

# Diploma in Financial Management & Accountability

*- a joint initiative of TISS & FMSF*

## Course Material



Project Fund Accounting  
Paper - V

Module - III  
Faculty - Sanjay Patra

## UNIT 1- OVERVIEW OF FUND ACCOUNTING

### *Learner's Objectives*

- *To understand the meaning of Fund Accounting in context of non-profit organizations.*
- *To understand the characteristics and advantages of Fund Accounting*

### 1.1 INTRODUCTION

Fund accounting is a system of accounting which is peculiar to NGOs 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”.*

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 organization.

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 NGOs may also create and designate various funds and also lay down appropriate conditions and norms for each fund.

## **1.2 CHARACTERISTICS AND ADVANTAGES OF FUND ACCOUNTING**

Maintenance of financial records in principles of fund accounting helps in meticulous analysis of each independent activity separately. For instance, if an NGO is engaged in several projects simultaneously then fund accounting will provide precise information with regard to each and every project at any point of time. 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

The availability of financial information 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

From the above, analysis it is clear that fund accounting can help in providing various kind of fund/project based information, which not only cater to the reporting requirements but also help in the decision making processes of the NGO. 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.

#### **Self Assessment Exercises**

1. What do mean by Fund accounting?
2. Explain the various characteristics and advantages of Fund Accounting?
3. How does fund accounting help in decision making?
4. How an NGO engaged in various activities can benefit from Fund accounting?