it is transferred back to statement of
Financial Activity accounting through transfer in account. For example, in the
financial year 1986-1987, a unit received Evangelism Fund of Rupees 4,00,000.00
but could utilize only 1, 00,000.00. The remaining Rupees 3, 00,000.00 is allocated to be used in the financial year 1987-1988.

5.6.2 Transfer In and Transfer Out

The Adventist schools financial statement comprises of two compartments. The balance sheet and the operating statement. The balance sheet reflects the residual results of the business enterprise, while operating statement reflects the day to day operations of the enterprise. At the end of accounting period, the net profit is added and the loss is reduced from the unallocated fund (Net worth) of the business enterprise and is reflected in the balance sheet. Any amount that needs to be transferred from operating statement to the balance sheet and vice versa has to be routed through the accounts called Transfer out and Transfer In.

When an amount has to be transferred out from operating, the transfer out account is debited and allocated fund account in the balance sheet is credited. Similarly, when an amount is transferred into operating, the Transfer In account is credited and Allocated Fund account in the balance sheet is debited. Transfer out is a debited Transfer out is debit account and Transfer In is a credit account which is reflected in the statement of financial activity.\(^\text{21}\)

5.6.3 Net Worth or Unallocated Fund

Unallocated Fund is the amount that is not assigned to any specific purpose. Hence, unallocated Fund is the real indicator of an institutions health. Higher the unallocated Fund, better the Financial position of an institution and vice versa. Any increase arising from the business operation is called ‘Revenue or Income’ and a decrease there in is termed as ‘Expense’. When income exceeds expenses, the difference is known as ‘Profit or Gain’. As against this, when the expenses exceed income the difference is called ‘loss or Deficit’. Accordingly, the unallocated Fund increases or decreases, corresponding with the amount of gain or loss, as the case may be.\(^\text{22}\)
Negative unallocated Fund indicates that the institution is operating in loss for a long period of time. Hence, the institutions assets are not sufficient to cover its liabilities. It’s an indicator of poor financial health.

5.7 Source of income or Revenue for Adventist educational Institutions

Income is an increase in the economic benefit or potential during the accounting period either in the form of inflows or increase in assets or decrease in liabilities. The definition of income includes both revenue and gains. Revenue arises in the course of the ordinary activities of an organization such as tithes, fees from students, donations, inventory sales, canteen sales etc. Gains represents other items that meet the definition of ‘income’, which may or may not, arise in the course of the ordinary activities of an organization. Gains include those arising on disposal of fixed assets and investments. When gains occur, they are usually disclosed separately in statement of financial activity.

Seventh Day Adventist Educational institutions are the foundation of education system of a country. The quality of education imparted, therefore, determines the quality of manpower a country will have. Apart from government various philanthropists including various industrial houses contribute to the cause of education. Seventh Day Adventist denomination operates a vast network of educational institutions from kindergarten to post graduate college. Being a not for profit activity, the accounting and financial reporting practices are intended to meet the needs of the management and the government bodies. However, due to increase in fee charged, and increase in donations by the donor agencies, greater accountability of financial resources is required. A sound accounting and financial reporting framework acts as an important ingredient for promoting accountability of an organization. In the context of educational institutions, the income arises by away of sale of goods as well as rendering of services. Various sources of income for the Adventist schools make them depend on themselves for the financial status. Therefore all the Adventist schools are of non-aided schools. No school receives any aid from
the local, state and central governments. Various sources of income and their accounting treatment are studied as below:

### 5.7.1 Tuition fee and fee received for other curriculum activities

Seventh Day Adventist Schools have a major portion of revenue from tuition fees from students and fee for other curriculum activities such as library fees, computer fees, laboratory fees, etc. Tuition fees are recognized over the period of instruction. Thus, if the academic year of the school and the accounting year are different then it is possible that some fees may be received in advance or is outstanding at the end of the accounting year. A fee received in advance for next accounting year should not be recognized as income for the year in which it is received but should be shown as liability in the balance sheet. Such income shown as income in the income and expenditure account of the next accounting year. Similarly, fees that are outstanding should be recognized as income of the year. The fees received for the curriculum activities are also of the same principles are applicable for its reorganization. Thus tuition fee collected from students is serving the schools in a greater capacity in maintaining and functioning of the school.

### 5.7.2 One Time Charges and Yearly Fees

Adventist schools normally receive one-time charges. That is charges paid only once for the whole studentship in the school. These are in the form of Admission fees, registration fees, etc. These are generally non-refundable. Such charges are recognized as income when received, in addition to tuition fees, other curriculum fees and one-time charges, Adventist schools also receive some other non-refundable charges on periodic basis. They are like magazine, newspaper charges and other annual charges received from the students at the beginning of each academic year. They are recognized as income on a time proportion basis over the relevant period.

### 5.7.3 Caution Deposit

Seventh Day Schools follow a system of Caution deposit. It is the amount collected from the students at the time of admission. This collection is refundable to the students at the time students leave the school. Caution money is of the nature of a deposit and therefore is not being considered as income. This is shown as liability in
the balance sheet of the school. Caution money is to be recognized as income only when a student waives his/her right to take it or it is forfeited by the schools. As per the change of rules or a student does not claim the money after becoming entitled to it within the period during which refund can be claimed as per the rules of the schools.

5.7.4 Boarding Income and Hostel Income
Seventh Day Schools are of two types: Boarding and Day Schools. Boarding schools have few ways of getting income known as Boarding income and hostel income. Revenue from mess received from students is recognized on a time proportion basis over the period for which charges have been received. Hostel income is the fees charged to students for lodging in the hostel. Such fees can be charged monthly, quarterly, half-yearly or even annual basis. Revenue from such fees is recognized on time proportion basis over the period for which the fee is received. Thus, any fee received in advance or fees outstanding at the end of accounting period should be accounted in the manner how “tuition fees and fees received for other curriculum activities” is done.

5.7.5 Canteen Income
Few of the Adventist Schools have canteen or mess in the school campus. The canteen income may fall in one or more of the following sale of products, where the canteen is owned and run by the school. The other category is contract charges, where contract of running the canteen is given to an outside party. Revenue from sale of product where canteen is owned by the school is recognized when the sale takes place. Revenue from contract charges where canteen is given on contract is recognized on a time proportion basis over the relevant contract period.

5.7.6 Transportation Income
All the Adventist Schools have buses, vans, trucks and etc. Some of these are used for student’s transportation and fee is charged. Revenue from transportation facilities provided to students may fall in either of the following categories: Transportation fees where the school owns the facilities such as buses and vans. Other is contract charges where contract for providing transportation facility is given to outside party.
Revenue from transportation fee where the school owns the facilities are to be recognized over the period during which facilities are provided. Thus, fees received in advance or fees outstanding at the end of the accounting period to be accounted in the same manner as done for tuition fee. Revenue from contract charges where contract for providing transportation facility is given to outside party is recognized on a time proportion basis over the relevant contract period.

5.7.7 Book store income

Most of the Adventist Schools gets huge amount of income on the student’s text books and note books sold in their own books stores. These sales are carefully recorded and maintained in the Financial Activity of the school books. Few schools instead of selling their own books in campus, they enter into contract with outside parties. Schools make or enter into contract for supplying text books, note books, stationery, uniform, etc. Such a party may pay to the school a lump sum amount or a commission based on the value of the goods sold. Where the party pays a lump sum amount to the school, income in this regard is recognized on a time proportion basis over the period for which the amount is received. Because income is based on the period of contract and not the value of goods sold. Income from commission is recognized at the time when the sales are made.28

5.7.5 Board Examination fee and other general income

All the Adventist Schools are not of same board. Few Adventist schools have state board and other schools have I.C.S.E board in Xth Std. Schools collect board examination fee from the students and submit the same to the boards. Board fee thus collected is recognized as income and when paid to the Board is recognized as an expense in the statement of Financial Activity. In case there is an unpaid board fees at the balance sheet date, it is to be disclosed as a current liability of the school.

Other income or general income from various sources are also strength to the financial position of the schools. These may include donations, interest from the banks, house maintenance fee, sale of prospectus, application forms, miscellaneous income, etc. All these are recorded on the statement of Financial Activity as ‘Other Income’ or ‘General Income’.29
With the study of above sources of income, it is proved that Adventist Schools are self-supporting. No school is aided by local, state nor central government. All the Adventist Schools are financially sounded and performing well. All the schools have good infrastructure with all the latest educational facilities. All the schools have excellent Science labs, Audio visual system, Computer lab, Library facilities sports facilities along with good ground. More over well qualified staff around 50 to 80 teachers per school. All this proves that though Adventist Schools are non-aided but they are the top most and excellent schools. Comparatively with other contemporary schools. The credit goes to the “Adventist Accounting System” followed in each school.

5.8 Adventist Salary and Allowances

The Researcher visited the study area Seventh Day Adventist Schools and found out about their salaries and allowances. The wage scale is divided into 26 ranges. The wage scale has a norm which is stated as 100% in the scale. The 26 ranges are placed above and below this norm. Each range also has a minimum and a maximum and an annual increment percentile. Example: an accountant with BBA degree is placed at 70% of the norm as a beginner, with an annual increment factor of 3.5 and a maximum of 110%. It is the responsibility of the managing committee of the unit concerned to fix the range and percentile of the each employee according to denominational policy and wage scale.

For Example Norm for the year 2011-12 Set norm is Rs. 5600.00 – A
An accountant who joined work in the year 2011-12 Range placed at 70% - B
Therefore A x B/100 = Salary for the year 2011-12. So, his/her salary would be Rs. 3920.00 per month and annual salary is Rs. 47,040.00. Every Adventist worker has incremental NORM (standard) every year basing on the norm salary is calculated on salary range years of the service as follows:

Initial employee – 70-100 is he/she is an undergraduate
75-115 is he / she is a postgraduate
All this will constitute by a committee called salary audit committees. Begin Position Range and Increment: All the new employees shall start with the position range minimum. They shall receive regular increments. Division salary audit committee: The Adcom of the division shall appoint the division salary audit committee annually. Union Salary audit committee: The Union Executive committee shall appoint the union salary audit committee annually. Adventist health India Salary audit committee: The Adcom of the division shall appoint the AHI salary audit committee annually.

Apart from the salary the allowances are regularly paid to the workers Medical Allowance -75% , Education allowance -60% , Hospital Employees’ medical allowance, Nurses ‘uniform and Laundry allowance, Medical examination and Immunization, Scholarship grant, Students in schools outside their unions, Independent study leave, Motor vehicle expenses allowance, Professional growth allowance, Literature discount, bicycle allowance, transportation allowance, Hill allowance, Warm cloth allowance, funeral allowance.
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17. Ibid. p. 42.
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