

ACCOUNTING TREATMENTS REGARDING COSTS AND INCOME OF NON-PATRIMONIAL ENTITIES

Lect. Sorin-Constantin Deaconu Ph. D
University 1 Decembrie 1918 of Alba Iulia
Faculty of Science
Alba Iulia, Romania

Abstract: The aim of non-profit entities is not that of obtaining economic benefits or advantages but that of mainly carrying on charity actions, respectively of helping certain social categories of people. In specialty literature we find rather scarce articles referring to accounting treatments of associations, foundations etc. Our goal is to render essential aspects for non-profit entities from the point of view of their features and peculiarities regarding accounting registration of transactions and events.

JEL classification: M41, M21

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1. INTRODUCTION

The Romanian constitution points out that associations and other legal persons, non-profit entities or not, are bound to organize and manage their accounting, meaning financial accounting and, when needed, their management accounting.

Managing the accounting of entities is defined by Accountancy Law no. 82/1991 republished:

- Legal persons should manage bookkeeping usually in distinct departments managed by the Chief Financial Officer, Chief Accountant or any other person authorized in such a position. These persons should have university economic studies;
- Bookkeeping can be managed on a contract basis with entities in the accounting field, contracts can be signed with natural or legal persons authorized according to GD no 65/1994 regarding organization of accounting expertise and authorized accountants.

The responsibility for improper application of accounting laws and regulations rests with the Chief Financial Officer, Chief Accountant or any other person authorized to fulfill this position, together with all subordinated personnel. In case bookkeeping is managed on a contract basis of providing services between the entity and a natural or legal person authorized by the Law, member of Association of Chartered Certified Accountants from Romania, the responsibility for accounting management is theirs according to the law and contractual clauses.

Associations, foundations, politic parties, patronages, trade unions, religious cults carrying on non-profit activities are bound to organize and manage bookkeeping by double entry and to edit annual financial reports by applying the regulations of Order

no 1969/2007 regarding approval of accounting regulations for non-profit legal persons, published in The Official Gazette of Romania no 846/ 2007. These regulations establish the basic accounting principles and rules, the shape and the contents of annual financial reports, the chart of accounts and the methodological norms of using it.

The goal of Order no. 1969/2007 regarding approval of accounting regulations for non-profit legal persons: synchronizing the Chart of Accounts of non-profit legal persons with the Charts of Accounts of economical agents.

2. OBJECTIVES

The goal of this paper is to emphasize part of accounting treatments specific to non-profit entities regarding income and costs. More than that, we display the procedure of establishing tax rates for non-profit entities by specific calculations as compared to procedures used in calculating profit tax of economical agents.

3. METHODOLOGY

The summary of the research methodology used in this paper is the following:

- The method of research of regulations and other documents that imply analysis from the perspective of some parameters established in concordance with the goal and the objective of our research. In our paper there have been studied a few laws, for example Order no. 1969/2007 regarding approval of accounting regulations for non-profit legal persons, Ordinance 26/2000 regarding associations and foundations etc.;
- The study case method though which a series of activities carried by non-profit entities were analyzed so that they could be registered in the accounting system.

4. GENERAL INFORMATION ABOUT ASSOCIATIONS, FOUNDATIONS AND FEDERATIONS

Legal persons can be classified regarding the nature of their activity as following:

- **Profit legal entities (patrimonial)** that have as objective gaining profit in general. In this category we include trading companies, public operators, banking companies etc.;
- **Non-profit legal entities (non-patrimonial)** that do not have as objective gaining profit. In this category we include: associations, foundations, federations etc.

Non-profit legal entities are not keen on distributing the benefits between the members of the organization but on achieving their goal.

Definition: According to the Dictionary an association is an organized body of people created to achieve a common interest and organized according to a statute (Academia Română, Institutul de lingvistică „Iorgu Iordan”, *Dicționarul explicativ al limbii române – ediția a II-a*, Editura Univers Enciclopedic, București, 1998, p. 65).

According to the Romanian Constitution an association is the legal entity set up by three or more persons who, according to an agreement, put together without the right to restitution material contribution, knowledge or their contribution to the work for achieving activities of general or community interest (Ordinance 26/2000 on associations and foundations).

Definition: foundation is defined by the Romanian constitution as: the legal entity set up by one or more persons who, based on a legal act between living or

because of death, is an affected property, permanently and irrevocably, to achieve a goal interest or, as appropriate, community (Ordinance 26/2000 on associations and foundations).

Two or more associations or foundations may form a federation. Associations and foundations that form a federation keep their own legal personality including their own patrimony.

Associations, foundations and federations are subject to the following regulations:

- *Law no. 21/1924* regarding legal persons (associations and foundations), published in *The Official Gazette of Romania* no. 27/1924;
- *Ordinance no. 26/2000* regarding associations and foundations, published in *The Official Gazette of Romania* no. 39/2000, law that abrogates law no. 27/1924.

Note: Laws are elaborated by Parliament on the basis of The Constitution and they regulate the main majority of reports of administrative nature, organization and operation of main administrative authorities, their competencies, operation of contentious administrative matters, of local administration, of Government etc.

Ordinances and Government decisions. *Ordinances are issued on the basis of an enabling law of the Government by the Parliament and are reserved to be brought under regulation by ordinary law only. The emergency ordinance is an act of the Government that can be issued only in special cases, Government Decisions (Regulations), represent the majority of Government activities.*

An association or a foundation can be admitted by the Government of Romania as having a public utility if all the bellow conditions are met, cumulatively:

- Its activity serves general or collective interests;
- It operates for at least 3 years;
- Presents an activity report that proves significant previous activities through carrying programs and project specific to its goal. This report encloses annual financial situations and budgets of income and costs for the past 3 years previous to the date the request for recognition of public utility has been made;
- The value of the patrimonial assets on each of the past 3 years is at least equal to the value of the initial patrimony.

Recognition of public utility gives the association or foundation the following rights and obligations:

- The right of using public property assets free of charge;
- The right to mention in all issuing documents that the association or foundation is recognized as having public utility;
- The obligation of keeping at least the level of activity and performance that determined recognition;
- The obligation of communicating to competent administrative authorities any changes of the articles and memorandum of association as well as activity reports and annual financial reports;
- The obligation of publishing within 3 months of the end of calendar year activity reports and annual financial reports in *The Official Gazette of Romania* as well as in *The National Registry of Non-profit Legal Entities*.

Patrimony is the element that makes the fundamental distinction between association and foundations. Consequently, for a foundation the main element through which their purpose is achieved is the patrimony, while an association aims at meeting the objectives set out by work associates, as a general rule voluntary.

5. ACCOUNTING TREATMENTS REGARDING NON-PROFIT LEGAL ENTITIES

Non-profit legal entities can carry both non-profit activities and economic activities. In this way The Chart of Accounts for non-profit legal entities is structured on three types of activities.

The Chart of Accounts for non-profit legal entities has certain characteristics, namely:

- The result for the year and the result carried forward are presented depending on the nature of work carried out by the association and foundation: non-profit activities, activities with specific destination and economic activities;
- The fixed assets accounts, the accounts with banks in the foreign-exchange and house foreign exchange swaps are detailed on analytical accounts regarding non-profit activities and economic activities;
- Within the groups of accounts of revenue there is a group that has no correspondence in class 6, group 79 **Revenue with special destination**

Practical application. The sum of 250 lei is collected, representing 2% of the income tax due from natural persons, as a result of option expression of some natural persons to transfer this money to the account of the sports club.

$$\underline{5121 \text{ Bank accounts in lei}} = \underline{7331 \text{ Income from donations}} \quad 250$$

Practical application. A non-profit organization achieves the following income in year N:

- Income from contributions of members = 5.000 lei;
- Income from donations and sponsorships = 15.000 lei;
- Income from EU non-reimbursable funding = 30.000 lei;
- Income from commercial activities = 10.000 lei.

Accordingly to this income it performs the following expenses:

- Expenses related to non-profit activity = 48.000 lei;
- Expenses related commercial activity = 7.000 lei.

Determine the profit tax due from this non-profit organization for activities carried out in the course of the year N, by knowing the exchange rate of 3,65 lei/euro.

Solution:

For income from membership fees, donations and sponsorship and European Union non-reimbursable funding the non –profit organization is exempt from tax on profit.

Non-profit organizations are exempt from tax on profit for income from economic activities that does not exceed 15.000 Euros, but not more than 10% of other income exempt from tax on profit. So, the limit of the income exempt from economic activities is the sum of minimum 15.000 Euros and 10% of other income exempt from tax on profit.

$$15.000 \text{ euro} \times 3,65 \text{ lei/euro} = 54.750 \text{ lei}$$
$$10\% \times (5.000 + 15.000 + 30.000) = 5.000 \text{ lei}$$

It appears that income from economic activities is exempt to a limit of 5.000 lei, for the rest of 5.000 lei tax on profit is due.

The non –profit organization tax will be due to the part of the profit which corresponds to amount of taxable income.

The profit of the economic activities = E. in. – E. ex. = 10.000 – 7.000 = 3.000 lei

E. in. – economic income, E. ex. – economic expenses

The profit for the taxable income = 3.000 x (5.000/10.000) = 1.500 lei

Tax on profit = 16% * 1.500 = 240 lei

Practical application. A kindergarten carrying on non-profit activities (child care is supported by funds other than parents' contributions) performs the following actions:

- purchase of food from suppliers in amount of 5.000 lei;
- putting for consumption of purchased food;
- purchase of toys in amount of 700 lei;
- putting for consumption of purchased toys on the basis of consumption coupon;
- invoice is received from the entity that provides transport for the children of 700 lei;

➤ purchase of food from suppliers in amount of 5.000 lei:

3028 Other consumables	=	401 Suppliers	5.000
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➤ putting for consumption of purchased food:

6028 Expenses regarding other consumables	=	3028 Other consumables	5.000
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➤ purchase of toys in amount of 700 lei:

303 Materials to the nature of the objects in the inventory	=	401 Suppliers	700
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➤ putting for consumption of purchased toys on the basis of consumption coupon:

603 Expenses regarding materials to the nature of the objects in the inventory	=	303 Materials to the nature of the objects in the inventory	700
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➤ invoice is received from the entity that provides transport for the children of 700 lei:

624 Expenses regarding transportation of assets and personnel	=	401 Suppliers	700
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Practical application. Free raw materials of 7.000 lei are received.

301 Raw materials	=	7332 Income from sums or goods received from sponsorship	7.000
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Indication (Order 1969/2007): Account 733 "Income from sums or goods received from sponsorship" shall be credited by the flow of accounts: 301 "Raw materials"

- with the value for the price of registration of the raw materials received free of charge.

Practical application. The Friends of the Forrest Association collects the amount of 300 Euros, exchange rate 4,2 lei/ Euro from an Austrian member, representing monthly levy.

5124.01 Available in foreign currency on non-patrimonial activities	=	7311 Income from members levy and subscription fees	1.260
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5. CONCLUSIONS

From a legal point of view there are a series of similarities but especially differences between associations, foundations and private entities. The differences occur right from the articles of association, the institutions where establishing documents are submitted etc. generally associations may develop both economic activities and non-economic activities.

In specialty literature we can find terms as: non-profit entities, non-lucrative entities to make reference to non-patrimonial entities.

Non-patrimonial entities use a different Plan of Accounts as compared to the Plan of Accounts used by commercial companies. The two Plans of Accounts are rather similar but with peculiarities adapted to each type of entity.

The Plan of Accounts for non-lucrative entities is approved by Order 1969/2007. Part of the characteristics of The Plan of Accounts for non-patrimonial entities are:

- the result of the year and the reported result are presented according to the nature of activities carried out by the association and foundation: non-profit activities, special purpose activities and economic activities;
- in the class 7 Income accounts there is a group that has no correspondence in class 6, respectively group 79 "Income with special destination."

Regarding the activities carried out by non-profit entities, they record revenues and expenditures. The most part is similar from a theoretical point of view with income and expenses of a commercial company. But from a practical point of view there are some differences. The economic outcome, mainly the profit achieved from economic activities is taxed differently as compared to the result achieved by commercial companies. Part of the economic income achieved by nonprofit entities is exempt from tax, income different from the one provided by the Tax code for commercial companies.

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