

Restricted fund methods

[Business](#), [Company](#)



Restricted Fund Method * Organizations that follow restricted fund method present a general fund and one or more restricted funds. * The main purpose of the restricted fund is to record the receipt and the use of the resources from that fund that are subject to restrictions. * This method requires that a general fund be used to report changes in unrestricted net assets.

Recognition of endowment contributions: * The endowments contributions are recognized as revenue of the endowment fund in the current period. The only revenue that is reported in the endowment fund is the endowment contribution and the net investment income that is subject to external restrictions. * Any allocation of internal resources to the endowment fund would be accounted for as interfund transfers. * The endowment fund balance at the end represents the accumulation of resources subject to both external and internal restrictions and they should be permanently maintained. * Net investment income earned on resources held for endowments would be recognized based on if the investment income is restricted or not.

Recognition of Restricted Contributions reported in restricted funds: * Restricted contribution for which a restricted fund is present should be recognized as revenue of that fund in the current period. * There can be more than one restricted fund. However, each restricted fund would accumulate resources that are restricted for similar purposes. * Contributions that are restricted should be accounted for the same way on consistent basis. A change in restricted fund is considered to be a change in accounting policy. The restricted fund balance at the reporting date represents the accumulation of resources that are subject to restrictions. * Any allocations

of internally restricted resources to a restricted fund are known as interfund transfers. Recognition of Restricted Contributions reported in General funds:

- * Restricted Contributions for which no restricted fund is present should be recognized in general fund.
- * The general fund account's purpose is to account for both unrestricted revenues and restricted contributions for which there is no restricted fund.

The restricted contribution reported in general fund would be recognized in the same manner as under deferral method.

- * If the organization decides to establish a fund for a specific restricted contribution it would be considered a change in accounting policy. The financial statements of the previous years would have to be restated if similar contributions for which the fund is established had been reported in general funds in prior years.

Recognition of Unrestricted Contributions:

- * They should be recognized as revenue of the general fund in current period.
- * The unrestricted contributions are available for use to the organization. The excess of revenues over expenses in the general fund represents the increase in unrestricted net assets.
- * Unrestricted resources may be allocated to a restricted fund and this would be considered an interfund transfer.