AccountMate
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Article # 1145

Technical Note: How AccountMate Handles Interfund Balancing

Difficulty Level: Intermediate Level AccountMate User

Version(s) Affected: AccountMate 7 for SQL, Express, and LAN
AccountMate 6.5 for SQL, MSDE and LAN

Module(s) Affected: GL, AP, AR

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Description

Government entities and nonprofit organizations allocate and account for individual funds based upon the purpose for which they are set up. A fund may be treated as a separate accounting entity; thus, each will have its own set of assets, liabilities, fund balance or net assets, revenues, and expenses.

In daily operations, some transactions may occur between funds. Generally Accepted Accounting Principles (GAAP) requires that the total debits and credits for each fund be in balance. This Technical Note illustrates inter-fund transactions and discusses how AccountMate handles manual and automatic inter-fund balancing in compliance with GAAP requirements.

Solution

Inter-fund Balancing Methods

An out of balance in funds may occur if a transaction that affects the balances of two or more funds is not properly recorded. To resolve the out of balance, you must create inter-fund balancing entries. In AccountMate, there are two ways to generate inter-fund balancing entries: automatic inter-fund balancing and manual inter-fund balancing. The succeeding section will discuss how these two methods work.

Automatic Interfund Balancing

If you want the system to automatically generate the journal entries needed to keep your funds in balance when you record inter-fund transactions, you must set AccountMate to use the Automatic Interfund Balancing Feature. These are the requirements for automatic inter-fund balancing:

1. Activate the Automatic Interfund Balancing Feature

    You must mark the Enable Automatic Interfund Balancing checkbox in the Fund Accounting Setup tab of the GL Module Setup function. If you activate this feature, the system automatically verifies whether a transaction causes any fund to be out of balance and creates the corresponding journal entries to bring the fund back into balance.

2. Assign an Interfund Balance Account ID for each Fund Segment ID

    For each fund segment ID, you must assign a valid Interfund Balance Account ID. You can assign an Interfund Balance Account ID in the Fund Segment Default Setup tab of the Account Segment Values Maintenance function. You can do this only if you activate the Automatic Interfund Balancing feature.

    For each transaction that affects more than one fund, AccountMate automatically posts entries to the Interfund Balance Account IDs assigned to the Fund Account Segment IDs of the GL Account IDs used in the transaction. This enables the system to avoid an out of balance in the funds involved as a result of such a transaction.

Manual Inter-fund Balancing

If you do not want the system to automatically run the inter-fund balancing routine and post journal entries to correct the out of balance in your funds, you must deactivate the Automatic Interfund Balancing feature. The effects of turning off this feature are discussed in the section "Posting of Interfund Journal Entries".

Scenarios that Require Inter-fund Balancing

To understand when an out of balance in funds occur, consider the following scenarios:

1. Journal Entry Transactions in General Ledger

    An inter-fund transaction may arise if there is a need to allocate cash from one fund to another. You may create a journal entry to record the transfer of cash from the General Fund (Fund Segment ID 01) to the Special Project Fund (Fund Segment ID 03). To illustrate the journal entries:

    DR: Cash in Bank - Special Project Fund   xxx
    CR: Cash in Bank – General Fund   xxx
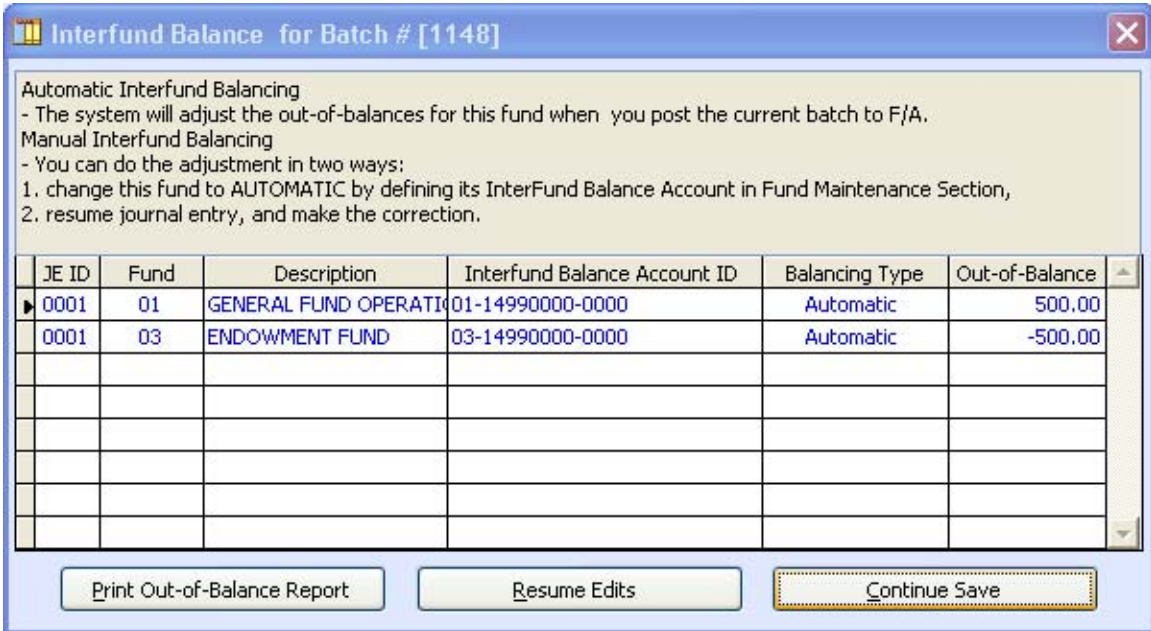   *To record the transfer of cash from one fund to another*

    These entries, while maintaining the balance of the total debits and credits for the company, will cause an out of balance in each of the affected funds. The debit to the Special Project Fund does not have a matching credit, while the credit to the General Fund does not have a matching debit.

    If you activate the Automatic Interfund Balancing feature, when you save the Journal Entry batch the system will generate a message window like the one shown in Figure 1.1. This message window tells you that you can either:

a. Edit the journal entry batch and add an inter-fund balancing journal entry, or

b. You can proceed to save the journal entry batch exactly as you entered it.

If you save the batch as it is, AccountMate will automatically post journal entries to adjust the fund out of balance when you post the batch. Using our illustration, it will post entries to the Interfund Balance Account IDs assigned to the Fund Segment IDs 01 and 03.

Interfund Balance for Batch # [1148]

Automatic Interfund Balancing
- The system will adjust the out-of-balances for this fund when you post the current batch to F/A.
Manual Interfund Balancing
- You can do the adjustment in two ways:
1. change this fund to AUTOMATIC by defining its InterFund Balance Account in Fund Maintenance Section,
2. resume journal entry, and make the correction.

JE ID	Fund	Description	Interfund Balance Account ID	Balancing Type	Out-of-Balance
0001	01	GENERAL FUND OPERATI	01-14990000-0000	Automatic	500.00
0001	03	ENDOWMENT FUND	03-14990000-0000	Automatic	-500.00

Print Out-of-Balance Report   Resume Edits   Continue Save

Figure 1.1 - Interfund Balance for Batch # [*NEW*]

If you turn off the Automatic Interfund Balancing feature, you will not see the message window shown in Figure 1.1; instead, the system will just save the batch for you.

2. AR Invoice and Receipt of Cash Transactions

A fund out of balance may occur if an AR invoice is created for one of the funds and collection on the invoice is posted to another fund.

For example, to record the fund raising revenue for Special Project Fund, you create an AR invoice through the Create Invoice function. The journal entry is as follows:

DR: Accounts Receivable - Special Project Fund   xxx
CR: Fund Raising Revenue - Special Project Fund   xxx

As both GL Account IDs used in this transaction belong to the same fund, the fund remains in balance.

Let us say the receivable was collected after the Special Project Fund was dissolved and company policy dictates that any amount left in the said fund is to

be reverted to the General Fund.

To record the deposit of the collection to the General Fund, you assign the bank account for General Fund in the Deposit Bank# field of the Apply Payment function. The journal entry is as follows:

```
DR: Cash in Bank - General Fund                    xxx
CR: Accounts Receivable - Special Project Fund            xxx
```

Both funds will be out of balance as a result of the second transaction. The system allows you to save the second transaction without generating an error message when an out of balance occurs in the affected funds. It validates for fund out of balance only when the accounting entries for these transactions are actually posted to GL either through Transfer Data to GL or Period-End Closing. This is true whether or not you have the Automatic Interfund Balancing feature activated.

3. AP Invoice and Payment Transactions

A fund out of balance may occur if an AP invoice is created for one of the funds and payment is made from another fund.

For example, to record the credit purchases of supplies for Special Project Fund, you create an AP invoice through the AP Invoice Transactions function. The journal entry is as follows:

```
DR: Supplies Expense - Special Project Fund       xxx
CR: Accounts Payable - Special Project Fund             xxx
```

Let us suppose that the company policy allows for disbursements to be made from the General Fund when the Special Project Fund does not have sufficient cash to cover its own expenses.

To record the payment drawn from the General Fund, you assign the bank account for General Fund in the Bank# field when recording or printing checks through the Post Handwritten Check or Print Computer Check functions. The journal entry is as follows:

```
DR: Accounts Payable - Special Project Fund       xxx
CR: Cash in Bank - General Fund                         xxx
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The entry for the payment causes both funds to be out of balance. The system allows you to save this transaction without prompting you with an error message when an out of balance occurs in the affected funds. It validates for fund out of balance only when the accounting entries for these transactions are actually posted to GL either through Transfer Data to GL or Period-End Closing. This is true whether you are using Automatic or Manual Interfund Balancing.

Posting of Inter-fund Balancing Journal Entries

From the examples mentioned, you may notice that the system does not necessarily execute the inter-fund balancing routine when you save the journal entry and when

you record the AR and AP transactions. If you do not activate Automatic Interfund Balancing, the system checks for fund out of balance only when you perform the Post Batch to GL function in the General Ledger module. If the said feature is activated, the validation is performed when the JE batch is saved and when the batch is posted in GL. In Accounts Payable or Accounts Receivable module, the system checks for fund out of balance only when you perform Transfer Data to GL or Period-End Closing, whether you activated Automatic Interfund Balancing or not.

1. Automatic Interfund Balancing

   When you perform the Post JE Batch to GL, Transfer Data to GL, or Period-End Closing function and you have activated the Automatic Interfund Balancing feature, the system automatically creates an inter-fund balancing journal entry to correct the fund out of balance that may result from inter-fund transactions. The system uses the Interfund GL Account ID assigned to each Fund Segment ID through the Account Segment Values Maintenance function. The journal entry may be as follows:

   DR: Due To/Due From - General Fund   xxx
   CR: Due To/Due From - Special Project Fund   xxx

2. Manual Inter-fund Balancing

   If you did not activate the Automatic Interfund Balancing feature and you have inter-fund transactions, you cannot successfully Post JE Batch to GL; neither can you transfer data to GL or close the period in AR and/or AP. The system prompts you with the following error message:

   "Invalid Journal ID [XXX] of Batch # [YYY]. Fund [ZZZ] is out of balance by $$$.$$."

   For a fund out of balance in the General Ledger module, you must create inter-fund balancing journal entries before you can post the JE Batch. The inter-fund balancing journal entry must be on the same Journal Entry ID of the Journal Entry Batch that you want to post.

   To resolve a fund out of balance in the Accounts Receivable or Accounts Payable module, you must activate Automatic Interfund Balancing.

AccountMate validates the inter-fund transactions to ensure that there is no out of balance in your funds. The validation process is run when you post a Journal Entry Batch to GL, transfer data to GL, or close the period. If an out of balance occurs as a result of an inter-fund transaction, the system provides the user the flexibility to either create automatic or manual inter-fund balancing journal entries.

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damages, even if AccountMate Software Corporation has been advised of the possibility of such damages.