

OVERVIEW OF FUND ACCOUNTING

**Published by
Financial Management Service Foundation**

OVERVIEW OF FUND ACCOUNTING

INTRODUCTION

- 2.1.1** Fund accounting is a system of accounting which is peculiar to NPOs or not-for-profit organisations. Separate records are kept for funds created for certain specified purposes, which may be restricted or unrestricted in nature.

A fund can be defined as

“a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations”.

- 2.1.2** In other words separate funds based on regulations, restrictions and limitations are required to be set up. The restrictions or designations may be placed by the donors or the management. Each fund must be treated as a separate entity and should have its own individual receipt and payment account, income and expenditure account and balance sheet. The individual funds should be consolidated and reflected in the overall statements of the entire organisation.
- 2.1.3** Fund Accounting is generally based on the activities and objectives as specified by the donors or outside agencies. Expenditures and resources are segregated in accordance with the source and the conditions attached thereof. However, the trustee/board of the NPOs may also create and designate various funds and also lay down appropriate conditions and norms for each fund.

CHARACTERISTICS & ADVANTAGES OF FUND ACCOUNTING

- 2.2.1** Maintenance of financial records on the principles of fund accounting helps in meticulous analysis of each independent activity separately. For instance, if an NPO is engaged in several projects simultaneously, fund accounting will provide precise information with regard to each and every project at any point of time. Some instances of such information could be :
- available cash and bank balance under that particular project
 - investment held under that particular project
 - any surplus or deficit in the project
 - loan given or taken from other project
 - administrative component of that project, etc.
- 2.2.2** The availability of financial informations in a project-wise or fund-wise form enhances the financial transparency as well as decision-making. Some distinct advantages could be enumerated as under :
- i) Measurement of project-wise and fund-wise performance
 - ii) Measurement of project-wise and fund-wise cost of activities and services
 - iii) Project-wise and fund-wise management of funds
 - iv) Project-wise and fund-wise management of assets

- v) Analysis of the impact of financial decisions
- vi) Identification of project-wise and fund-wise manpower and cost allocation
- vii) Inter-project fund transfers and recoveries thereof

2.2.3 From the above analysis, it is clear that fund accounting can help in providing various kind of fund/project based informations, which not only caters to the reporting requirements but also help in the decision making processes of the NPO. In the subsequent chapters, we will try to understand the various principles and characteristics of fund accounting. We will also try to understand the processes and intricacies involved in implementation of a fund accounting system.