

UNIT-7

ROLE OF FUND ACCOUNTING AND GOVERNANCE

INVESTMENT DECISION MAKING

07.08 Fund accounting can play a very important role in enhancing the effectiveness of the financial systems and decisions making. Use of fund accounting is like identifying and diagnosing the disease precisely for the most appropriate medication. Under fund accounting every rupee and every asset in the organisation could be defined according to its source, nature and availability. As a result, all the available resources can be segregated into various groups for their effective use or investments. For instance, the funds available under an endowment or corpus fund can be invested in high interest bearing long term securities. On the contrary project funds can be invested in various securities on the basis of an age wise classification of requirements. For example, if funds are available for a 2 year project then 25% can be kept in FDRs for a tenure of more than 18 months. Another 25% can be kept for a tenure of 12-18 months. Similarly, the remaining amount can be kept in securities of less than 1 year.

07.09 Cash planning as well as investment planning will become easier if all the fund balances and their time-wise requirement is available with the management of the NGO. Management of liquidity and investment is one area which requires greater attention on the part of the NGOs. Infact, the budgetary projections also should be prepared with the help of the fund-wise requirement and availability of funds.

MANAGEMENT AND SAFEGUARD OF ASSETS

07.10 Under fund accounting, it is possible to segregate and reflect the asset on the basis of the various projects to which they belong. It is possible to distinguish between corpus, endowment and project assets. Fund accounting provides precise information to the management about the assets on the basis

of the source, purpose and limitations attached to each of it. With the help of such informations, decision making with regard to management and safeguard of assets becomes far more easier .

CONTROL OVER INTER-PROJECT TRANSFERS AND RECOVERIES

07.11 Under conventional accounting, it is difficult to quantify inter-project loans and advances. There may be many projects which have negative cash balance as funds might have been used from some other projects. With the help of fund accounting the management of an NGO can formulate guidelines and regulate inter-project transfers. Inter-project transfers are normally not permissible if the consent of the donor is not there. On the other hand, overspending in a project may also create problem to the management as the source of replenishment may not be available. Therefore, fund accounting becomes very important for ensuring that all inter-project transactions are within the control and knowledge of the management and are also in consonance with the norms laid down in that regard.

STRATEGIC DECISION MAKING

07.12 Fund-wise segregation of the resources enables the management in various strategic decision making processes. The management is in a position to know various unrestricted internal and external resources available and accordingly it can plan the application of such resources in various project activities or sustainability initiative. A proper fund accounting system enhances the budgeting processes as the management has a more clearer picture of the existing resources as well as the future inflows. Therefore, budgeting processes could become more precise and credible if fund-wise information are available with the management.

07.13 A periodic ratio analysis of various fund can also provide useful information for strategic decision making.