

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

[The following Q&As aim to provide answers to frequently asked questions raised by Kindergartens / Kindergarten-cum-Child Care Centres and Schools with Kindergarten Classes Joining the Scheme (KGs) and will be updated regularly for reference.

“KG Scheme Funds” and “School Funds” mentioned in the Q&As refer to “Government Subsidy” and “Non-government Funds” respectively, as 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 joining the Scheme?**

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 before joining the Scheme? 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 before joining the Scheme to the ledger of new 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 before joining the Scheme 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: Expenditure recognised under the Scheme should be recorded under “KG Scheme Funds”, whereas un-recognised expenditure must be recorded under “School Funds”.

Generally speaking, KGs shall ensure that their operating expenses are directly related to teaching activities, school operation and maintenance of the standard of education service for educational purposes. Regarding expenditure recognised under the Scheme, KG may refer to the Appendix 4.1 “Expenditure items chargeable to the subsidies under the Kindergarten Education Scheme” of Kindergarten Administration Guide (December 2023 Updated Version).

KG should also refer to the examples of expenditure items that are not chargeable to “KG Scheme Funds” or “School Funds” in Appendix 4.2 of Kindergarten Administration Guide (December 2023 Updated Version).

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 cost price 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 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 and recorded under “School Funds”.
7. **Q: Should registration fees collected from students be record in “KG Scheme Funds” or “School Funds”? How should registration fees forfeited be recorded?**
- A: KG should record registration fees in “accounts payable” under “School Funds” and subsequently transfer the amount to “school fee from parents” under “School Funds” so as to offset part of the first instalment of school fee after admission of the students. If no school fee is collected or the first instalment of school fee is less than the registration fee, the registration fee or its remaining balance must be refunded respectively within the first month of the relevant school year. Registration fees forfeited should be recorded as “other income” under “School Funds”.

[III] Apportionment

8. **Q: A KG offers a local curriculum operating both HD and WD sessions. In light of substantial surplus in the unit subsidy of HD session as reported in the annual audited accounts, can the KG hire additional teacher specifically for HD students and the related salary expenses of the teacher be charged solely to the HD session?**
- A: No. According to the prevailing mechanism, KGs must apportion the expenditure (including the above-mentioned salary expenses of the additional teacher) of the stream of KG local curriculum between HD and WD/LWD sessions based on their student enrolment and the ratio of student unit cost (the ratio of HD to WD unit cost per student ranges from 1:1.6 to 1:2).

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: KGs are required by EDB to apportion only the expenditure of the stream of KG local curriculum between HD and WD/LWD sessions based on their student enrolment and the ratio of student unit cost. There is no requirement to apportion the expenditure to HD and WD/LWD sessions for CCC and the stream of KG non-local curriculum under “School Funds” account.
10. Q: 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 every year by adopting the actual annual average enrolments, or once per month using the actual monthly enrolments, depending on its school-based needs. 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, organisations or funds

11. Q: Apart from EDB, a KG may receive subsidies or grants from other government departments, 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, 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, and/or record the income and expenditure of the subvented activities in the annual audited accounts for submission and return the unspent balances to the government departments / organisations / funds concerned according to the subvention provisions or record such amounts as “other income” of KG. Any deficit should be borne by “School Funds” (unless otherwise specified / recognised by EDB);
 - 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 / organisations / 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” (unless otherwise specified / recognised by EDB).
- (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 above items (i) and (ii) should be recorded in Note 5 “Surplus of projects subvented by / allowance received from other government departments, organisations or funds” and Note 6 “Deficit of projects subvented by other government departments, organisations or funds ” of Statement 7 in the annual audited accounts. 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, is it 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 / operator’s coordination of functions such as procurement, personnel and financial matters centrally. Thus, EDB accepts the central coordination of payment by SSB / operator 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 / operator is authorised by school management committee (SMC) to procure on behalf of KG, SSB / operator is required to follow the procurement procedures that are substantially the same as those applicable to KGs, except the requirements on the working staff and approving staff as set out in the “Guidelines

on Procurement Procedures in Kindergartens”. Prior approval by the SMC must be obtained for such authorisation and properly recorded. If a SSB / operator 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 SMC. The charging mechanism must be reasonable and justifiable.

As the original copies of some payment records and invoices may be kept by the SSB / operator, 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 all 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 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 first school year joining the Scheme, can the depreciation charges be recorded under “KG Scheme Funds”?

A: KGs should decide whether the fixed assets acquired before joining the Scheme should be grouped under “KG Scheme Funds” or “School 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: 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 under fixed assets in the notes to the annual audited accounts.

17. Q: In case the depreciation rates of fixed assets recommended by EDB differ from those already adopted by a KG, should the KG adopt the depreciation rates recommended by EDB?

A: KG should adopt the depreciation rates recommended by 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 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 EDB for approval?**
- A: Unless instructed otherwise by 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 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, such as computers, to “KG Scheme Funds”?**
- 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 charges 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 Grant for a Cook, Grant for support to non-Chinese speaking (NCS) students, Promotion of Reading Grant for Kindergartens, Kindergarten Activity Grant and Relief Grant for Appointment of Kindergarten Supply Teachers? What is the treatment for deficit?**
- A: KG is allowed to accumulate surplus up to the current year provision of Grant for a Cook. 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”.
- KG is allowed to accumulate surplus up to the current year provision of Grant for support to NCS students, Promotion of Reading Grant for Kindergartens and Kindergarten Activity Grant; and up to three times the annual provision of Relief Grant for Appointment of Kindergarten Supply Teachers in the accounting year in which the grant is provided. EDB will claw back any excessive surplus of these grants 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 unit subsidy. Any shortfall should be borne by “School Funds”.

[VIII] Annual audited accounts

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

A: Currently, 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] Others

23. Q: How should a KG repay the set-up loan from other organisations such as SSB?

A: Set-up expenses incurred by KG prior to joining the Scheme are not recognised expenditure under “KG Scheme Funds”. KG should repay the loan to the lending institution(s) concerned with “School Funds” after joining the Scheme.

For KG that is newly-established under the Scheme, the set-up expense is regarded as recognised expenditure under “KG Scheme Funds” and may be charged to the other operating cost portion of unit subsidy (i.e. 40%) by yearly amortisation.

If the funding for setting up KG comes from loans from other parties (such as SSB), these loans should also be clearly recorded in the audited accounts of the KG so that the KG can repay the loans to the relevant parties after recovering the costs. Apart from repaying loan with “School Funds”, the KG may choose to repay the relevant parties with the 40% of unit subsidy.

KG should note that the amounts borrowed from and / or repaid to related parties (such as SSB) during the year and the outstanding loan balances should be disclosed in the notes to the annual audited accounts. In addition, KGs should have proper loan agreement(s) and repayment schedules in place with the lending institution(s) (including SSB).

**Finance Division
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