

GUIDELINES FOR PREPARATION OF PUBLIC SCHOOL FINANCIAL STATEMENTS

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Chapter 1: Users, purpose, applicability and legal requirements

Primary users

1.1. The following have been identified as the primary users of the financial statements of a public school:

- Provincial Department of Basic Education
- Parents
- Creditors
- Staff
- Sponsors
- Donors

Purpose and applicability

1.2. The purpose of these guidelines is to provide the requirements for the accounting policies, form and minimum contents of the financial statements of a public school.

1.3. The guidelines also outlines the fundamental principles, concept and requirements that should be complied with when preparing the financial statements of a public schools.

1.4. These Guidelines are applicable to all public schools.

SASA requirements directly affecting financial statements of public schools

1.5. Section 15 of the SASA states that, “every public school is a juristic person, with legal capacity to perform its functions in terms of this Act.”

1.6. Section 42 of the South African Schools Act, 1996 (Act 84 of 1996) (SASA) states that the governing body of a Public school must –

- a) Keep records of **funds received and spent** by the public school and of its **assets, liabilities, and financial transactions**; and
- b) as soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the **guidelines determined by the Member of the Executive Council.**”

1.7. The financial year of a public school commences on the first day of January and ends on the last day of December of each year. (SASA.44)

1.8. Section 43(5) states that a governing body must submit to the Head of Department, within six months after the end of each financial year, a copy of the annual financial statements, audited or examined.

Chapter 2: Components of the Annual Financial Statements

- 2.1. **The minimum components** of the annual financial statements of a public school shall consist of the following:
- Statement of income and expenditure
 - Statement of Assets and Liabilities
 - Accounting policies; and
 - Disclosures and explanatory notes.
- 2.2. The Statement of Income and Expenditure shall include all income and expenditure and the resulting surplus or deficit.
- 2.3. A surplus is the amount by which the income exceeds expenditure
- 2.4. A deficit is the amount by which expenditure exceeds income
- 2.5. The Statement of Assets and Liabilities shall include assets, liabilities and accumulated surpluses of the school.
- 2.6. The total assets should equal Accumulated funds and liabilities.
- 2.7. Explanatory notes shall be included to provide additional information about amounts included on the face of the statement of income and expenditure and statement of assets and liabilities.
- 2.8. The explanatory notes for all assets, liabilities and accumulated surpluses or deficits shall include a reconciliation of the opening and closing balance indicating separately all types of movements.

Chapter 3: Accounting for income

3.1. A public school shall as a minimum use the following accounts for recording income:

Account name	Accounting policy
School Fees receivable	3.2.1
School Fees exemption refunds/compensation	3.2.2
Allocation, transfers, grants and subsidies	3.2.3
Donations	3.2.4
Rental Income	3.2.5
Fundraising	3.2.6
Investment Income	3.2.7
Hostel fees	3.2.8
Profit on sale of assets	3.2.9
Learner transport fees	3.2.10
School uniform sales	3.2.11
Other Income	3.2.12

3.2. Accounting policies for income

3.2.1. School fees receivable

The amount of school fees receivable is calculated based on learner enrolments multiplied by the schools fee amount approved by parents. The amount receivable is recognised when the learners register at a public school.

3.2.2. School fee exemption refunds/compensation

School fee exemption refunds/compensations shall be recognised as income when they are received.

3.2.3. Allocations, transfers, grants and subsidies

Unconditional allocations, transfers, grants and subsidies received from the government are recognised as income when they are received. Conditional allocations, transfers, grants and subsidies are recognised as a liability when received and recognised as income when the conditions are met. The allocations, transfers, grants and subsidies are conditional if the school will have to pay them back to government if they are not used in line with the set conditions.

3.2.4. Donations and sponsorships

Cash donations and sponsorships are recognised as income on the date the cash is received. Donations and sponsorship in the form of assets are recognised at the value of the asset on the date the asset is received by the school. Donations and sponsorship of services shall not be recognised in the financial statements of a school. Conditional donations and sponsorships are recognised as a liability when received and recognised as income when the conditions are

met. Donations and subsidies are conditional if the school will have to pay them back to the providers if they are not used in line with the set conditions.

3.2.5. Rental income

Rental income consists of cash or assets received in exchange for use of the school property. Rental income is recognised when it is due.

3.2.6. Fundraising income

Fundraising income consist of cash received from fundraising activities such as ticket sales, tuck-shop sales, etc. General fundraising income is recognised at the amount of cash received from fundraising activities. Contributions received from specific fundraising are recognised as a liability when the funds are received and transferred to income as the funds are utilised for their intended purpose or as the asset is depreciated. Fundraising is specific when the funds raised can only be used for a specific purpose and the money will have to be paid back to the contributors if the funds are not used in line with the agreed conditions.

3.2.7. Investment income

Investment income consist of cash received for money invested with financial institutions in the form of interest or dividends. Investment income shall be recognised when cash is received.

3.2.8. Hostel fees

Hostel fees consist of cash or assets received in exchange for accommodation at the school residences. Hostel fees shall be recognised when they are due.

3.2.9. Profit on sale of assets

Profit or loss on sale of assets consists of the amount by which the cash received for the sale of an asset exceeds the amount at which the asset is carried in the accounting records on the date of sale.

3.2.10. Learner transport fees

Learner transport fees consist of cash or assets received for transporting learners to and from school. Learner transport fees are recognised when they are due.

3.2.11. Learner uniform sales

Learner uniform sales consist of cash or assets received in exchange for uniform purchased by parents. The sales are recognised when the sale is made and the amount is due.

3.2.12. Other income

Other income shall be accounted for when the cash, asset or service is received by the school.

Chapter 4: Accounting for expenditure

4.1. A public school shall, as a minimum, use the following accounts for recording expenses:

Account name	Accounting policy
School fees exemptions	4.2.1
School fees settlement discounts	4.2.2
Bad debt write off	4.2.3
Textbook purchases	4.2.4
Water	4.2.4
Electricity	4.2.4
Rates and taxes	4.2.4
Repairs and maintenance	4.2.4
Transport – Teachers	4.2.4
Transport – Learners	4.2.4
Transport - Other	4.2.4
Salaries and wages – Teaching staff	4.2.4
Salaries and wages – Admin and support staff	4.2.4
Salaries and wages - Other	4.2.4
Volunteer stipends – Feeding Scheme	4.2.4
Volunteer stipends – Extracurricular staff	4.2.4
Volunteer stipends - Other	4.2.4
Accounting fees	4.2.4
Auditing/Accounting Officer fees	4.2.4
Feeding scheme supplies	4.2.4
Cleaning materials	4.2.4
Printing and stationery	4.2.4
Rental/lease payments	4.2.4
Printing	4.2.4
Postage	4.2.4
Courier services	4.2.4
Insurance	4.2.4
License fees	4.2.4
Catering	4.2.4
Bank Charges	4.2.4
Advertising	4.2.4
Training and workshop fees	4.2.4
Travel claims	4.2.4
Telephone and fax	4.2.4
Data costs	4.2.4
Security	4.2.4
Legal and Consulting fees	4.2.4
Entertainment	4.2.4
Tuck-shop supplies	4.2.4
Accommodation	4.2.4

Account name	Accounting policy
Other expenses	4.2.4
Depreciation: Buildings improvements	5.2.2
Depreciation: Furniture, equipment, fixtures and fittings	5.2.3
Depreciation: Vehicles	5.2.4

4.2. Significant accounting policies for expenses

4.2.1. School fee exemptions

School fee exemptions are determined in accordance with the equitable criteria and procedure approved by the majority of parents for total, partial or conditional exemption of parents who are unable to pay school fees as required by section 39(2)(b) of the South African Schools Act. School fee exemptions are recognised when the final approved has been received for the exemptions.

4.2.2. School fees settlement discounts

Discounts given to parents to encourage payment of school fees are recognised as an expense on the date that the parent meets the conditions for entitlement to the discount. The amount of the discount shall be deducted from the school fees owing by the parent. The amount of the school fees income recognised shall not be reduced by the amount of the discount granted.

4.2.3. Bad debts write off

The school writes off all amounts owing to the school as bad debts when it is no longer probable that the amounts will be recovered and the a write off is approved in line with the school's policy.

4.2.4. Other expenses

Other expenses are recognised when:

- payments are made for services rendered;
- assets are used/reduced; or
- when liabilities are incurred

Chapter 5: Accounting for assets

5.1. A public school shall, as a minimum, use the following accounts for recording asset:

Account name	Account policy
Land and Buildings (Owned by the school)	5.2.1
Buildings improvements	5.2.2
Furniture, equipment, fixtures and fittings	5.2.3
Accumulated depreciation: Furniture, equipment, fixtures and fittings	5.2.3
Vehicles	5.2.4
Accumulated depreciation: Vehicles	5.2.4
Inventory on hand	5.2.5
School fees owing	5.2.6
Bank	5.2.7
Petty cash	5.2.7
Investments	5.2.7
Other assets	5.2.7

5.2. Significant accounting policies for assets

5.2.1. Land and Buildings

Land and buildings owned (i.e. school has legal title) by the school is recognised in the financial statements of the school at cost from the date of acquisition. The cost of the land and buildings purchased is the actual purchase price paid. The cost of land and buildings acquired through other means is the value thereof. Land and buildings not owned by the school are not recognised in the accounting records of the school. Land and buildings are not depreciated. Land and buildings are derecognised on disposal or write-off.

5.2.2. Buildings improvements

Expenditure incurred meets the criteria to be classified as improvements when it increases the value or the benefits that can be derived from the asset that is being improved. Improvements exclude expenses for routine actions that keep your assets in their original condition. All costs of improvements made to buildings owned and not owned by the school are recognised as an asset in the accounting records at cost or value thereof. The cost of improvements are depreciated on the straight line basis over the number of years that the school expects to derive benefits from the improvements.

5.2.3. Furniture, equipment, fixtures and fittings

The cost of furniture, equipment, fixtures and fittings purchased is the actual purchase price paid. The cost of furniture, equipment, fixtures and fittings acquired through other means is the value thereof. Furniture, equipment and fittings recognised as assets are depreciated on the straight line basis over their expected useful life.

The amount of depreciation for the year is included as an expense in the statement of income and expenditure. Furniture, equipment, fixtures and fittings are derecognised on disposal or write-off.

5.2.4. Vehicles

The cost of vehicles purchased is the actual purchase price paid. The cost of vehicles acquired through other means is the value thereof. Vehicles recognised as assets are depreciated on the straight line basis over their expected useful life.

The amount of depreciation for the year is included as an expense in the statement of income and expenditure. Vehicles are derecognised on disposal or write-off.

5.2.5. Inventory on hand (Including text books)

Inventory on hand includes textbooks and items that the school has at year end that will be used in the day to day running of the school and is expected to be used up within 12 month from year end. Inventory on hand at year end shall be valued at the unit cost of the most recent purchase of similar items (i.e. first in first out method).

5.2.6. School fees owing

School fees owing are recognised when school fees receivable is recognised. The balance of school fees owing is reduced by school fee exemptions, payments received and bad debts written off.

5.2.7. Other assets

Other assets are recognised when an asset is received by the school. Other assets are recognised initially at cost or value thereof. Other assets are recognised subsequently at cost. Other assets are derecognised on disposal or write-off.

Chapter 6: Accounting for liabilities

6.1. At public school shall, as a minimum, use the following accounts for recording liabilities:

Account Name	Accounting policy
School fees received in advance	6.2.1
Restricted funds	6.2.2
Other liabilities	6.2.3

6.2. Significant accounting policies for liabilities

6.2.1. School fees received in advance

School fees received in advance consists of school fee payments received in the current year that relate to future years. School fees received in advanced are recognised as a liability when payment is received.

6.2.2. Restricted funds

Restricted funds consist of funds received by the school that can only be used for a specific purpose and will have to be paid back to the contributors if the funds are not used in line with the agreed conditions. Example of restricted funds include conditional grants and donations.

6.2.3. Other liabilities

Other liabilities include all amounts owed by the school to third parties. Other liabilities are recognised when they are due. Other liabilities are reduced by payments made or when the debt prescribes.

Chapter 7: Disclosures and explanatory notes

7.1. Allocations, Transfers, grants and subsidies

The school shall disclose the following in relation to transfers, grants and subsidies

- Identity of the institution/entity/individual
- Amount received
- The conditions attached to each amount received, if any.

7.2. Net income from Hostels reconciliation

The Net income from hostels note shall include the following:

- Total hotel fees
- Total hostel expenses
- Net surplus/deficit from hostels

7.3. Net income from tuck-shops reconciliation

The Net income from tuck-shop note shall include the following:

- Total tuck-shop sales
- Total tuck-shop expenses
- Net surplus/deficit from tuck shop

7.4. Land, buildings, Vehicles, furniture, equipment, fixtures and fittings

The school shall disclose a reconciliation of the opening and closing carrying amount of land, buildings, Vehicles, furniture, equipment, fixtures and fittings indicating the following:

- Purchases;
- Disposals;
- Depreciation;
- Derecognition; and
- Write-offs

7.5. Bank

The school shall disclose the following for all bank accounts opened by the school:

- Institution name
- Account type (Cheque, savings, transmission, etc.)
- Balance at current and previous year end

7.6. Inventory

The school shall disclose the following for each type/category/grouping of inventory

- Description
- Quantity at current and previous year end
- Balance at current and previous year end

7.7. Corrections of prior period errors

Prior period errors are omissions from, and misstatements in, a school's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

To the extent practicable, a school shall correct a material prior period error retrospectively in the first financial statements after its discovery by:

- a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net asset for the earliest prior period presented.

When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the school shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

A school shall disclose the following about prior period errors:

- a) the nature of the prior period error;
- b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
- d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

Chapter 8: Accounting for transactions not addressed by these guidelines

- 8.1. If these guidelines specifically addresses a transaction, other event or condition, a school shall apply these guidelines. If these guidelines do not specifically address a transaction, other event or condition, the school's SGB shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and is reliable
- 8.2. In making such judgements, the SGB shall refer to, and consider the applicability of, the following sources in descending order:
- a) the requirements and guidance in these guidelines dealing with similar and related issues; and
 - b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the fundamental principles and concept outlined in these guidelines.
- 8.3. In making the judgements above, management may also consider the requirements and guidance in other financial reporting standards dealing with similar and related issues.

Chapter 9: Fundamental principles, concepts and requirements

9.1. Identification of financial statements

The financial statements shall be identified clearly, and distinguished from other information in the same published document.

These Guidelines apply only to the school financial statements, and not to other information presented in the annual report or other document. Therefore, it is important that the users can distinguish information that is prepared using these Guidelines from other information that may be useful to users but is not the subject of those requirements.

Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

- a) the name of the school or other means of identification, and any change in that information from the preceding reporting date;
- b) the reporting date or the period covered by the financial statements;
- c) the presentation currency; and
- d) the level of rounding used in presenting amounts in the financial statements.

The requirements above are normally met by presenting page headings and abbreviated column headings on each page of the financial statements.

9.2. Prudence

The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

9.3. Comparative information

Comparative information shall be presented in respect of the preceding period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, details of a legal

dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved, are disclosed in the current period. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period, and about the steps that have been taken during the period to resolve the uncertainty.

If the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, unless the reclassification is impracticable. When comparative amounts are reclassified, a school shall disclose (including as at the beginning of the preceding period):

- a) the nature of the reclassification;
- b) the amount of each item or class of items that is reclassified; and
- c) the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, a school shall disclose:

- a) the reason for not reclassifying the amounts; and
- b) the nature of the adjustments that would have been made if the amounts had been reclassified.

9.4. Offsetting

Assets and liabilities, income and expenditure, shall not be offset unless required or permitted by this Guideline or Legislation.

It is important that assets and liabilities, and income and expenditure, are reported separately. Offsetting in the statement of assets and liabilities or the statement of income and expenditure, except where offsetting reflects the substance of the transaction or other event, detracts from the ability of users to understand the transactions, other events and conditions that have occurred.

Chapter 10: Process of development

The development of these guidelines is a joint project of the Department of Basic Education (DBE) and the South African Institute of Chartered Accountants (SAICA)

In developing these guidelines, consideration was given and reference made to pronouncements issued by:

- the Accounting Standards Board (ASB);
- the National Treasury of South Africa (NT)
- the International Public Sector Accounting Standards Board (IPSASB);
- the International Accounting Standards Board (IASB);
- Provincial Departments of Educations (PDEs); and
- other organisations that develop financial reporting, accounting and auditing requirements for the public sector.

In developing the guidelines consideration was also given to:

- best practices, both locally and internationally;
- the capacity of schools to comply with the reporting requirements; and
- the systems used by schools in preparing and collating the information required to comply with the reporting requirements.

The principles in the existing accounting standards, such as Generally Recognised Accounting Practice (GRAP), Modified Cash Standards (MCS), International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS) and IFRS for Small and Medium Entities (IFRS for SMEs) were also studied. Where applicable, the national and provincial legislation was consulted to develop principles and or required disclosures.

Consultations with following key stakeholders were conducted:

- Provincial Departments of Education
- Governing Body Associations
- Auditors and Accounting Officers
- Accounting Standards Board
- Auditor General of South Africa
- National Treasury