

**Kindergarten Education Scheme (The Scheme)
Financial Matters — Questions & Answers (Q&As) (Batch 2)**

[The following Q&As aim to provide answers to questions that are commonly asked by Scheme-KGs for reference. With the implementation of the details of the Scheme, the Q&As will be updated regularly for KGs' reference.]

“KG Scheme Funds” and “School Funds” mentioned in the Q&As refer to “Government Subsidy” and “Non-government Funds” mentioned in the Education Bureau (EDB) Circular No.7/2016 and other circulars relevant to the Scheme.]

[I] Bank accounts

1. Q: Does a KG need to withdraw the balances from its bank account before the commencement of 2017/18 school year?

A: No. KG's operations will be as usual after joining the Scheme. KG may use its bank account to handle the income and expenditure relating to both “KG Scheme Funds” and “School Funds” provided that the name of the bank account tallied with the name of the KG.

[II] Ledger accounts

2. Q: Does a KG need to transfer out its assets, liabilities and reserves accumulated prior to joining the Scheme in 2017/18 school year? If a KG offering half-day (HD) classes of KG local curriculum opts not to charge school fees and it settles all operating expenditure with Scheme subsidies, is it still required to set up “School Funds”?

A: KG is required to carry forward all their assets (including bank account balances), liabilities and reserves prior to joining the Scheme to the ledger of 2017/18 school year. KG may choose to record their fixed assets under “KG Scheme Funds” or “School Funds”, while liabilities and reserves must be recorded under “School Funds”. As such, a KG which has been operating on or before 2016/17 school year should set up ledger for “School Funds” to record items that are carried forward so as to provide a basis for future operation and monitoring.

3. Q: What are recognised and un-recognised expenditure under the Scheme? What are their differences in terms of accounting treatment?

A: Regarding expenditure that is recognised under the Scheme, KG may refer to the Annex to Appendix 3 of the EDB Circular No.7/2016 – “Free Quality Kindergarten Education” for information.

Expenditure recognised under the Scheme may be recorded under “KG Scheme Funds”, whereas un-recognised expenditure must be recorded under “School Funds”.

4. Q: Can a KG conduct trading operations under the Scheme? Under which ledger should the related income and expenditure be recorded?

A: KG may conduct trading operations under the Scheme. KG must keep complete records of all sales and purchases of school items and provision of paid services and record them under “School Funds”. Income, costs and profit/loss of each trading item must be stated in a separate statement in the annual audited accounts.

KG should note that according to the EDB Circular No. 16/2013, (1) no profit should be generated from the sale of textbooks; and (2) profit from the sale of school items and provision of paid services, if any, should not exceed the profit limit of 15% of the costs at which they are purchased from the suppliers.

5. Q: Are meal charges collected from students classified as trading operations? Should it be recorded under “KG Scheme Funds” or “School Funds”?

A: Meal charges collected from students are not classified as trading operations and approval of the charges must be obtained from the EDB. They may be used to offset expenditure such as food ingredients and cooking utensils, and cover deficit arising from the grant for a cook. Both income and expenditure related to meal charges should be recorded under “School Funds”.

6. Q: Should staff messing be recorded under “School Funds”?

A: Since staff messing is not a recognised expenditure item chargeable to government funds, it should be borne by “School Funds” and recorded accordingly.

7. Q: Should 2017/18 registration fees collected from students in the 2016/17 school year be carried forward to “KG Scheme Funds” or “School Funds”? How should registration fees forfeited be recorded?

A: There is no difference in KG’s general accounting arrangements before and after joining the Scheme. KG should record registration fees collected for the 2017/18 school year in “accounts payable” under “School Funds” in 2016/17 and subsequently transfer the amount to “school fee from parents” under “School Funds” in 2017/18 so as to offset part of the first instalment of school fee after admission of the students. Registration fees forfeited should be recorded as “other income” under “School Funds”.

[III] Apportionment

8. Q: How should the expenditure of KG be apportioned among different sections and sessions?

A: The daily expenses incurred for the whole KG should be shared among all sections and apportioned according to the following principles:

- (i) Salary and related expenses of teaching staff : to be apportioned among KG local curriculum, child care centre (CCC) and KG non-local curriculum according to the actual duties assigned; and
- (ii) Other daily expenses : to be apportioned among KG local curriculum, CCC and KG non-local curriculum according to student enrolments;

The expenditure apportioned to KG local curriculum should be further apportioned between HD and whole-day (WD)/long whole-day (LWD) sessions based on the ratio of student unit cost.

If expenditure is incurred solely for a specific section, apportionment is not required and the whole expenditure should be recorded in the account of that section.

9. Q: For CCC and KG non-local curriculum with HD and WD sessions, is it required to apportion the respective common daily expenses between sessions by the ratio of student unit cost ranging from 1:1.6 to 1:2?

A: KG is required to apportion common expenditure (except salary and related expenses of teaching staff) incurred for the whole school among KG local curriculum, CCC and/or KG non-local curriculum by student enrolments ratio, and then further apportion the expenditure of KG local curriculum between HD and WD/LWD sessions based on student enrolments and the ratio of student unit cost. There is no requirement to apportion expenditure of CCC and KG non-local curriculum between HD and WD/LWD sessions. For illustration of apportionment, KG may refer to slides 18 and 19 of the updated version of the PowerPoint slides posted in EDB website on Free Quality Kindergarten Education - Information of briefing on financial and accounting matters.

KG may establish appropriate mechanism to apportion the expenditure of CCC and KG non-local curriculum among the relevant sessions according to its operation need.

10. Q: The EDB recommends that KG may apportion expenditure only when preparing the annual audited accounts and KG should adopt the actual annual average enrolments as the apportionment basis. If a KG has already performed monthly apportionment using the actual monthly enrolments, is it still necessary to re-perform the apportionment at year-end using the actual annual average enrolments?

A: No. KG may choose to apportion once at every year end by adopting the actual annual average enrolments, or once per month using the actual monthly enrolments, depends on its operation need. No further adjustment has to be made at year end if the expenditure is apportioned monthly. KG has to disclose the adopted apportionment mechanism in the annual audited accounts.

[IV] Subsidies or grants from other government departments, quasi-government organisations or funds

11. Q: Apart from the EDB, a KG may receive subsidies or grants from other government departments, quasi-government organisations or funds such as the Quality Education Fund, the Greening School Subsidy Scheme, the Road Safety Scheme and the Home-School Co-operation Grants, etc. Should such income and expenditure be recorded under “KG Scheme Funds” or “School Funds”? Should a separate bank account be set up to handle the related income and expenditure?

A: Subsidies/grants received by KG from other government departments, quasi-government organisations or funds may be classified into two categories in general. Their nature and accounting treatments are as follows:

- (i) Project-based grants such as the Quality Education Fund, lump sum grants from the Social Welfare Department, government funds for projects such as greening school, road safety and home-school co-operation, etc.
- KG should set up separate ledger accounts to record the income and expenditure relating to these activities, submit reports and/or record the income and expenditure of the subvented activities in the annual audited accounts and return the unspent balances to the government departments / quasi-government organizations / funds concerned according to the subvention provisions. Any deficit should be borne by “School Funds”;
 - KG should handle the income and expenditure related to such subsidies through a bank account different from that for “KG Scheme Funds” as far as practicable. It should also set up a ledger separate from “KG Scheme Funds” and “School Funds” to record such income and expenditure; and
 - If KG encounters difficulties in opening a new bank account and has to handle the income and expenditure of these subsidies through the existing bank accounts of the KG, it should set up specific accounts payable under “School Funds” for each project. The income and expenditure of each project should be recorded in a corresponding payable account. Upon completion of each project and with the surplus/deficit calculated, KG should either return any unspent balances of the activities to the government departments / quasi-government organizations / funds concerned according to the subvention provisions or record such amounts as “other income” under “School Funds”. Deficit should be recorded as “other expenditure” under “School Funds”.
- (ii) One-off activity allowance, such as allowance for staging performances and sending teachers to participate in joint projects, etc.
- KG is not required to submit any income and expenditure report or match the expenditure against relevant income. It may record these allowances as “other income” under “School Funds”.

The disclosure requirements of items (i) and (ii) in the annual audited accounts are set out at Appendix 1. KGs should note that such activities should not be financed by subsidies under the Scheme irrespective of the accounting treatments.

[V] School sponsoring body (SSB)

12. Q: If SSB collects fees for textbooks and stationery, tea and snacks, etc. on behalf of a KG, should the surplus (if any) be reflected in the KG's ledger?

A: Yes. SSB should provide the KG with the details of the income and expenditure and the nature/contents of the trading operations conducted on behalf and return any surplus to the KG. The KG should record the relevant income and expenditure under "School Funds" and reflect each trading operation in the relevant statement of the annual audited accounts.

13. Q: It is the current practice that a SSB may process some of the expenditure, such as staff salary, Mandatory Provident Fund contributions and insurance, for KGs under its group through a central bank account. Under the Scheme, will it be necessary for each KG to handle such transactions on its own? Or may the SSB pay the expenditure on behalf of the KGs with reimbursement at fixed intervals?

A: Cost-efficiency may be achieved by SSB's coordination of functions such as procurement, personnel and financial matters centrally. Thus, the EDB accepts the central coordination of payment by SSB for KGs under its group with reimbursement at fixed intervals. KGs should properly record such expenditure in their accounts for inspection purpose.

Where a SSB is authorized to procure on behalf of KG, the EDB's procurement procedures must be followed. Prior approval by the school management committee must be obtained for such authorization and properly recorded. If a SSB charges KG administration fees for the central support, it should follow the same bidding and selection procedures as other service providers and obtain prior approval of the school management committee. The charging mechanism must be reasonable and justifiable.

As the original copies of some payment records and invoices may be kept by the SSB, KG should arrange for the provision of such payment documents and invoices for inspection by EDB officers upon request.

[VI] Fixed assets and depreciation

14. Q: A KG needs to determine whether to record its fixed assets (other than school premises) acquired before joining the Scheme under "KG Scheme Funds" or "School Funds". If a KG chooses to record those fixed assets under "School Funds", can the subsequent acquisition of fixed assets be recorded under "KG Scheme Funds"?

A: Yes. KG may choose to record the new fixed assets under "KG Scheme Funds" or "School Funds" for each acquisition. However, KG should note that it is not allowed to transfer the fixed assets already recorded under "KG Scheme Funds" to "School Funds" without prior approval from the EDB, and vice versa.

- 15. Q: For fixed assets acquired by a KG prior to joining the Scheme which are still subject to annual depreciation in the 2017/18 school year, can the depreciation charges be recorded under “KG Scheme Funds”?**
- A:** If KG intends to record the depreciation charges of fixed assets acquired prior to joining the Scheme under “KG Scheme Funds”, it must record such fixed assets under “KG Scheme Funds”. For fixed assets recorded under “KG Scheme Funds”, their relevant depreciation charges will be apportioned among KG local curriculum, CCC and/or KG non-local curriculum. For fixed assets recorded under “School Funds”, their relevant depreciation charges will be recorded under “School Funds” and apportioned between CCC and/or KG non-local curriculum only.
- 16. Q: What is the threshold amount for classification of an article as fixed assets?**
- A:** The EDB has not set any threshold for classification of fixed assets. KG is allowed to determine suitable threshold amounts according to its own need under a mechanism which is reasonable and complies with the generally-accepted accounting principles. The threshold amount should be disclosed in the notes to fixed assets in the annual audited accounts.
- 17. Q: In case the depreciation rates of fixed assets recommended by the EDB differ from those currently adopted by a KG, should the KG adopt the recommended rates after the implementation of the Scheme?**
- A:** KG should adopt the depreciation rates recommended by the EDB as far as practicable. However, if a KG already has an established depreciation policy for fixed assets, it may apply its own policies continually provided that the depreciation periods are reasonable and comply with the generally-accepted accounting principles.
- 18. Q: If a KG withdraws from the Scheme, how should the fixed assets recorded under “KG Scheme Funds” and “School Funds” be handled?**
- A:** Upon revocation, voluntary withdrawal from the Scheme or closure of a KG, the fixed assets (excluding school premises) recorded under “KG Scheme Funds” shall be at the EDB’s discretion for disposal. As for the fixed assets recorded under “School Funds”, KG shall have full discretion for their disposal.
- 19. Q: If a KG intends to write-off some fixed assets recorded under “KG Scheme Funds” due to damage or other reasons, is the KG required to submit relevant information to the EDB for approval?**
- A:** Unless instructed otherwise by the EDB, in general, KG may write off the fixed assets under “KG Scheme Funds” with approval from the Supervisors of the KG and needs not submit an application to the EDB. KG is required to disclose the costs and accumulated depreciation of all fixed assets written-off during the year in the notes to the annual audited accounts. Furthermore, KG is required to present relevant documents of the write-off for EDB officers’ inspection upon request.

20. Q: Is a KG required to carry forward those fixed assets acquired with the one-off start-up grant during 2016/17 school year, such as computers, to “KG Scheme Funds” in the 2017/18 school year?

A: As the costs of all fixed assets acquired by a KG using the one-off start-up grant have already been accounted for as expenditure under the grant, the KG is not required to record the costs and the depreciation of these fixed assets under “KG Scheme Funds”. It only needs to record them in the fixed assets register for identification purpose.

[VII] Surplus/deficit of school-specific grants

21. Q: Are there any reserve ceilings for the grant for a cook, the grant for support to non-Chinese speaking (NCS) students and the one-off start-up grant? What is the treatment for deficit?

A: KG is allowed to accumulate surplus up to the current year provision of the grant for a cook. The EDB will claw back any excessive surplus of the grant based on the annual audited accounts. Should there be any deficit, the amount should be borne by the KG’s income from meal charges. If such income is insufficient to cover the deficit, the shortfall should be borne by “School Funds”.

Similarly, the reserve ceiling of the grant for support to NCS students is the current year provision of the grant. The EDB will claw back any excessive surplus of the grant based on the annual audited accounts. Should there be any deficit, the amount should be covered by the surplus (if any) of the 40% of the basic unit subsidy. Any shortfall should be borne by “School Funds”.

No reserve ceiling is set on the one-off start-up grant. KG may retain the unspent balance and use the grant up to 31 July 2019, upon which the EDB will claw back the unspent balance of the grant based on the annual audited accounts. In general, since the total expenditure of the grant is limited by the amount of the grant received, there is no deficit for this grant. If the remaining balance of the grant is insufficient to fully-cover a certain expenditure / cost of an fixed asset, the KG may utilize the unspent balance of the grant, and then cover the shortfall by the surplus (if any) of the 40% of the basic unit subsidy. Any remaining shortfall should be borne by “School Funds”.

[VIII] Annual audited accounts

22. Q: A KG with accounting year different from school year will receive subsidies under both the Pre-primary Education Voucher Scheme (PEVS) and the Scheme in its 2017/18 accounting year. In view of the different reporting requirements under the two subsidy schemes, is a KG required to submit two separate sets of annual audited accounts for the two schemes to the EDB?

A: For the first school year under the Scheme (i.e. the 2017/18 school year), KG with accounting year different from school year may prepare the 2017/18 annual audited accounts in either ways below to present the positions of surplus/deficit and assets and liabilities before and after joining the Scheme:

- (i) Submit one set of annual audited accounts for each scheme to the EDB according to the prescribed statement formats, i.e. two sets in total; or
- (ii) Submit one set of annual audited accounts to the EDB with the income and expenditure statement comprising two portions, i.e., with the income and expenditure under the PEVS presented in existing format, and those under the Scheme presented in the new format. For the balance sheet, the KG should insert an additional column to disclose the position of assets and liabilities at the end of the 2016/17 school year. The School Supervisor's Certificate and the Auditor's Report must cover both portions of the income and expenditure statement, the balance sheet, all other statements and notes.

Starting from the 2018/19 school year, such KG only needs to submit one set of annual audited accounts according to the format specified under the Scheme for each accounting year.

23. Q: A KG with accounting year ending in March and received one-off start-up grant in 2016/17 needs to reflect the relevant income and expenditure of the grant in a separate statement in the annual audited accounts. Will the EDB issue the circular memorandum calling for submission of 2016/17 annual audited accounts in advance to allow time for KG's preparation?

A: In response to the requests of such KGs, the EDB will issue the circular memorandum calling for submission of 2016/17 annual audited accounts in June 2017. The statement of the one-off start-up grant will be included.

24. Q: Is a KG required to provide comparative figures of 2016/17 in their 2017/18 annual audited accounts?

A: KG is required to provide comparative figures of 2016/17. The EDB had already issued the draft templates of the 2017/18 annual audited accounts on 17 January 2017. Apart from the new accounting items under the Scheme, relevant items under PEVS for 2016/17 are also included for KG to fill in the comparative figures.

25. Q: Is a KG required to prepare cash flow statements in the annual audited accounts?

A: Currently, the EDB does not require KG to provide cash flow statements in the annual audited accounts. Prior notice will be given to KG if required in future.

[IX] Monitoring and examination by the EDB

26. Q: Will the EDB allow a transitional period for KG to get familiar with the operation mode of the new scheme before conducting audit inspections? Will the EDB provide guidelines to KGs to facilitate their compliance?

A: The EDB will take into account the operation situations of KGs after joining the Scheme and select a certain number of KG for audit inspections in due course to ascertain whether their accounting records/systems and internal controls comply with the requirements of the Scheme. The EDB will also compile an Administration Guide to ensure that KGs understand and comply with the guidelines and requirements for usage of subsidies and grants and the accounting arrangements, etc. The Administration Guide is expected to be issued before the commencement of the 2017/18 school year.

[X] Others

27. Q: Is a KG allowed to carry forward balance of loan from banks or SSB for setting up of the KG to 2017/18 school year? How should a KG repay the loan to banks or SSB after joining the Scheme?

A: Set-up expenses incurred by KG prior to 2017/18 school year are not recognised expenditure under “KG Scheme Funds”. KG should repay the loan to banks or SSB with “School Funds” after joining the Scheme.

For KG that is newly-established under the Scheme, the set-up expenses is regarded as recognised expenditure under “KG Scheme Funds” and may be charged against the 40% of the basic unit subsidy by yearly amortisation. Apart from repaying loan with “School Funds”, the KG may choose to repay banks or SSB with the basic unit subsidy.

KG should note that the amounts borrowed from and/or repaid to SSB during the year and the outstanding loan balances should be disclosed in the notes to the annual audited accounts.

**Finance Division
March 2017**