20. Matrix Reporting/Fund Accounting

20.1 Definition

The IAS did not mention Matrix Reporting/Fund Accounting as this is peculiar to NPOs and government institutions. Initially, the AICPA provided guidelines on this topic but eventually, SFAS 117 does not require reporting financial information by funds.

Matrix Reporting/Fund Accounting is defined as a system of recording resources whose use may be limited by donors, granting agencies, governing boards, management, or by law. To keep the books and records in a way that gave recognition to the restrictions set by the donors, some NPOs kept a series of separate funds for a variety of specific purposes. Each fund consisted of a self-balancing set of assets, liabilities and net asset accounts.

20.2 As a Method of Accounting for NPOs

Matrix Reporting/Fund Accounting reports may be considered as special-purpose financial reports and therefore not included as basic requirements in financial reporting. However, Matrix Reporting/Fund Accounting as part of the accounting system of NPOs may contribute to better NPO accounting based on the following justifications:

- Matrix Reporting/Fund Accounting is a concept peculiar to NPOs. NPOs receive funds under various terms and conditions and may be grouped in various ways based on their intent and purpose and restrictions set by donors and management. Funding sources and funding arrangements may also vary - single fund, co-funding, or multi-funding for either individual activities, individual programs, several programs or the entire organization.
- Accountability, transparency, and monitoring were on the top of the list of reasons why NPOs applied the concept of matrix reporting/fund accounting.
- Matrix Reporting/Fund Accounting is also the expression of "matching of sources against intentions" (a fundamental concept in accounting) in NPOs. In business, there should be a proper matching of costs against revenues. In the same manner, NPOs should have proper matching of funds/sources against its intentions. Fund is defined as an amount set aside for a specific purpose.
- IPSAS 18 – Segment Reporting states that reporting financial information by segments will:

- help users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity; and
- enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

It is recommended, therefore, that Matrix Reporting/Fund Accounting is an accounting method for NPOs.

20.3 Dimensions of Fund Accounting

Based on the agreements with the intended user of the NPO financial statements, like funding agencies (FA), a supporting statement to the Statement of Activities showing, in a matrix form the relationship of the revenues, expenses, and Net Assets with respect to each funding source, programs, area of operation, etc., may be prepared.

It can be a relationship between Funding Agency and Programs:

	FA 1	FA 2	FA 3	Total
Research	X	X		
Education	X		X	
Training		X		
Livelihood	X			
Total				

Or between Programs and Area of Operation:

	Area1	Area2	Area3	Total
Research	X	X		
Education	X		X	
Training		X		
Livelihood	X			
Total				

Or could be Area of Operation vis-à-vis Funding Agency

	Area1	Area2	Area3	Total
FA 1	X	X		
FA 2	X		X	
FA 3		X		
FA 4	X			
Total				

Other form of relationships may be derived based on the needs of management, donors and other stakeholders. It can also be a multi-dimensional thing.

	FA 1	FA 2	FA 3	Total
Research - Area1 - Area2 - Area3				
Education - Area1 - Area2 - Area3				
Training - Area1 - Area2 - Area3				
Livelihood - Area1 - Area2 - Area3				

20.4 Specific Transactions in Fund Accounting

1. Interfund Transactions

a. Interfund Borrowings

When interfund borrowing is legally allowed, i.e., there are no restrictions for doing this and this is a result of a sound management decision, entries are made both on the disbursing and the receiving funds at the same time. This is one of the most overlooked transactions. Sometimes, records are reflected in one fund only or records are not done at the same time. This type of transaction results in an Interfund Receivable in the disbursing fund and an Interfund Payable in the receiving fund. The Interfund Receivable/Payable accounts are accounts of the individual funds but these should always have a zero balance at the total column; therefore these are offset accounts in the consolidated financial statements.

Example:

ICCO Fund temporarily borrowed 10,000.00 from 11.11.11 Fund.

In ICCO Fund's record

	Dr	Cr
Cash	10,000.00	
Interfund Payable – 11.11.11 Fund		10,000.00

> to record amount borrowed from 11.11.11 Fund

In 11.11.11 Fund's record

Interfund Receivable – ICCO Fund	10,000.00	
Cash		10,000.00

> to record amount borrowed by ICCO Fund

Presentation in the balance sheet:

	ICCO	11.11.11	TOTAL
Interfund Receivable(Payable)	(10,000)	10,000	-

Interfund borrowings result in Interfund receivable in the paying fund and Interfund payable in the receiving fund. These accounts only exist in individual Net Assets while these are non-account in the consolidated financial statements.

b. Expenses Paid by One Fund for Another

Another transaction is the payment of expenses, which are chargeable to another fund. As in the case of interfund borrowings, this type of transaction results in Interfund Receivable/Payable in two or more funds.

Example: For a valid reason and again from a sound management decision, a situation may arise wherein an expense, e.g. training, pertaining to 11.11.11 Fund was paid from ICCO Fund's cash account.

	Dr	Cr
In ICCO Fund's record		
Interfund Receivable – 11.11.11 Fund	800.00	
Cash		800.00

> to record payment of 11.11.11 Fund's training expenses

In 11.11.11 Fund's record

Training Expense	800.00	
Interfund Payable – ICCO Fund		800.00

> to record training expenses paid by ICCO Fund

Presentation in the balance sheet:

Similar to the above (item a).

c. Correcting Entries Affecting Fund/s Different from the Original Entry/ies

This occurs when previous erroneous entries were charged against or credited to a specific fund but later on it was corrected that the said entries should have been charged against or credited to another fund.

Assuming there was an error in the original entries wherein a certain expense (transportation for example) was erroneously charged against and paid from ICCO Fund, but later on determined that the activity was actually for 11.11.11 Fund.

Original Entries (erroneous)

In ICCO Fund

	Dr	Cr
Transportation Expense	100.00	
Cash		100.00

> to record payment for transportation from ____ to ______

Correcting Entries

In ICCO Fund

	Dr	Cr
Interfund Receivable	100.00	
Transportation Expense		100.00

> to correct entry per Voucher Number ___;
transaction should be charged against 11.11.11 Fund.

In 11.11.11 Fund

	Dr	Cr
Transportation Expense	100.00	
Interfund Payable		100.00

> to recognize transportation expense paid
from Voucher Number ___ (ICCO Fund).

d. Transfer of Fund Balance from One Category to Another

This type of interfund transfers is a mechanism in which one classification of Net Asset increases and another classification of Net Asset decreases, with no change in the total Net Assets of the NPO. These are reflected in the Statement of Activities to reflect the satisfaction of donor restrictions. When this happens, the related assets, representing the Net Asset transferred, are also transferred. The nature, circumstances, and related information of the transfer should be adequately disclosed as a note to financial statements. Most importantly, this type of transfer should be in accordance to the agreement with the donor.

Example:

When a project is closed but there is still a fund balance for the project (e.g. SPF Fund), the NPO and the Donor Agency may agree that the project fund balance can be transferred to the General Fund. (Some Donors require that any balance should be returned or forwarded to a new project being funded by the same donor). It is very important that the NPO and the Donor agree on the treatment of the balance.

	Dr	Cr
In SPF Fund		
Operational Fund (Net Asset)	1,200.00	
Cash		1,200.00
> to close SPF project and to record transfer of fund to General Fund.		
In General Fund		
Cash	1,200.00	
Operational Fund (Net Asset)		1,200.00
> to record SPF fund balance transferred to General Fund.		

Presentation in the Financial Statement

	SPF	GenFund
Operational Fund *	1,200.00	10,500.00
Fund Transfer (Note x) **	(1,200.00)	1,200.00
Operational Fund after Fund Transfer	-	11,700.00

* If the transfer was agreed and effected after the period then the Fund Transfer is reflected in the following period's financial statement; the Fund Transfer should then be reflected as an adjustment to the Operational Fund – Beginning. If the transfer was agreed and effected within the current period then the Fund Transfer is reflected in the current period's financial statement; the Fund Transfer should then be reflected at the bottom of the financial statement to arrive at the Operational Fund – End for the current period.

Disclosure

** The circumstances of the fund transfer as well as the related agreement and authority should be disclosed in the Notes to Financial Statements.

2. Treatment of Fixed Assets

The Property and Equipment Fund is established in the net assets of NPOs. Acquisition of property and equipment is recorded using the asset method. A corollary entry should be made to recognize the transfer of the cost of acquisition from the paying fund to the Property and Equipment Fund. Related transactions, such as depreciation and disposition of property are recorded under the Property and Equipment Fund.

A requisite of the above treatment of property and equipment is necessary to be implemented: *a separate budget for capital outlay should be formulated and approved.*

Example: Purchase of a computer set charged against ICCO grant.

a. Acquisition

	Dr	Cr
In ICCO Operational Fund		
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	5,000.00	
Cash		5,000.00
In Property & Equipment Fund		
Office Equipment (as Asset)	5,000.00	
Property and Equipment Fund		5,000.00

Note: The above two sets of entries should be made at the same time for every acquisition of property.

Presentation in the Statement of Activities

	ICCO	Property & Equipt Fund	TOTAL
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	(5,000)	5,000	-

Note: This is usually presented after the regular income and expense items before the Net Asset–End or may be under Extraordinary Items.

b. Depreciation.

This is an expense of the Property & Equipment Fund; it is not an expense of the grant fund (ICCO) because the total amount of the acquisition has been deducted from the ICCO fund already.

	Dr	Cr
Depreciation Expense	1,000.00	
Accumulated Depreciation		1,000.00

> to record depreciation for the period

Presentation in the Statement of Activities

	Property & ..... Equipt Fund .....
EXPENSES:	
Depreciation Expense	1,000.00
....	

Presentation in the Balance Sheet

	Property & ..... Equipt Fund .....
ASSETS	
Office Equipment	5,000.00
Less: Accumulated Depreciation	1,000.00
Net Book Value	4,000.00
NET ASSETS	
Net Assets	4,000.00

c. *Disposition of Property*

This is recorded and presented following the reciprocal of the above entries, i.e., to close the cost of the property, related accumulated depreciation, and the net book value under the Property and Equipment Fund. Proceeds or cash value, if any, is recognized as Other Income in the Operational Fund (not in the Property and Equipment Fund).

3. Grants and Donations

NPOs usually refer to grants and donations as "support". In an NPO setting, these are treated as revenue because these are the principal sources of resources for its operations. Grants and donations should be recognized only when they can be realized and enforced by the NPO.

Example: Received a grant from ICCO amounting to 100,000.00

In ICCO Fund

	Dr	Cr
Cash	100,000.00	
Grant (from ICCCO)		100,000.00

> to record first remittance from ICCO.

Presentation in the Statement of Activities (or Statement of Revenues & Expenses)

	..... ICCO Fund .....
REVENUES	
Grant	100,000.00

4. Income distribution

Income such as interest from bank accounts, income from investments, and net gains can be distributed to appropriate fund/s based on the following hierarchy of rules:

a. based on agreements with donor agencies

b. accrue to the fund where the asset that derived the income is located

c. proportionately based on approved sharing ratios

d. general fund

If the income is distributed to two or more funds, an Interfund Receivable (Payable) may arise.

Example: ABC Fund has no separate bank account (therefore no cash in bank account) but it's grant is deposited in SCLF bank account (therefore initially, there is an Interfund Receivable–SCLF in ABC Fund and Interfund Payable-ABC in SCLF Fund). It was agreed that interest income from the bank account is distributed based on 40:60 ratio between ABC and SCLF Funds respectively.

To record the Interest Income:

	Dr	Cr
In SCLF Fund		
Cash	100.00	
Interest Income		60.00
Interfund Payable-ABC		40.00
In ABC Fund		
Interfund Receivable-SCLF	40.00	
Interest Income		40.00

5. Joint Costs and Indirect Costs Allocation

The guidelines on joint costs allocation described above also apply when allocations are made in the supporting statement to the Statement of Activities showing, in a matrix form the relationship of the revenues, expenses, and net assets with respect to each funding source, programs, area of operation, etc.

Similar to the distributed income in item 4 above, if the expenses are distributed to two or more funds, an Interfund Receivable (Payable) arise when the resource or asset used (most of the time, cash) is identified with only one fund or identified with fund/s other than those affected by the expense.

Example: After determining the proper allocation method, Training Expenses were rightfully distributed against ICCO Fund, 11.11.11 Fund, and SCLF Fund with the ratio 40:35:25 respectively. Assuming that before the activity, a Cash Advance was made by the Training Coordinator (Mr. John McCartney) from ICCO Fund amounting to 10,000 for the activity. After the training, 9,000 was actually spent and 1,000 was returned to the ICCO Fund.

When the Cash Advance was made

	Dr	Cr
In ICCO Fund		
Cash Advance – John McCartney	10,000.00	
Cash		10,000.00
> to record cash advance of John McCartney for ________ training.		

When the Cash Advance was liquidated

In ICCO Fund

Training expenses	3,600.00	
Interfund Receivable – 11.11.11	3,150.00	
Interfund Receivable – SCLF	2,250.00	
Cash	1,000.00	
Cash Advance – John McCartney		10,000.00

> to record the liquidation of cash advance of John McCartney re ______ training.

In 11.11.11 Fund

Training Expenses	3,150.00	
Interfund payable – ICCO		3,150.00

> to record 11.11.11's share in the ____ training as per liquidation of John McCartney dated __________, Voucher ________

In SCLF Fund

Training Expenses	2,250.00	
Interfund payable – ICCO		2,250.00

> to record SCLF's share in the ____ training as per liquidation of John McCartney dated __________, Voucher ________

6. *Funds created from disbursements charged against Grant (e.g. Credit Revolving Fund, Capital for Income-Generating Projects)*

Normally, these are treated as charges against the approved grant. Corollary entries should be made to establish the fund created. A new accounting sub-cycle is also created or established. Transactions of this accounting sub-cycle are recorded in the new fund

Example: One of the approved items in the ICCO Grant is the provision for a credit revolving fund. Initially, 10,000 was loaned to various beneficiaries.

	Dr	Cr
In ICCO Fund		
Provision for Credit Fund	10,000.00	
Cash		10,000.00

> to record release of credit fund/loans to ________ beneficiaries.

In Credit Fund		
Loans Receivable (or Cash, if not immediately released)	10,000.00	
Credit Fund		10,000.00

Presentation in the Statement of Activities

	ICCO	Credit Fund	TOTAL
Provision for Credit Fund	(10,000)	10,000	-

Note: This is usually presented after the regular income and expense items before the Net Asset–End.

Presentation in the Balance Sheet

	….. Credit Fund …..
ASSETS	
Loans Receivable	10,000.00
TOTAL	10,000.00
NET ASSET	
Net Asset	10,000.00

Subsequent Transactions

Collections from the loans receivable will be recorded in the Credit Fund as debit to Cash and credit to Loans Receivable. Likewise, re-loaning from the collections (not from the grant fund) will be treated as transaction of the Credit Fund.

Additional credit fund from the grant funds (ICCO, 11.11.11, etc) is treated in the same manner as described above.

20.5 Sample System of Chart of Accounts under Fund Accounting

The Chart of Accounts is designed to be a tabular representation of the relationships of different segments. The most common segments are:

- GL Accounts
- Subsidiary Ledger Accounts

More segments may be added for further classification of accounts, as needed, as follows:

- Funding Agencies
- Programs/Projects
- Activity Accounts
- Division/Units
- Areas of Operation

Sample Coding System

Segment	No. of Digits	Format
General Ledger Accounts	**6 digits**	**999999**

Where:	First digit 9 represents the following:
1	for Assets
2	for Liabilities
3	for Net Assets
4	for Revenues and Support
5	for Program Expenses
6	for Administrative Expenses
7	for Fund Raising

Second digit (9) is the sequential numbering of sub-categories of the five major accounts described in the first digit.

Third to sixth digits follow the outlining rule for detail accounts under the sub-categories; specifically, the last two digits of Expenses accounts represent the uniform natural classification of expenses (e.g. transportation, supplies, communication, etc.)

Segment	No. of Digits	Format
Subsidiary Ledger Accounts	**3 digits**	**9X9**

Where:	first digit (9) represents the following:
0	for Members
1	for Staff
2	for Volunteers/Interns/LDO
3	Etc.

X is the first letter of the surname of individuals or the name of the organization/institution

Example: Purchase of a computer set charged against ICCO grant.

a. Acquisition

	Dr	Cr
In ICCO Operational Fund		
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	5,000.00	
Cash		5,000.00
In Property & Equipment Fund		
Office Equipment (as Asset)	5,000.00	
Property and Equipment Fund		5,000.00

Note: The above two sets of entries should be made at the same time for every acquisition of property.

Presentation in the Statement of Activities

	ICCO	Property & Equipt Fund	TOTAL
Office Equipment Acquisition or Capital Outlay or Fund Transfer to Property & Equipment Fund	(5,000)	5,000	-

Note: This is usually presented after the regular income and expense items before the Net Asset–End or may be under Extraordinary Items.

b. Depreciation.

This is an expense of the Property & Equipment Fund; it is not an expense of the grant fund (ICCO) because the total amount of the acquisition has been deducted from the ICCO fund already.

	Dr	Cr
Depreciation Expense	1,000.00	
Accumulated Depreciation		1,000.00

> to record depreciation for the period