



Thought on Making Cash Flow Statements for Colleges and Universities

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Abstract

In July, 1999, the State Council determines to expand the scale of enrollment in colleges and universities. From 1999 to 2006, colleges and universities have realized the leaping development. The rate of enrollment in colleges and universities rises to a great degree. All colleges and universities expand their scales, speeding up the construction of infrastructure. More and more colleges and universities choose to develop themselves by applying loans from banks. Therefore, it is necessary to revise the former content of finance report in colleges and universities and its disclosure form, improving the finance management during the loan- repayment period, meeting the environment development, solving new issues appeared today.

Keywords: Colleges and universities, Loan for basic construction, Cash flow statement, Finance risk

In July, 1999, the State Council determines to expand the scale of enrollment in colleges and universities. From 1999 to 2006, colleges and universities have realized the leaping development, meeting lots of young people's need for higher education. The rate of enrollment in colleges and universities rises fast. In 1990, the rate was 3.4% (2002, A3) and in 1998 the rate was 9.8% (Zhili Chen, 2006). In 2005, the rate was close to 21%. It is predicted that the rate will reach 40% in 2020 (Zhili Chen, 2006). In 1998, the number of students in colleges and universities was 6.43 million. Till late 2005, the number reaches 23 million, being the largest in the world. It is well known that the higher education in China is developing from elite education toward mass education (Zhili Chen, 2006).

Meanwhile, former colleges and universities can not meet the great social need. They began to expand their scales one after another, speeding up the construction of infrastructure. In order to meet the market need, more and more colleges and universities choose to apply loans from banks to achieve further development, forming a China-style mode for colleges and universities expanding themselves by relying on loans.

Loans applied by colleges and universities are usually large and long-term. Therefore, the former accounting management, namely the sole income-and-expense balance repayment, is not proper at present. In order to adapt to new environment and solve problems emerged today, it is necessary to analyze and revise the former accounting ways, report contents, and disclosure forms, and choose the optimal scheme for banks' approving loans.

1. New problems emerged today

1.1 Present budget accounting statement system fails to meet the colleges and universities' interest-related entities' need for accounting information

The interest-related entities of colleges and universities include: (1) managers (chiefly refer to finance managers), teachers, and students in colleges and universities; (2) colleges and universities' investors and outlays administrators, namely the government sectors (including the education administration and the finance administration); (3) creditors, banks, or other non-bank financial institutions that provide with loans for colleges, universities, and students; (4) academic institutions, donators, and other entities who care about and support higher education.

There into, banks become colleges and universities' important interest-related entities. The investment's risk control mechanism begins from the negotiation of loan contract. Banks must collect colleges and universities' finance and accounting information, especially the information about finance risks. Banks analyze carefully their customers' finance information quarterly and yearly, based on which banks can evaluate the credit rank of creditors. The loan contract should emphasize that the creditors' fundamental responsibility is to provide with necessary finance information for banks. However, present finance statements, including the balance sheet, the expense table, the fixed asset table, and the expense statement, can not completely reflect the in-flow and out-flow of cash. Then, banks can not judge whether colleges and universities can return loans in deadline.

The cash flow in colleges and universities has its own characteristics. Generally speaking, colleges and universities can

depend on fiscal support in the first half of one year. And they are short of capitals in the middle of one year. But in the second half of one year, they can obtain sufficient capitals from students' tuitions. Colleges and universities usually apply for large and long-term loans (Fengrong Yi, 2005). Different contracted repayment terms and sums may affect the finance arrangement of colleges and universities. Therefore, it is necessary to add relevant items, such as fiscal appropriate funds, tuitions, capitals of loans, and interests into the income or the expense of the cash flow statement in colleges and universities, making the in-flow cash match the out-flow cash. If the income is equal to the expense, the finance works well in colleges and universities. If the income fails to match the expense, there is certain debt risk for colleges and universities. Leaders and finance managers should pay more attentions on this fact. They should adjust and allocate the flowing capitals to ensure the successive capital chain.

1.2 Present budget accounting can not reflect colleges and universities' tacit debt comprehensively, which weakens the consciousness of risks and responsibilities.

Under present mechanism, the finance statement can not directly reflect colleges and universities' debts guaranteed by the government, enlarging their governable economic resources in a sense. As a result, it weakens colleges and universities' consciousness of risk, which will bring about potential threats for the sustainable development of education. Therefore, it is urgent to predict the capital use of next year by cash flow statement, which can provide with practical and effective finance and accounting information for banks and top managers of colleges and universities, what serve as necessary causes for finance department enhancing the capital management in basic construction.

2. Suggestions and countermeasures

2.1 Add cash flow statement

We can add more necessary information into the cash flow statement, such as the principals and interests at maturity this year, especially the respite payment, the predicted payment of next year and the year after next, and the payment resources. We can take reference from American colleges and universities' finance statement, reflecting the detailed data that how much capitals formed by tuitions and accommodation fees in colleges and universities can be used for repayment each year. Although we insist on both rights and responsibilities, the cash flow and the profits of colleges and universities reflect different accounting information from two dimensions. They are complementary to a great degree. From the trend of accounting reform in American colleges and universities, it is an international convention to add the cash flow statement into the finance report system. Theoretically, the cash flow under present cash system has its advantages indeed. It can provide with more reliable accounting information comparing with other system.

2.2 Disclose more annotations of accounting statements

We can take reference from American colleges and universities' finance statement, reflecting the detailed data that how much capitals formed by tuitions and accommodation fees in colleges and universities can be used for repayment each year, with the hope of providing with more sufficient finance and accounting information for managers of colleges and universities and their outer loaners (National Development and Reform Commission, 1996). Without disclosing annotations, the finance statement is imperfect anyway. Because of limits in accounting measurement, more useful information can not be included in the main statement. By disclosing more annotations, it can increase the content of accounting statement and help finance institutions know the repayment abilities of colleges and universities in time.

2.3 The perfection and innovation of accounting system in basic construction

In author's opinion, the Accounting System for State-Owned Construction Institutions is not completely proper for the development of market economy and the Accounting Law. It is urgent to revise and reform the accounting system for state-owned construction institutions and meet the international standards. According to the Accounting Law revised in 1993, the Ministry of Finance made up the Accounting Principles for State-Owned Construction Institutions and relevant accounting system in 1996. In 1998, the Ministry of Finance issued Complementary Rules for Accounting Principles for State-Owned Construction Institutions. In order to meet the need for the development of market economy and the entry to WTO, the Accounting Law was revised in 1999 and it has been applied in July, 2000. However, the Accounting Principles for State-Owned Construction Institutions has not been revised till today, which make it can not completely meet the needs for the development of market economy and the rules in the Accounting Law (Chunyan Zhang, 2003). It must be revised today. Therefore, it is necessary to put forward new ways to reform the accounting system and enhance the finance management in basic construction field, based on the socialist market economy system's requirements.

(1) Take the finance management during the repayment period as an important index for the Ministry of Education and the Ministry of Finance to evaluate colleges and universities' performance. And take it as an emphasis for the Ministry of Finance. For the state-funded construction projects and the state-guaranteed construction projects, the finance administration should enhance the approval procedures, the audition on final annual accounts and relevant approval. The government should help colleges and universities to achieve a balance. On one hand, the development of colleges and universities can meet people's needs for education. On the other hand, the colleges and universities can step into a

sustainable and healthy development.

More over, the overdue loans should be explained in detail in annotations of colleges and universities' finance statement. And it is necessary to make up a special report that includes the repayment plan and the finance fact of colleges and universities (Peixiong Zhong, 2003). Besides, the annotations can list the predicted repayment, including principals and interests, in the next year and the year after the next, and the practical repayment plan. By this way, the short-term borrowers can reflect the repayment situation in time. And managers in colleges and universities can arrange expenses reasonably, repaying the principals and interests in time. The annotations of finance statement should report the complete finance fact, which can not only help finance institutions defend risks, but also help relevant administrations arrange expenses and repay loans in time.

(2) More cash flow statements and annotations should be disclosed. We can add more necessary information into the cash flow statement, such as the principals and interests at maturity this year, especially the respite payment, the predicted payment of next year and the year after next, and the payment resources. We can take reference from American colleges and universities' finance statement, reflecting the detailed data that how much capitals formed by tuitions and accommodation fees in colleges and universities can be used for repayment each year. Although we insist on both rights and responsibilities, the cash flow and the profits of colleges and universities reflect different accounting information from two dimensions. They are complementary to a great degree. From the trend of accounting reform in American colleges and universities, it is an international convention to add the cash flow statement into the finance report system. Theoretically, the cash flow under present cash system has its advantages indeed. It can provide with more reliable accounting information comparing with other system. Besides, without disclosing annotations, the finance statement is imperfect anyway. Because of limits in accounting measurement, more useful information can not be included in the main statement. By disclosing more annotations, it can increase the content of accounting statement and help finance institutions know the repayment abilities of colleges and universities in time.

And the statistical branch in colleges and universities should exert its effect by setting up relevant items to reflect the loans, resources, terms, interest rates, repayment ways, and risks timely and exactly

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