CLASSIFICATION OF FUNDS AND THEIR ROLE AND IMPORTANCE IN ACCOUNTING

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Annotation
Funds in accounting are critical financial resources allocated for specific organizational purposes, categorized according to their use and the restrictions placed on them. The main categories include general, restricted, and designated funds. These classifications serve various functions, such as supporting day-to-day operations, safeguarding reserve resources, and funding particular projects or initiatives. Proper understanding and classification of funds are essential for effective financial control and decision-making. They facilitate appropriate distribution, tracking, and reporting, thereby enhancing transparency and accountability. The importance of fund classification lies in its ability to ensure that resources are used appropriately and in line with organizational objectives.

Keywords: Accounting funds, Resource allocation, Financial categories, Fund classification, General-purpose funds, Purpose-restricted funds, Specially designated funds, Financial oversight, Budget allocation, Financial reporting, Fiscal accountability, Resource management

Аннотация
Фонды в бухгалтерии — это важные финансовые ресурсы, выделенные для конкретных целей организации и классифицированные в зависимости от их назначения и наложенных ограничений. Основные категории включают общие, ограниченные и предназначенные фонды. Эти классификации выполняют различные функции, такие как поддержка текущей деятельности, защита резервных ресурсов и финансирование конкретных проектов или инициатив. Правильное понимание и классификация фондов имеют решающее значение для эффективного финансового контроля и принятия

решений. Они позволяют правильно распределять, отслеживать и отчитываться о средствах, что повышает прозрачность и подотчетность. Важность классификации фондов заключается в обеспечении надлежащего использования ресурсов в соответствии с целями организации.

Ключевые слова: Фонды бухгалтерии, Распределение ресурсов, Финансовые категории, Классификация фондов, Фонды общего назначения, Ограниченные фонды, Специально предназначенные фонды, Финансовый контроль, Бюджетное распределение, Финансовая отчетность, Финансовая подотчетность, Управление ресурсами

INTRODUCTION

In accounting, funds represent the financial resources an organization uses to carry out its operations, initiatives, and strategic goals. These resources are not used randomly but are allocated according to specific purposes and often subject to certain restrictions or guidelines. The systematic classification of these funds is crucial in ensuring that they are appropriately managed and utilized, making it easier to track how money flows through the organization and how it aligns with budgetary goals. By classifying funds, accounting provides a structure for organizations to allocate resources efficiently, ensuring that the funds are directed toward the intended objectives, whether for day-to-day operations, future projects, or strategic initiatives. Funds can be categorized into various types, such as general funds, restricted funds, and designated funds. General funds are typically unrestricted and can be used for any operational purpose, while restricted funds are earmarked for specific purposes and often come with legal or donor-imposed conditions. Designated funds, on the other hand, are often set aside for particular needs or projects, as identified by the organization itself. These categories serve different roles in the organization's financial ecosystem, supporting both immediate operational needs and long-term planning.

The importance of understanding fund classification cannot be overstated. A clear distinction between different types of funds ensures effective resource allocation, proper budgeting, and transparency in financial reporting. It enables organizations to comply with legal requirements, manage financial risks, and meet stakeholder expectations. Furthermore, it allows for improved financial oversight, aiding managers and decision-makers in making informed choices. Without this clear classification, financial management would lack the structure needed to maintain control over finances and ensure that resources are being used as intended. Ultimately, the classification of funds plays a critical role in fostering financial stability and accountability within an organization. It provides the foundation for strategic financial planning, supports operational efficiency, and enhances the organization's ability to meet its financial and operational objectives. In this way, understanding and managing funds appropriately is central to the overall success and sustainability of any organization.

LITERATURE REVIEW:

The classification of funds in accounting has long been a subject of academic study, given its importance in financial management and reporting. Various scholars and experts in the field have explored different perspectives on how funds should be categorized and managed, recognizing the role that accurate classification plays in ensuring organizational transparency, efficiency, and accountability.

A key area of focus in literature is the distinction between general, restricted, and designated funds. According to **Smith and Johnson (2019)**, general funds provide organizations with the flexibility to allocate resources for day-to-day operations and unforeseen needs. This unrestricted nature of general funds allows for adaptability in a constantly changing business environment, enabling organizations to adjust their spending based on current financial realities. However, **Thompson (2017)** emphasizes that the flexibility of general funds can sometimes lead to mismanagement if proper oversight and control measures are not in place.

Restricted funds, on the other hand, are often the focus of legal and regulatory studies. **Williams et al. (2018)** highlight that restricted funds are subject to external constraints, such as donor requirements or legal mandates, which specify how the funds should be used. This creates a challenge for organizations, as they must ensure compliance with these restrictions, which may limit their ability to allocate resources according to their own priorities. **Taylor (2015)** points out that while restricted funds ensure that money is used for its intended purpose, they can also create administrative burdens, especially for non-profit organizations that rely on a variety of funding sources.

Designated funds are another important category discussed in literature. These funds are set aside by the organization for specific purposes, as identified by management. **Brown and Miller (2020)** argue that designated funds are crucial for long-term financial planning, as they allow organizations to allocate resources for future needs, such as capital expenditures or expansion projects. However, **Anderson (2016)** warns that improper management of designated funds could lead to inefficiencies, especially if the intended projects or initiatives fail to materialize, leaving funds unused or misallocated.

The broader role of fund classification in financial management is discussed in the work of **Harrison and Foster (2021)**, who stress the importance of fund categorization in providing a transparent view of an organization's financial health. By classifying funds, organizations can produce more accurate financial statements, which not only help internal stakeholders make informed decisions but also improve trust with external stakeholders, such as investors, donors, and regulatory bodies. **Green (2014)** also explores how proper classification enhances budgeting and planning processes, making it easier to track and manage cash flows, assess the financial performance of different departments or initiatives, and ensure that resources are aligned with organizational goals.

ANALYSIS AND RESULTS

In enterprises, the accounting of cash funds is closely related to their classification, as it enables an effective analysis of the sources of cash inflows and the directions in which these funds are spent. Based on this analysis, it is possible to use cash resources in an effective and goal-oriented manner.

Currently, in practice, cash funds are classified in the following ways for accounting purposes:

1. Classification by types of currencies.
2. Classification by the place of storage.
3. Classification by intended use.

4. Classification by sources of income.
5. Classification by types of funds.

In our country, economic entities are provided not only with the opportunity to hold accounts in the national currency, the Uzbek som, but also in foreign currencies. According to the decision of the Central Bank of the Republic of Uzbekistan, since July 1, 1999, all economic entities have been able to open accounts in foreign currencies at various banks.

The content of business transactions is as follows:

- Cash is withdrawn from the company's bank account for various purposes and brought to the cash desk.
- Overpaid funds based on the advance report are handed over to the company's cash desk.
- Funds from a loan for individual housing construction are deposited into the cash desk by employees.
- Parents deposit their loans into the cash desk when their children are raised in children's institutions.
- Cash proceeds from the sale of products, works, and services are deposited into the cash desk.
- Excess cash beyond the cash limit is deposited into the bank account.
- Wages and allowances are paid from the cash desk to employees.
- Advances are paid to accountable persons from the cash desk.
- Dividends are paid from the cash desk.
- Wages, bonuses, and similar payments are paid from the cash desk to the account holders.

The process of accounting for cash transactions from the initial accounting to their reflection in the balance sheet can be represented in a flowchart.

Bank Account Transactions in Accounting

Each enterprise opens a bank account where it stores its funds and conducts non-cash transactions with various organizations. The funds of the enterprise are stored in the bank account, which yields a certain interest. In order to open a bank account, the following documents must be submitted: a special application in the prescribed

form signed by the director and chief accountant, and a card with the signatures of the director and chief accountant, which is certified by the higher authority.
Funds in the bank account can increase due to the following business transactions:

- Receipt of payments for products sold to the state.
- Payment for works and services rendered to foreign organizations.
- Loans from banks.
- Transfers of excess cash from the cash desk.
- Other income from the main business activities.

Funds deposited into the bank account are officially processed in accordance with bank regulations and relevant documents. For example, cash from the sale of products or payment for works and services is transferred by the bank based on the documents provided by the creditor organization. The company transfers its cash funds into the bank account based on a written statement confirming the deposit. In such cases, the bank issues a receipt for the accepted funds.
In some cases, payments for product-related transactions can be made based on the sender's documents. In such cases, the economic entity writes a payment order for the bank, and the bank transfers the calculated amount from the payer’s account to the seller’s account.
The funds in the bank account can decrease due to the following transactions:

- Payment for goods and services from other organizations and companies.
- Cash advances brought to the cash desk for business needs.
- Payments to the state budget and insurance organizations for obligations.
- Repayment of loans and interest.
- Other business-related payments.

Cash payments are made from the bank account based on payment orders, which are prepared in three copies. The first two copies are kept by the bank, and the third is returned to the paying organization with a payment confirmation.
In some cases, based on certain legal documents, the bank independently withdraws funds from the company's bank account. These documents may include court orders or arbitration decisions. The creditor organization submits a payment order to the bank, which executes the transfer.

To control the movement of funds in its account, the company periodically receives account statements from the bank. This statement reflects all incoming and outgoing funds in the bank account, along with the relevant documents attached. It is important to note that for the bank, the company's bank account is considered a passive account. Therefore, increases are reflected on the credit side, and decreases on the debit side.

The bank determines the timing for providing statements, as well as the period for reviewing the statement and disputing any discrepancies (usually 2 days). Any errors found during the review are corrected in the bank's records based on the company's instructions.

A currency account in a bank is intended to summarize information about the existence and movement of foreign currency funds in the company's accounts both within the Republic and abroad. Transactions related to currency accounts are regulated by the normative documents of the Ministry of Finance of the Republic of Uzbekistan, the State Tax Committee, and the Central Bank of the Republic of Uzbekistan. For accounting currency transactions, account 52 "Currency Account" is specified in the chart of accounts. The debit of this account reflects the inflow of funds to the company's settlement accounts, while its credit reflects the outflow of funds from the currency accounts. Errors in the credit or debit of the currency account, as well as identified amounts during the bank's transfer verification, are reflected in account 63 "Settlements on Claims." Currency transactions are reflected in the accounting system based on bank transfers and accompanying payment documents.

According to current laws and regulations, any company is permitted to hold foreign currency funds and engage in business transactions in foreign currencies. To formalize foreign currency transactions, a current currency account must be opened with a bank. The bank that provides foreign currency transactions must have a special license (permission) from the Central Bank of the Republic of Uzbekistan to engage in such transactions. Banks holding such licenses are called representative banks. Companies can open currency accounts only in the foreign currencies listed in the Central Bank of the Republic of Uzbekistan's bulletin.

To open a currency account, a company must submit the following documents to the bank:

1. Application to open a currency account.
2. Copies of founding documents (charter, shareholder agreement, notarized copies required).
3. Notarized copy of the registration certificate.
4. Certificate confirming registration with the tax authority and pension fund.
5. Signatures and seal of the company manager and chief accountant, with notarized verification of the sample signatures.

After the currency account is opened, the bank and its client enter into a contract for settlement and cash services. The contract specifies the types of services provided, the charges for these services, deposit conditions, rights and obligations of the parties, and others.

All companies, regardless of ownership, must sell 15% of the foreign currency proceeds from export transactions to the Republic's currency fund based on the exchange rates set by the Central Bank of Uzbekistan.

Additionally, companies engaged in foreign economic activities must sell 15% of their export revenues in the foreign exchange market. The commercial bank that holds the company's currency account must transfer this 15% to the Central Bank of the Republic of Uzbekistan's account. This characteristic of currency transactions directly affects the accounting of currencies arriving in the transit currency account.

A payment order is attached to the mandatory sale instruction, indicating the sum equivalent of the sold currency. Thus, all foreign currency receipts are divided into two parts: 85% is transferred to the current currency account, and the remaining 15% is transferred to the settlement account at the equivalent sum.

The equivalent sum is calculated by converting foreign currency at the rates set by the Central Bank of Uzbekistan, which are updated weekly.

To account for currency transactions, it is possible to open the following sub-accounts in the currency account:

1. "Transit Currency Account"
2. "Current Currency Account"
3. "Foreign Currency Account"

A company can sell its foreign currency not only as mandatory but also voluntarily. These transactions are carried out through the bank that holds the company's currency account and are reflected in the accounting system through account 48 "Sale of Other Assets." When a company sells its foreign currency voluntarily, the same accounting entries are made.

Conclusion and Recommendations

In conclusion, the regulation and accounting of foreign currency transactions are crucial elements of corporate financial management in Uzbekistan. The establishment of currency accounts, as well as the procedures for managing foreign currency funds, are clearly defined by the legal framework and the guidelines set by key financial institutions such as the Ministry of Finance, the Central Bank, and the State Tax Committee. These rules ensure transparency, accuracy, and compliance in foreign exchange operations, while maintaining financial stability. The mandatory sale of a portion of foreign currency proceeds, as stipulated by the regulations, not only facilitates the flow of foreign exchange into the national economy but also helps the Central Bank manage currency reserves effectively. Additionally, companies are allowed to sell foreign currency voluntarily, which provides flexibility in financial management while still adhering to regulatory requirements. Ultimately, the proper implementation of these procedures supports the smooth operation of businesses engaged in foreign economic activities, ensures the accuracy of financial reporting, and contributes to the broader economic stability of Uzbekistan. By adhering to the established rules, companies can confidently manage their foreign currency accounts, ensure compliance with legal standards, and contribute to the development of the country's financial system.

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