

## **APPROACHES TO TRANSITION TO NEW NATIONAL ACCOUNTING STANDARDS IN NON-PROFIT ORGANIZATIONS**

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### *Abstract*

*Apart from the two sectors of social life, public and private sectors, clear signs of a genuine global associative revolution have recently been identified which generated the emergence and rapid expansion of a third sector - the non-profit sector. Being a mediator between the private and public sectors, the third sector includes non-profit organizations. No matter how much extensive they are, the empirical and theoretical knowledge of them is critically reduced. The systematic study of non-profit sector has been initiated only in the last two decades, especially because of acute shortage of information, data, or even distorted information.*

*Among the myriads of changes to legislation on accounting, it is necessary to estimate the general accounting adjustment, including non-profit organizations accounting for differences between the provisions of the new NAS and those applied until the transition date. This article will address recommendations for non-profit organizations to form accounting policies, to elaborate working charts of accounts, to identify differences in the recognition of accounting elements, to identify differences in the evaluation of accounting elements, to transfer accounting balances, applied until the date of transition to the new National Accounting Standards (NAS), to the new accounts.*

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**Keywords:** *non-profit organization, accounting, accounting policy, working chart of accounts, accounting standards, financial reports.*

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### **1. Introduction**

The non-profit sector or the so-called „the third sector”, appeared in social life at least four centuries ago as church activities, charitable organizations, mutual aid associations, private schools, etc. The rise of the non-profit sector can really prove a significant development at the end of the twentieth century equal to the rise of the nation-state in the late nineteenth century. The novelty of this phenomenon refers to the assertion and enforcement of this sector not only as a distinct entity of organizational life, but also as an alternative for change and improvement of social life.

A non-profit organization - a legal entity whose primary purpose is other than making profit and is registered as an association (public association, religious association, party or other socio-political organization, syndicate organization, union of legal entities, association of employers, etc.), foundation, institution [1].

A non-profit organization keeps accounts and prepares financial reports in accordance with the fundamental principles and rules set out in the Accounting Law, accounting standards, the plan of accounts and other normative acts [1].

In this context, the changes in accounting legislation determine inevitable changes in the accounting system as a whole and in the accounting of non-profit organizations as well, simultaneously reflecting the differences between the provisions of the new NAS and those applied until the transition date.

## **2. The investigation of the problem at present, research purposes**

The transition to the new National Accounting Standards is made in accordance with Methodical Recommendations on the Transition to the new National Accounting Standards and pursuant to the situation on the first day of the reporting period, after elaboration of financial reports and balance sheets for the previous reporting period.

In the process of transition and application of the new National Accounting Standards non-profit organizations should commit to the provisions of Article 7 of Methodical Recommendations on the Transition to the new National Accounting Standards [5], which include:

- 1) provisions of the new National Accounting Standards and other accounting regulations shall apply prospectively from the date of entry into force;
- 2) how to adjust the specific differences between the provisions of the new NAS and those previously applied is regulated by the compartments „Transitional Provisions” of those standards;
- 3) comments and examples of NAS and other new accounting regulations are not exhaustive, but only explain some typical situations on the recognition, measurement and bookkeeping of accounting elements;
- 4) EU directives and International Financial Reporting Standards (IFRS) serve as basis for the elaboration of the new National Accounting Standards and other accounting regulations;
- 5) discrepancies between basic concepts used in the new NAS and the concepts applied until the transition date.

Due to a particular type of activity, unlike the private sector, a further study of the transition and connection of non-profit organizations to the accounting requirements of the new NAS is required.

## **3. Applied Methods and Materials**

The analysis of accounting transition of non-profit organizations to the provisions of the new NAS requires a comparative study of National Accounting Standards regulations, which were previously in force, with the provisions of National Accounting Standards in force from 01.01.2015. Moreover, it's necessary to compare and join the provisions of the new NAS with the Methodical Directives on accounting peculiarities and other non-profit organizations accounting regulations. The comparative research was carried out by applying the following methods: analysis, synthesis, comparison, reasoning, observation, charts of accounts, double registration etc.

#### 4. Results and Discussion Points

The main stages of transition to the new NAS of non-profit organizations set out under Article 8 of Methodical Recommendations on the Transition to the new National Accounting Standards [5] are as follows:

- 1) establishment of accounting policies;
- 2) development of working chart of accounts;
- 3) identification of differences related to the accounting elements;
- 4) identification of differences in the evaluation of accounting elements;
- 5) transposition of accounting records applied until the date of transition to the new NAS to the new accounting balances.

When establishing the accounting policies for 2015, non-profit organizations must observe the provisions of the new NAS, Methodical Instructions on Accounting Peculiarities for Non-profit Organizations and other accounting regulations.

In accordance with Methodical Instructions on Accounting Peculiarities for Non-profit Organizations, the non-profit organization must develop and implement its own accounting policies which will include the following elements:

- Type and directions of statutory activity;
- Sources of funding structure;
- Organization of accounting department;
- Applied accounting system;
- Compilation and use of primary documents and accounting records;
- Recognition, valuation and accounting methods of bookkeeping elements, including those specific for non-profit organizations:
  - special purpose funds and contingency funds;
  - contributions of founders and members;
  - tangible and intangible assets, current and other types of assets acquired on the account sources obtained from statutory economic activities;
  - tangible and intangible assets, inventories and other current assets received free of charge from third parties;
  - assets under economic management;
  - exchange rate differences and differences in the amount related to transactions carried out on the account of special purpose funds;
  - interest from the investment of special purpose funds;
  - revenues and expenditures;
  - non-profit organization funds, etc.
- Independently developed procedures, including the accounting for:
  - funding sources to cover administrative costs, maintenance of non-profit organization, program and other expenses;
  - self-financing sources used for special missions;
  - wages, taxes and related fees calculated from different funding sources, etc.;
- Other methodical and organizational aspects of bookkeeping.

The following things can be attached to the bookkeeping policy:

- forms of primary documents and account ledgers elaborated by the non-profit organization on its own;
- function list of persons responsible for the drawing up and signing of primary documents and account ledgers;
- plan of working bookkeeping accounts;
- items and deadlines for making the inventory;
- other necessary information that has an impact on how to keep account of economic facts (for example, grantors' specific conditions or provisions from the normative acts regulating the activity of non-profit organization, regarding the use of special purpose funds, fuel consumption norms, etc.).

Similarly, in developing their bookkeeping policies non-profit organizations must take into account the provisions of NAS „Bookkeeping policies, changes of accounting valuation, errors and subsequent events”. Besides establishing the way of selection, application and changing bookkeeping policies, the provisions of this NAS also refer to the way of changing the accounting valuation, error correction, subsequent events accounting and presenting the related information in financial statements, which is not present in the methodical indications provisions regarding the bookkeeping particularities within non-profit organizations. NAS „Bookkeeping policies, changes in accounting valuation, errors and subsequent events” shows the need of setting materiality in bookkeeping policies.

Materiality - the entity default criteria for determining the need to submit or correct information in the financial statements, taking into account the potential influence of these presentations or corrections on the economic decisions of users.

From the above information it is obvious that it is needed to indicate the materiality in the accounting policies of non-profit organizations as well.

Accounting policies are approved for each year of management by the non-profit organization leader by means of a decree issued on the bases of the decision of its governing body. The newly created organization approves its accounting policies till the financial statements for the first administration period are presented, but not later than 90 days from the date of registration.

The possibility of developing the working chart of accounts (the second stage of transition to the new NAS) is provided both by the new NAS regulations, as well as by the methodical instructions regarding accounting peculiarities within non-profit organizations.

The working Chart of Accounts of non-profit organizations must be developed according to the requirements of the new NAS and the General Plan of the chart of accounts, taking into account, however, the methodical indications recommendations regarding accounting peculiarities within non-profit organizations. It must comprise synthetic accounts, sub-accounts and analytic accounts required for keeping record of non-profit organization accounting elements.

Differences related to the recognition of accounting elements are identified on the date of transition to new NAS. For this purpose the entity examines all accounting elements and:

- 1) derecognizes (eliminates) accounting items that do not meet the recognition criteria under the new NAS;
- 2) reclassifies accounting items that do not meet the classification criteria set by the new NAS.

Accounting elements recorded before the date of transition to the new NAS that do not meet the recognition criteria of the new NAS are derecognized. Basic accounting records regarding derecognition of accounting items that do not meet the recognition criteria under the new NAS for non-profit organizations are as follows:

1. Derecognition of formation expenses from the intangible assets:  
Debit 335 „Resulted from the transition to the new accounting regulations”  
Credit 111 „Intangible assets”;
2. Settlement of the amortization related to the formation expenses:  
Debit 113 „Amortization of intangible assets”  
Credit 111 „Intangible assets”.

Differences related to the evaluation of accounting elements occur where the new NAS establish other rules of assessment than those provided in the standards applied before the date of transition (e.g. reduction amounts from the fixed assets revaluation cannot be recorded as equity component/capital, and the related borrowing costs of qualifying assets production recognized before the date of transition as current expenses can be capitalized).

Basic accounting records regarding accounting elements valuation as required by the new NAS are as follows:

1. Settlement of existing reductions from the revaluation of fixed assets:  
Debit 335 „Resulted from the transition to the new accounting regulations”  
Credit 341 „Differences from revaluation of long-term assets”;
2. If after the date of transition to new NAS the subsequent measurement of intangible and tangible assets, according to the entity's accounting policies, are carried at cost, then the existing excess is settled from the revaluation of fixed assets:  
Credit 341 „Differences from revaluation of long-term assets”  
Debit 335 „Resulted from the transition to the new accounting regulations”.

Accounting elements recorded before the date of transition to the new NAS that do not meet the classification criteria of these standards are reclassified (e.g. subsidies, except those submitted by state, municipal and other similar entities, including public institutions with financial autonomy, are transferred from equity component to debt composition and duties towards the owners regarding additional capital contributions to the joint stock - from debt to equity component). In non-profit organizations records may appear accounting records concerning:

- transfer of owned real estate for value growth, renting or for undetermined purpose, to the real estate investment/investment property to account 151 „Investment Property”;
- excess reclassification from fixed assets revaluation from account 341 „Differences from revaluation of long-term assets” to account 343 „Other elements of equity component” in case if after the date of transition to new NAS the subsequent measurement of intangible and tangible assets, according to the entity's accounting policies, are carried out at revalued amount;
- transfer of fixed assets to account 217 „Goods” for assets that are held for sale;
- reclassification of financing and special purpose revenue related to grants from accounts 423 „Financing and special purpose revenue”, 515 „Current anticipated incomes” and 539 „Other short-term liabilities” to accounts 424 „Anticipated long-term incomes” and 535 „Current anticipated incomes”.

Accounting balances of charts of accounts applied before the date of transition to the new NAS transpose into the new charts of accounts by drawing up correction accounting records. In this case it must be taken into account the fact that in the general plan of charts of accounts additional accounts have been introduced, the codes and names of certain accounts have been changed, some accounts have been divided and merged. Non-profit organizations specific operations regarding charts of accounts balances can include the following:

- transposition of non-profit organizations funds balances from account 342 „Subsidies” to account 341 „Funds”;
- transposition of financing balances and long-term special purpose revenues regarding special purpose financing from the budget, grants, financial and technical assistance, donations, contributions of founders and members of the organization and other special purpose financing and revenues from account 423 „Financing and special purpose revenue” to account 425 „Long term finances and special purpose revenue”;
- transposition of long-term debt balances regarding goods received for economic management from account 423 „Financing and special purpose revenue” to account 427 „Long-term debt regarding goods received for economic management”;
- transposition of other current liabilities balances regarding special purpose financing from the budget, grants, financial and technical assistance, donations, contributions of founders and members of the organization and other special purpose financing from account 539 „Other short term liabilities” to account 544 „Other current liabilities”.

## 5. Conclusions

This research paper deals with the timeliness and necessity of indicating the steps needed for the transition to the new NAS within nonprofit organizations and new approaches in developing the accounting policies methodology, the development of the working chart of accounts, records in accounts according to the indicated stages, regarding the reflection of the differences related to recognition of accounting elements and their evaluation, as well as the transposition of the necessary account balances of charts of accounts applied before the date of transition to the new NAS in the new account balances to be applied mandatorily after 01.01.2015. These approaches are intended to facilitate the work of non-profit organizations accountants in the transition phase to the new NAS.

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**Rezumat**

Recent, în afară de cele două sectoare ale vieții sociale: sectorul public și sectorul privat, se identifică semnele clare ale unei veritabile revoluții globale a asociativității, care a generat apariția și expansiunea rapidă a unui al treilea sector - sectorul nonprofit. Reprezentînd un mediator între sectorul privat și cel public, al treilea sector include organizațiile necomerciale. Pe cît sunt de extinse, pe atît de redusă este cunoașterea lor empirică și teoretică. Studiul sistematic al sectorului necomercial a fost inițiat abia în ultimele două decenii și mai ales în perioada recentă din lipsa acută de informații, de date, și chiar de informații distorsionate.

În spectrul schimbărilor operate în legislație privind contabilitatea e necesar de estimat modul general de ajustare în contabilitate, inclusiv în contabilitatea organizațiilor necomerciale, a diferențelor dintre prevederile noilor SNC și celor aplicate pînă la data tranziției la acestea. În investigație sunt abordate recomandări pentru organizațiile necomerciale în vederea formării politicilor contabile, elaborării planului de conturi de lucru, identificării diferențelor aferente recunoașterii elementelor contabile, identificării diferențelor aferente evaluării elementelor contabile, transunerii soldurilor conturilor contabile aplicate pînă la data tranziției la noile SNC în conturile contabile noi.

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**Cuvinte-cheie:** organizația necomercială, contabilitate, politici contabile, planul de conturi de lucru, standard de contabilitate, rapoarte financiare.

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**Аннотация**

В последнее время, в дополнение к двум секторам общественной жизни: государственному и частному, выявляются четкие признаки подлинной глобальной ассоциативной революции, породившая и способствующая быстрому росту третьего сектора - некоммерческого. Выступая в роли посредника между частным и государственным секторами, третий сектор представлен некоммерческими организациями. Одновременно обширны и в то же время незначительны эмпирические и теоретические знания о некоммерческих организациях. Системное изучение некоммерческого сектора было инициировано лишь в последние два десятилетия, особенно в последнее время по причине острой нехватки информации, даже искаженной.

В процессе реформирования законодательства в области бухгалтерского учета необходимо дать оценку общим изменениям в учете, в том числе и в некоммерческих организациях, различиям между новыми НСБУ и положениями применяемых стандартов бухгалтерского учета до их модификации. В исследовании приведены рекомендации по формированию учетной политики, разработке рабочего плана счетов, по выявлению различий в признании учетных элементов, оценке бухгалтерских элементов, транспозиции остатков счетов в некоммерческих организациях на дату перехода к новой учетной системе.

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**Ключевые слова:** некоммерческая организация, бухгалтерский учет, учетная политика, рабочий план счетов, бухгалтерский стандарт, финансовые отчеты.

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