

PROPOSALS OF CHANGES IN THE FINANCIAL STATEMENTS OF NON-PROFIT ORGANIZATIONS

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Abstract

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Financial statements (balance sheet, profit and loss statement) intended for profit and non-profit organizations have large number of differences in terms of content of individual items and also with regard to their formal structure. This is due to the existence of different types of accounting entities for which there are created sets of accounting rules. Need for separate set of accounting rules results from their objectives, management rules, performed activities and certain specific of costs, revenues, assets and liabilities. The differences found on the basis of comparative analysis in this paper are evaluated and subsequently there are recommended changes of the statements so that they would be more useful for the purposes of economic analysis. The paper also identified problems that arise in connection with the evaluation of the efficiency of this type of organizations and subsequently there are recommended tools of financial analysis suitable for evaluation of non-profit organizations and the specifics of non-profit sector are pointed out. The paper presents also the proposal to change the Decree 504/2002 Coll. so as to avoid distortion of financial statement closing of non-profit organizations, and also with regard to their higher explanatory power.

non-profit organization, accounting, balance sheet, profit and loss statement, measurement of efficiency

Preparation of the financial statements which is composed of the financial statements closing of non-profit organizations (as non-profit organizations there are understood those which are governed by Decree 504/2002 Coll., by which certain provisions of Accounting Act No. 563/1991 Coll., as amended, are regulated, for accounting entities whose main activity is not business activity, if they are accounting in double-entry accounting, as amended), is the culmination of accounting work for the entire accounting period. The financial statements closing precede the closing of books, which includes a variety of activities. They are preparatory works, which may include inventory, accounting of accounting operations at the end of the accounting period and determination of the income from operations, accounting the identified tax liability and the closure of all accounts. Financial statement closing of non-profit organizations is subsequently composed by the balance sheet (it gives information about the status and structure of

the assets, liabilities and the amount of equity), the profit and loss statement (it includes information on costs, revenues, their structure and the achieved income from operations, and separately for the main and economic activity of the non-profit organizations as well as for the total activity) and Annex (gives additional information to the balance sheet and profit and loss statement). In addition to basic information about the entity it should include information on the applied accounting methods and also description of all the relevant facts of the monitored accounting period.

Providing information on assets, liabilities, equity, costs, revenues and creation of income from operations to internal and external users is the main function of the financial statements. In order to fulfill this function, the statements must be prepared to provide a true picture of the accounting entity and its operations, both for the internal needs of the organization, as well as for the professionals. Therefore the particularly importance is put on

the requirement for a true and fair view of the facts that are the object of accounting, as well as on the explanatory power of the financial statement closing. Given that there are different types of entities, there are created sets of accounting rules specific to relevant groups. Need for separate sets of accounting rules results from their objectives, management rules, performed activities and certain specific costs, revenues, assets and liabilities. The concept of faithful recording must then be seen in the light of the given specifics. Since it is only a model of reality and it has some limitations it is necessary to solve how significant discrepancy can be accepted that the quality of the required information would not be significantly reduced, as pointed out *Prokšpková* (2012).

In relation to the financial statements closing of the non-profit organizations it is necessary to respect the Accounting Act No. 563/1991 Coll., in particular § 18 of this Act and the Decree 504/2002 Coll. The Accounting Act sets out the scope and method of keeping accounting and the requirements for its conclusiveness and it is mandatory for all types of entities. Ministry of Finance issue the decrees and they are focused on accounting entities of similar character and similar activities, dealing with the scope and manner of preparing the financial statements closing, the content determination of items of the financial statement etc. To the financial statement closing there is devoted PART TWO – the financial statement closing, as well as Annex 1 – Structure and naming of balance sheet items and Annex 2 – Structure and naming of the items of the profit and loss statement. Finally, it is necessary to respect the Czech accounting standards for accounting entities that are accounting according to Decree 504/2002 Coll., ss amended. As already mentioned, the financial statement closing is dealt within the PART TWO of Decree 504/2002 Coll., where there are content and the definition of the items of the balance sheet, profit and loss statement and annex to the financial statements from which the financial statement closing is made. This part of the regulation is divided into individual sections as follows:

- Section I – Scope and method of preparation of the financial statement closing (§ 3–§ 6),
- Section II – Content definition of the balance sheet items (§ 7–§ 25),
- Section III – Content definition of the items of the profit and loss statement (§ 26–§ 28),
- Section IV – Structure and content definition of explanatory and supplementing information in the annex of the financial statement closing (§ 29–§ 30).

Czech accounting standards are then issued for the individual types of accounting entities in order to achieve consistency in the application of accounting methods and for ensuring greater comparability of financial statement closing.

Kočí (2012) says that accounting is further regulated by special laws, on which basis various non-profit organizations are founded or established and by which they govern in its activities. Based on the performed comparison it is however necessary to say that exceptions can be observed in comparison with Accounting Act for public utility organizations. For other non-profit organizations applies Accounting Act with no exceptions.

From the non-profit organizations, civic associations and their organizational units, churches and religious societies, charitable organizations, endowment funds can keep accountancy in the simplified extent under § 9 paragraph 3 of Accounting Act. Some of the organizations may also keep the simple accounting, although as *Růžicková* (2011) says there is no reference of it in the Accounting Act.

MATERIALS AND METHODS

The aim of this paper is, based on comparative analysis of financial statements of non-profit organizations and statements compiled by entrepreneurs, to evaluate the differences in terms of content side of the individual items and also in terms of their formal structure. Changes in the balance sheet and profit and loss statement are furthermore recommended based on the observed differences. Changes are recommended with regard to the formal presentation of the financial statements of non-profit organizations so that they would be better used as a basis for economic analyzes. The paper also identified problems that arise in connection with the evaluation of the efficiency of this type of organization and subsequently there are recommended the tools of financial analysis suitable for evaluation of non-profit organizations and specifics of non-profit sector are pointed out here. The partial aim is to propose a regulation of the Decree, which is valid for non-profit organizations in order to avoid distortion of their financial statement closing and also with regard to their greater explanatory power.

Standard scientific methods which allowed objective, systematic, qualitative and quantitative description of the given issue were used. Method of analysis, comparison, description and modeling were applied in order to fulfill the aim of this paper. Method of synthesis was applied in order to draw conclusions. The basis of the research was the comparison and on the basis of comparison and processing of found differences there were subsequently formulated proposals. The research results show that the structure of financial statements of non-profit organizations and entrepreneurs is different and also that there are many differences in the content definition of the items of financial statements. With regard to this fact there is designed a proposal to change the reporting system for non-profit organizations with regard to the objective measurement of efficiency.

RESULTS AND DISCUSSION

financial statements are an important tool for financial management. Based on them economic analyzes and subsequent decisions that are important for an entity with regard to the future functioning of the organization can be conducted. Based on the results of the financial analysis can be assessed the current situation of the accounting entity and also predict the development. Non-profit organizations should report information about its operations, because if donors know how that non-profit organization manage its economic activities, then they have more confidence that they perform the tasks for which they were based, and that their donations will be used appropriately. The source of data for financial analysis are mainly information from financial accounting, but as adds *Accounting of Entrepreneurs* (2011) also information from internal accounting, monetary and capital markets, statistical yearbooks, etc. The most commonly used indicators of financial analysis are liquidity ratios, debt management indicators and profitability ratios. Financial analysis tools suitable for the evaluation of non-profit organizations must include specifics of the nonprofit sector. These include **indicators of autarchy**, which measures the degree of self-sufficiency of the organization, **return on**, where profitability from secondary (economic) activity is primarily assessed, **liquidity**, the ability to pay its liabilities, **activities** with regard to the degree of utilization of its assets, **financing**, when use of equity and liabilities is assessed and indicators **of investment development** and the level of the utilization of labor and capital. It is also possible to use synthetic indicators, where there were for-profit organizations created models that include the assessment of differences of the non-profit sector. These include BAMF models (balance analysis of non-profit organizations) and KAMF models (classification analysis of non-profit organizations) that were created primarily to evaluate municipal companies, but they can also be used to evaluate the non-profit organizations.

Based on the achieved data from the financial analysis it is necessary to obtain according *Kovanicová* (1996) optimal parameters, in whose bounds the economic activities of the entity should be. However the optimal values strongly depend on its size, field of the performed activities, geographic factors, etc. It is therefore necessary, as the *Kovanicová, Kovanic* (1996) say, to accept the fact that the ratios are not constant, and that they cannot always be determined and have all valid values. At this point it should be noted that the purpose of non-profit organizations is particularly the satisfying of certain societal needs, so that is why the obtained result are not often measured by money. *Stejskalová* (2006) points to the fact that a non-profit organization that fulfills its mission well, does not have to report increases in capital. The economic benefit is very difficult to measure in the non-profit organization

but it is possible to evaluate the rate and method of fulfillment of the specified goals. Selection of the value criteria is however very difficult. At present it can be observed that it is required from the non-profit organizations to be transparent, while transparency is associated with the field of financial management and use of financial resources, but efficiency and quality of services provided are required as well. According *Boukal and Vávrová* (2007) a transparent and efficient non-profit organization can be that which has a good reputation from the perspective of the public, clear goal and community focus. It has a transparent management, is able of promotion of its activities, has a wide circle of supporters, well conducted fundraising and ability to raise funds for projects that are consistent with the mission and determined objectives of the organization. The transparency is closely related to performance. The performance of the non-profit organization also depends on human potential, i.e. employees and volunteers. The financial analysis is based on the analysis of accounting data. Outcomes from the financial analysis and work with them have a positive effect on increasing the efficiency of non-profit organizations. Non-profit organizations face problems when implementing financial analysis that arise in connection with the evaluation of the efficiency of this type of organization. Problems are related to the construction of the most of the indicators that are used in the financial analysis because a large number of these indicators work with variable "profit". *Boukal* (2009) says that many non-profit organizations sharply act against the financial indicators, which are based on profits, because they are convinced that the results of their work can be assessed only in qualitative terms. Also *Máče* (2012) claims that the aim of the non-profit organizations is to maximize the growing needs of the population that cannot be easily expressed in terms of profit. Monitoring mainly of the following indicators can be recommended with regard to the specifics of non-profit organizations:

- development of profit, loss, incomes, expenses, including their structure,
- the amount of the reserve fund (or eventually loss from the previous years),
- development of the number of clients,
- development of the quantity of the needed resources,
- development of the number of the employees,
- development of the number of volunteers,
- share of public resources in the total resources,
- share of the main resource in the total resources,
- balance of income and expenses,
- share of operating expenses in the total expenses,
- share of individual expenses in total resources etc.

Non-profit organizations are not formed or established primarily for business purposes, i.e. to make a profit (these organizations however may not necessarily be non-profit). Besides the main

mission of the organization they often perform the secondary (economic) activity in order to appreciate resources and obtain resources for core activities. Secondary activity should always be profitable and serve mainly to cover the major loss-making main activity. After the assessment of the secondary activities the same principles apply as for profit entities. When choosing the secondary activities the non-profit organizations should mind to eliminate the risks. Non-profit organizations are also characterized by multiple sources of funding. This funding is a necessity, since most of the non-profit organizations will not produce enough of their own resources for their activities. They are often dependent on external resources, which include subsidies, donations and inheritance, etc. Non-profit organizations have to also consider the ways of accounting based on the accounting practices of these organizations, as they have an impact on data obtained from the accounting and their explanatory power. Based on the above mentioned facts it can be said that objective evaluation of the efficiency of these entities is accompanied by a number of deficiencies. All of the above mentioned factors must be taken into account when performing the financial analysis, and possibly it can be explained the incurred differences or to modify indicators into a form that would be acceptable for non-profit organizations. *Otavová (2012)* states that every nonprofit organization should make the best use of its resources and furthermore its economic activity should be checked, because on base of the appropriate management of its economic activity and following control it can be achieved considerable savings.

Differences in financial statements

financial statements, which form the financial statement closing, are different for profit and non-profit organizations. The differences in the statements of non-profit organizations compared with statements of business entities, for which the financial analysis is primarily used, can be seen in its formal form, as well as regards the content of the individual items. These also appear as one of the factors that prevent the quality processing of the financial analysis and its subsequent interpretation. Another limiting factor is the fact that not all the costs and mainly benefits are recorded in outcomes of a non-profit organization. An example might be the work of volunteers which is not recorded in the financial statements.

The following text presents some of the differences in the financial statements of accounting entities that are entrepreneurs and non-profit organizations and could be a reason to reduce the quality of an objective evaluation of efficiency.

Differences in financial statements with regard to formal point of view

The structure of the financial statements in the Czech Republic is regulated in the decrees of the

Ministry of Finance by which are regulated certain provisions of Accounting Act. The balance sheet organizes items of the assets, liabilities and other assets and liabilities and the profit and loss statement organizes items of costs, revenues and income from operations. Annex completes and explains the information from the balance sheet and profit and loss statement. The data contained in the financial statements are related to the previous periods, so that why it is important in the processing of financial analysis to take this fact into account, given that the data from the financial statement closing may not longer correspond to the reality.

Financial statements of accounting entities that are businesses and non-profit organizations are at the first glance different as regards the formal structure. The balance sheet for non-profit organizations contains only two columns, the first one where there is given the state at the first day of the accounting period, and the second one that shows the state at the last day of the accounting period. The balance sheet of the profit organizations includes four columns in the assets. In the first column there are assets at full value not modified by provisions and accumulated depreciations (column "gross"), in the second column there are provisions to the assets and accumulated depreciations to the fixed assets with the negative sign ("correction"), the third column ("Net ") is the sum of the previous two columns. The last column gives the net state from the previous accounting period.

Liabilities include two columns, the first column contains the status of liabilities in the monitored period and the second column contains the states of liabilities for the previous period. Also the profit and loss statement between the observed types of accounting entities includes different classification of columns. Profit and loss statement for the non-profit organization contains three columns, which provide information about the status of costs and revenues in the monitored accounting period in the classification to the main activity, economic activity and total sum. States for the previous period are not recorded in the statement. Profit and loss statement for the entrepreneurs contains only two columns where the first column indicate the actual amounts of costs and revenues for the monitored accounting periods and the second column shows the amounts of costs and revenues for the previous accounting period.

Also the structure of this statement is for the both considered types of accounting entities different. Profit and loss statement for the non-profit organization contains the classification to the costs and revenues and consequently there is reported a profit before tax and profit after tax. Profit and loss statement for profit organizations includes classification to the costs and revenues from operational activity, costs and revenues from financial activities and costs and revenues from extraordinary activities. Income from operations is separately reported for each of these activities and

also the total income from operations before tax. The statement can then be compiled in generic or functional classification and most of the entities of this type compile profit and loss statement in generic classification.

Differences in the content of the items of financial statements

Balance sheet – assets

Receivables for subscribed capital – non-profit organizations do not have (unless determined by specific legislation) the liability to create basic (registered) capital in the establishment. Balance sheet of the non-profit organizations does not contain this item.

Start-up costs – profit organizations are liable if the start-up costs exceed the amount of 60 000 CZK, to report them as intangible assets. However this liability does not apply to non-profit organizations, so this item is missing in their balance sheet.

Accumulated depreciations to the fixed assets – balance sheet of the non-profit organizations includes the following items where they form a separate group. They are reported in the balance sheet on the asset side with negative sign. Profit organizations do not have this group because adjustments are assigned to the appropriate category of property, as results from the various formal organization of the balance sheet when adjustments together with the adjustments are part of the column "Correction" in the profit organizations.

Adjustments – non-profit organization are creating adjustments only to the items to which their creation and use is established by Act No. 593/1992 Coll. On Provisions for securing the base of income tax (Provisions Act). These organizations therefore can create only the statutory adjustments, i.e. only adjustments to receivables, and in particular under the conditions § 8, 8a and 8c of Provisions Act. It should also be noted that it is possible to create them only in cases where their creation is related to the activities of the entity that is liable to income tax. For the application of adjustments it is therefore important that the income from the activity to which it relates, are liable to income tax. These facts show a limited possibility of creation of adjustments for non-profit organizations and subsequent distortion of the financial statement closing. Creation of the adjustments is accounted into the expenses side, reduction or cancellation of the recorded adjustments is accounted in benefit to the relevant revenues account. It is therefore accounting based on the gross method. Accounting method of recording is different than in business entities when the creation and use of adjustments is recorded only in the expenses, i.e. using net method. Reporting of adjustments for non-profit organizations is also different from business entities. Non-profit organization are reporting separately the adjustments on the assets side in negative value, unlike businesses, where

adjustments, as I mentioned above, are part of the column "Correction".

Fixed assets – fixed assets are in non-profit and for-profit organizations defined similarly. The difference can be seen in the reporting of fixed assets which was acquired wholly or partly from the subsidy. Given that received subsidies for the acquisition of the fixed assets are accounting in the non-profit organizations in favor of equity and at the same time they also forms part of the acquisition cost of fixed assets, so the fixed assets is reported in the balance sheet in the full amount, i.e. including subsidies. Received subsidies decrease the acquisition cost of fixed assets in the profit organization, which is then recorded in the balance sheet only in the amount after deducting the received subsidies. Non-profit organizations subsequently take into account received subsidies in connection with the accounting of depreciations. They are calculated from the total purchase cost, but because of proper reporting of profit or loss, the part of the equity is transferred in the revenue in an amount equal to the proportion of depreciations attributable to financing the fixed assets from subsidies.

Low value fixed assets – only assets accounted until 31. 12. 2002 are recorded in the items of fixed assets. Provisions to low fixed assets are reported in the same amount in the balance sheet. These are items that are reported only by non-profit organizations.

Receivables – the difference in reporting receivables can be seen in the classification of the receivables to the short-term and long-term. Profit organization with regard to the remaining maturity (up to one year and over one year) classifies receivables into short-term and long-term. However this classification is not implemented in the non-profit organizations. Short-term and long-term receivables are reported by non-profit organization in the same items without distinction of maturity.

Receivables arising from taxes – in profit organizations there are all receivable arising from taxes collected in one item "State - tax receivables" as opposed to non-profit organizations, where these claims are further divided into items "Income taxes", "Other direct tax" and "Value Added Tax".

Short-term financial assets – accounts in banks – for non-profit organizations apply, if they report a negative balance of bank accounts, so this balance will be written between the active items with a minus sign. Content definition of the balance sheet items for profit organization does not allow this procedure. In case of a negative balance of bank account it is necessary to report it in the item "Short-term bank loans" on the liabilities side of the balance sheet.

Exchange rate differences active – it is a state of the exchange rate differences which have active nature at the balance sheet date. This item is included only in the non-profit organizations, which are accounting them in the balance sheet at the end of the reporting period. Profit organizations do not report this item

since they account exchange rate differences in the income statement at the end of the reporting period.

Balance sheet – Liabilities

Basic (registered) capital x Equity – Non-profit organizations are not liable to create capital, so that is why this item is not reported in the liabilities of the balance sheet of non-profit organizations. Any deposits from the founding persons of the non-profit organizations are reported in the item “Equity”, which includes besides these deposits also the value of subsidies provided for the acquisition of fixed assets, the value of assets acquired free of charge, the value of inventories acquired free of charge, etc. The item “Equity” therefore includes more titles than item “capital”.

Funds – for fulfillment and subsequent reporting of funds applies stricter rules for profit organization. Profit organizations usually mandatorily create a reserve fund. The funds, which are reported in non-profit organizations, are closed to their nature rather to statutory and other funds reported in the profit organizations. Exceptions are funds that some non-profit organizations are liable to create by law. These are development fund of investment assets or social fund, which are generated by high schools for example.

Provisions – non-profit organizations can only create legal provisions, i.e. provisions within the meaning of Accounting Act, which are considered by the Income Tax Act in the determination of the base of this tax. It follows that the provisions can be created in the non-profit organizations only in those cases where they are formed in relation to the activities of an entity liable to income tax. Like in adjustments it is possible to monitor limited capacity of creation of provisions for these organizations and the subsequent distortion of the financial statements closing. It means that if a non-profit organization does not achieve taxable incomes and eventually it has only incomes that are not object to tax, or has only exempt income, so it cannot create provisions. Accounting method of recording provisions for non-profit organizations is realized by indirect accounting method (gross method) unlike the profit organizations. Creation of provisions is recorded as an increase in costs and their use or cancellation in favor of revenues. Business entities in accordance with applicable law record in the accountancy the creation and use of provisions by net method, i.e. creation and release of provisions affect only costs.

Long-term Liabilities – in long-term liabilities there can be seen their detailed classification for profit organizations. As regards non-profit organizations it is appropriate at this point to highlight the item “Liabilities from lease”, which is reported separately. In profit organizations the liabilities from lease are included in the item “Other liabilities”.

Short-term Liabilities – more detailed classification of these liabilities shows on the contrary a balance sheet of non-profit organizations.

There are again in more detail dealt the liabilities towards the State, when profit organizations all liabilities towards the State together also with potential liabilities from subsidies are reporting in the item “State – tax liabilities and subsidies”. A non-profit organization report tax liabilities separately in the following items: “Income tax”, “Other direct taxes”, “Value Added Tax”. They also report separately liabilities from the relation to the state budget and liabilities related to the budget of authorities of local governments.

Exchange rate differences passive – it is a state of the exchange rate differences which have characteristics of liabilities at the balance sheet date. This item as well as the item “Foreign exchange differences active” is included only in non-profit organizations, which are accounting it in the balance sheet at the end of the reporting period. Profit organizations do not report this item since the profit organizations are accounting the exchange rate differences in the income statement at the end of the accounting period unlike the non-profit organizations.

Profit and loss statement

The profit and loss statement for the non-profit organizations, as regards the formal side, as it has been already mentioned above, is significantly different from the profit and loss statements of the profit organizations. According to my opinion the definition of the items of the statement for profit and non-profit organizations is satisfactory, as regards content. The structure (organization) of the statement for non-profit organizations includes separate reporting of costs and separate reporting of revenues. Costs and revenues are furthermore divided according to activities (main, economic), with regard to where they were incurred, and they are subsequently reported in the total amount. Unlike the statement intended for businesses entities it does not include information which would refer to the previous accounting period. Costs are classified according to the generic costs, but at the same time the profit and loss statement is modified also for functional classification, so that it includes costs, revenues and income from operations in classification into the main and economic activities. This classification results from the Regulation 504/2002 Coll. The profit and loss statement has special importance for the calculation of the indicators. As already mentioned, the content definition of the items is satisfactory, but layout of these items in the profit and loss statement is less suitable for the processing needs of financial analysis. The layout of the statement only to the costs and revenues without further specific classification has little explanatory value. Therefore the work with data from the profit and loss statement is exhausting, time-consuming and the result is not optimal.

For the non-profit organizations it is necessary to consider not only the income from operations, but also the real cash flows, which should always be balanced. It is necessary to plan the real cash

I: Differences in the balance sheet items of the accounting entities according to decrees 500/2002 Coll. and 504/2002 Coll.

Balance sheet item	Regulation 500/2002 Coll.	Regulation 504/2002 Coll.
Fixed assets	They are reported in gross amount, there are corrections and net value.	They are reported in gross amount.
Accumulated depreciations	They are part of the value named as „corrections“.	They are separately reported.
Adjustments to fixed assets	They are part of the value named as „corrections“.	They are not reported.
Low value fixed assets	This item is not separately recorded in the balance sheet..	It contains only assets acquired until the end of 2002.
Receivables	Classification of the receivables according to the maturity (long-term, short-term).	There is no classification of the receivables according to the maturity.
Adjustments	They are reported according to the reality.	Its creation is limited – only those related to the activity of the accounting entity which is liable to the income tax.
Exchange rate differences active	There are not reported in the balance sheet (direct relation to the accounting methodology).	They are separately reported in the balance sheet.
Basic capital	They create it by law or voluntarily.	They do not create it.
Equity	This value is fulfilled by several items of balance sheet.	Item reported in the balance sheet and containing more titles.
Funds	Mostly it is a reserve fund which most companies have to create by law.	Mostly the statutory funds.
Provisions	They are reported according to the reality.	Not so often as non-profit organizations have limited creation of provisions (only tax provisions).
Exchange rate differences active	There are not reported in the balance sheet (direct relation to the accounting methodology).	They are separately reported in the balance sheet.

Source: Own processing

flows and subsequently to evaluate their actual development, because if the non-profit organization would be missing the funds, so there cannot be any planned activity going inside.

Proposals of changes in the statements and in the regulation

The above mentioned facts show that the balance sheets and also profit and loss statements for profit and non-profit organizations are different, whether it is the content of the items or the placement of items in the statement. The current form of the profit and loss statement of the non-profit organizations is not suitable for the purpose of financial analysis and that is the reason why I would suggest some changes with regard to the placement (layout) of items. The simple division of this statement to the costs and revenues has limited explanatory power for the purposes of financial analysis, so I would suggest to organize it into the form that is more similar to the profit and loss statement of the profit organizations so that costs and revenues would be divided into operational and financial and with the introduction of the incomes from operations from these activities. This would help to the easier way how to find the data used for the check of the incomes from operations of the given entity. I would also suggest another change in relation to the formal aspects of the balance sheet of the non-profit organization. Specifically it is the reporting of accumulated

depreciations and adjustments. I believe that the method of reporting of these items using the profit organizations is more suitable, so I would suggest this type of reporting for the balance sheet for the non-profit organizations as well. The price of assets after deducting accumulated depreciation and adjustments is obvious at the first glance thanks to columns Gross, Correction and Net.

Based on the performed comparison there should be a change of the Decree 504/2002 Coll. with regard to the regulation which represent a limitation of the creation of the adjustments and accounting provisions. I assume that it would be appropriate to abolish these restrictions, because they are distorting the financial statements closing of the non-profit organizations. Given the fact that most of these entities are operating with the funds from public budgets, they are recipients of subsidies and donations, it would be appropriate to reconcile the accounting and the actual situation. This would improve the quality of information that provides accounting and financial statements closing for the users of the information.

At the balance sheet date the profit organizations are accounting the exchange rate differences in the profit and loss statement, according to the nature into the costs or revenues. The conversion at the balance sheet date is already final (there is no cancellation of the accounted exchange rate

differences). I believe that the method that is applied for non-profit organizations (balance sheet recording of the exchange rate differences at the balance sheet date) has a higher explanatory power, so I would recommend it also for profit organization (this method was used until 2002). I also think that the method of accounting the investment grants for non-profit organizations when the assets are put into service in a total value (including grants) is more suitable in comparison with profit organizations,

because the assets are reported in the full amount in the balance sheet. The balance sheet of non-profit organizations with regard to the recording of the long-term assets, which are partially or fully funded from the grant, has a higher explanatory power, so it would be appropriate also for profit organizations to report assets in total amount, including subsidy, and subsequently to modify depreciation in order to not to distort the income from operations.

SUMMARY

For non-profit organizations it is not typical to perform the financial analysis to the extent to which the business entities do. This results from the mission that both of these types of organizations perform. However also managers of non-profit organizations must have information that is a reliable tool for the management and control activities. For non-profit organizations the methods and tools of financial analysis must respect their specificities. Therefore an important question is how to apply the standard tools of financial analysis in these subjects. The aim of this paper was to highlight the differences in the accounting statements of non-profit organizations in comparison with statements of business entities, which can be seen in the form of a formal statement and also in the content side of the individual items of the statements. The current form of statements of non-profit organizations is not suitable for the objective evaluation of efficiency. Given the fact that every non-profit organization should make the best use of its resources, its economic activities should be controlled similarly as it applies for businesses entities, because based on an appropriate management and follow-up can be achieved considerable savings. The financial analysis appears to be an appropriate tool on which basis may be discover a problem that may now appear as hidden. As already noted, efficiency indicators are not compiled to be fully usable for non-profit organizations, but they can be modified by the individual employees so that they are relevant for the given organization and can be used to evaluate its performance. Monitoring of absolute indicators on which basis they would be able to follow the development of the number of employees, number of clients, the development of the needed resources and development of number of volunteers can be recommended for non-profit organizations. On their basis it is possible to deduce public benefit of non-profit organization and fulfillment of its mission. As other indicators can be recommended ratios that would quantify efficiency and productivity. By efficiency it is meant minimization of the incurred costs with respect to the desired outcomes. *Boukal* (2009) mentions, that quantification of productivity is the measurement of the outputs per unit of used input. The resulting values must be evaluated with regard to the facts that are typical for non-profit organizations. It is a fact that most of the non-profit organizations report a loss as their main economic activity (it can be balanced by profitable economic activity). Important indicators for these types of organizations are indicators of autarchy. The main activity is considered on their basis when revenues are measured with the cost of the main activities and furthermore incomes and expenses of main activities. It is also possible to use the pyramid decompositions, which are based on a ratio between assets and resources and according to *Kraftová* (2002) it is possible from the decomposition to determine in which assets are retain the available resources of non-profit organizations and how this relationship changes over time. Then it can be evaluated whether this link is effective and related to the main activities of non-profit organizations. Also, as already mentioned before, it is possible for these organizations to use aggregate models, such as models BAMF (balance analysis of non-profit organizations) and KAMF (classification analysis of non-profit organizations) that were primarily created to evaluate municipal companies and can also be used for evaluation of the non-profit organizations. The results of the financial analysis with respect to their interpretation will be in the resulting parameters certainly different from the recommended values for the parameters in profitable companies. Evaluation of financial analysis that would be processed only for economic activities of the non-profit organizations would be in relation with the achieved values very similar with regard to the recommended values for the parameters as in the business entities. The problem here, however, remains in form of inadequate placement of individual items in the financial statements, especially in the profit and loss statement.

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