

## CHAPTER 05

### Current Fund

**05.01** The main purpose of fund accounting is to properly account for all resources received or used. It classifies the available reserves and resources into funds according to specific conditions and limitations placed by the respective donor. The classification into various funds is an acknowledgment of the stewardship/trusteeship responsibility, which comes along with restricted grants from external parties.

**05.02** An NGO may have numerous fund accounts but for external reporting purposes similar funds are combined into fund groups. For instance, separate accounting may be done for all restricted projects but for overall reporting purposes all such individual fund account may be combined into a common fund account – restricted funds. In this chapter we are discussing certain current funds. Current funds imply that they are available for application for either restricted or unrestricted purposes. All funds other than permanent or long term funds such as corpus and endowments are considered as current funds. Current funds basically includes all the active funds of an NGO. The fund which are available for application for any purpose with or without restriction are current funds.

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Another way of looking at current funds could be the funds which find a place in the income and expenditure account of the organisation. For example, a corpus fund is a permanent fund and any receipt towards corpus is directly taken to the balance sheet without being shown as income in the income and expenditure account. The following are few of the commonly used fund groups under current funds.

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**05.03** Current or General Funds, hereinafter referred to as CF, are those funds, which reflect the financial resources/surpluses available for general operations. Such funds are generally created from

- the excess of income over expenditure of a charity in a normal course of functioning
- income generation activities
- interest earned from various unrestricted fund
- rent received
- membership fees
- miscellaneous sources, etc

**05.04** In each financial year an NGO may have certain unrestricted funds available from the above mentioned sources. Such funds can be utilized in carrying out the primary objectives of the organization. Normally, the current fund is determined at the end of the year being the residual balance available after accounting for all restricted, unrestricted and specialized funds. But if a proper fund accounting system is in place then the organization can know the amount of CF available during the year. As a result, the management can plan its spending on such activities against which no funding is available.

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**05.05** Current unrestricted funds, hereinafter referred to as CUF, reflect the grant and resources received without any conditions or stipulation by the donor agencies. In other words, all voluntary contributions where the donor does not specify any condition regarding the use of fund can be treated as CUF. The distinction between a CF and CUF is the internality and externality of their generation. All CUF are generated through external sources and all CF are generated by the organization through its own sources. But in both the cases there is no restriction on the use of such funds for any specific purposes. Therefore, if an NGO is in a position to calculate both the CF and CUF, anytime during the year then it can plan its own unrestricted activities for which no fund from any donor is available.

**05.06** A voluntary contribution generally should be considered as an unrestricted fund. In practice project grants are also treated as voluntary contribution but if we go by strict legal interpretation then a grant received for a particular project cannot be considered as voluntary in nature. A contribution is voluntary if no conditions are attached with it. In a restricted project it is more of a partnership where the NGO utilises the grant on the basis of the restrictions attached. Therefore, a project grant is not voluntary in nature.

**05.07** In the category of CUF, those donations and grant are included which are absolutely voluntary and do not come with any conditions attached. In this context, it is important to note the difference between donations/grants and other incomes. Donations/grants cannot be claimed legally as a matter of right from the donor but other income can be claimed. In other incomes there is a *quid pro quo* i.e. something is received against something. If rent is received then the payee has used the premises. If interest is received then the bank has used the funds. All income other than voluntary donations can be legally demanded

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from the person from whom they are outstanding. But a voluntary contribution is solely at the wishes of the donor and he may or may not give without incurring any legal obligation.

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**05.08** There could be some unrestricted voluntary contribution received for a broader spectrum of activity. For instance, an NGO collecting funds for the girl child through donation boxes, such receipts are voluntary in nature but at the same time the larger intent of the donor is specified. Therefore, even if there is no restriction for any particular type of activity but the funds have to be spent for the benefit or development of the girl child. Choosing the type of activity may be at the discretion of the NGO but the segment of activity is defined at the time of receipt. In such cases, the restriction is on the specific objective rather than a particular activity as in the case of a restricted fund supported with a project proposal and budget.

**05.09** Current designated funds, hereinafter referred to as CDF, is created out of unrestricted funds by the management of the NGO or the trust. The board of an NGO may designate the unrestricted current fund for any specific purpose or activity . The designation may be for programme or administrative purposes. The board of the NGO may change the designation at any time and redesignate the same for other purpose. For instance, the CDF may be created for some of the following purposes :

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- any specific activity designated by the Board of Directors
- emergency medical expenses for staff members with approval of the board
- internal research for improving the quality of programs
- staff capacitation measures which are not funded under any restricted projects
- participation in seminars, conferences, international meets
- expenses on fund raising initiatives, etc.

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**05.10** Designation of funds can be done from unrestricted funds only. Because restricted funds are not in the discretionary domain of the NGO. If an NGO is able to designate a particular fund then it implies that it is not specifically accountable to any external agencies for that particular fund. Therefore, the restricted funds including projects grants can only be used for the specified purposes.

**05.11** Apart from the unrestricted funds there is one more category of fund which can be designated by the NGO for any specific purpose, it is the redesignation of an existing designated fund. Because designation creates an revocable restriction. The management of an NGO can create and revoke designation on various funds. But for both designation or revocation of designation the decision should be taken at the board level as per the bye-laws of that organisation.

**05.12** The designated funds can provide a deep insight into the programmes and values of the organisation. Because it is something at the disposal and discretion of the organisation. In case of a restricted fund the organisation does not even have the opportunity of becoming judicious in identifying the modes and purposes of application. But in case of designated funds the organisation can internally decide the purpose, mode and

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methodology for retention or use of funds. The various kinds of designated funds created can provide a clear idea about the approach of the NGO, the important activities and the sustainability perspectives.

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**05.13** Current restricted fund, hereinafter referred to as CRF, are the funds available with the organisation with conditions and stipulation imposed by the donors. All project grant based on project agreements are restricted funds. They are CFs available for application in the short or medium terms. But the NGO does not have any discretionary power for determining the mode and purpose of utilisation. Such funds have to be used as per the approved budgets and activities. Even the expenditures heads are pre-determined for such funds.

**05.14** The stewardship/trusteeship aspect of the NGO is very apparent in the framework of restricted fund. Such funds are treated as the belonging of the donor and NGO is merely a catalytic conduit for application of such funds. The NGO keeps and utilises fund on behalf of the donors. Therefore, it has the dual responsibility of effectively utilising as well as safeguarding such funds. At the end of each project, if there is any surplus then such surplus may either be refunded or may be transferred to the CUF with prior approval from the donors. Any asset, surplus or deficit at the end of the project belongs to the donor and it has to be retained or refunded as per the terms of the agreement or any other direction received from the donor.

**05.15** A restricted fund may have an interface with unrestricted funds also. For instance, in some projects the donor does not fund 100% of the budgeted amount. A

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specified percentage of the project cost is provided by the NGO as own means of contribution. If such own means of contribution comes from internal unrestricted sources then the expenditures for the project will come from two sources one from the restricted fund belonging to the donor and the other from the unrestricted fund from which own means of contribution was made. Then an accounting entry for transferring the own means from unrestricted funds account to restricted funds has to be passed which would not have been required in conventional accounting system.

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