

THE ACCOUNTING OF NON-PROFIT ORGANIZATIONS IN PORTUGAL: THE CASE OF PRIVATE INSTITUTIONS OF SOCIAL SOLIDARITY (IPSS)

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Abstract

The nonprofit sector is made up of nonprofit organizations that, by law or custom, do not distribute any profit that may be generated by the Associates. They are institutionally separate from government, are self managed and non-binding.

The IPSS, are non-profit institutions, created by private initiative, with the purpose of giving organized expression to the moral duty of solidarity and justice between individuals and they are not administered by the State or a local government body to proceed among others, their goals, through the provision of goods and services.

The new accounting system of nonprofit institutions, emerges as an indispensable tool for management, because these organizations are not sufficiently different from business enterprises, public agencies, etc., Management models and practices adopted will be similar.

This study deals with the system of accounting standards for non-profit sector entities (ESNL), part of the Accounting Standardisation System (SNC), through which they create their own accounting rules, application-specific entities to continue, under primary, non-profit activities and not distribute to its members or taxpayers any direct financial or economic gain.

Key words: *accounting standards, ESNL, accounting, financial statements.*

Introduction

The theme of this research is part of a context of accounting reforms that are operationalized in Portugal, and that set this state at the level of the most developed countries in accounting matters.

Several authors have written about the need to revisit the issue of management of nonprofits, eg, Handy, 1988; Billis, 1989, and Hudson, 1999. This paper has as main objective of the new accounting regime of nonprofits, which, when implemented, will be a valuable adjunct in the management as well, in a way, help to clarify the role of nonprofits in society.

The third sector is comprised of nonprofit organizations that by law or custom, do not distribute any profit that may be generated by the associates, are institutionally separate from government, are self managed and not compulsory.

The IPSS are nonprofits, formed on the initiative of individuals, organized activity, in order to satisfy social needs, based on solidarity and justice between individuals.

Its growing economic importance, complexity and the specifics of that significance, make merit special attention in view of the important role and great weight in the social sphere that holds in society.

The new accounting regime of nonprofits, emerges as an indispensable tool of management, because these organizations are not sufficiently different from business enterprises, public agencies, etc., Management models and practices adopted will be similar.

The case study is a research method because it is based on relevant research, intensive and detailed study of a particular object, which is well defined and that aims to understand and acquire knowledge and experience about a particular goal. This is the case of this study, which covers a specific area of institutions that form the third sector, in which we investigate the number of existing entities and respective social areas, as well as the accounting rules they must follow.

This work also contains a literature review on the third sector organizations and within these analyzes the particular case of Private Institutions of Social Solidarity (IPSS), with particular focus on accounting reforms that have recently occurred in Portugal and the implications on information system from these institutions.

The Non-profit Organizations

Characterization

What are nonprofit organizations and how to set them? According to Anheier (2000:284) non-profit organizations can have a variety of legal and organizational forms, namely, association, foundation, company, etc., and are designed to pursue various purposes:

“They can be created to provide services that benefit individuals or companies that control or finance, or can be created by philanthropic reasons or welfare, to provide goods and services to others in need, or they can be created to provide services health and education for a fee that is not geared profit, or they may promote the interests of pressure groups in specific business or politics, etc. “.

Like all organizations, nonprofit organizations vary greatly in size, mission, operation and impact. Some are closer to the model of a government agency, others can really assimilate to business enterprises, and others may be closer to an informal network [Ruth, T. (2011); Schwartz, P. (1992); Young, D. (1983)]. Despite these variations, there is an emerging consensus among researchers in this area, that nonprofit organizations have the following characteristics (Salamon and Anheier, 1997):

- Organized - They have institutional reality, which separates the organization of informal entities such as families, meetings, or movements;
- Private - are institutionally separate from government, which defines the entity to the public sector;
- Nonprofits - Distribution, ie, not returning any profits generated for the owners or their equivalents, which distinguishes nonprofit companies;
- Self-Government - are empowered to control their own activities, identifying those that are de jure units of other organizations;
- Voluntary - Character not mandatory in nature and with some degree of voluntary, both in planning and management activities.

Hudson (1999) and Paton (1996) recognize the value direction of non-profit organisations as their fundamental feature.

The interconnection among the various organizations can be seen in the Figure 1 below:

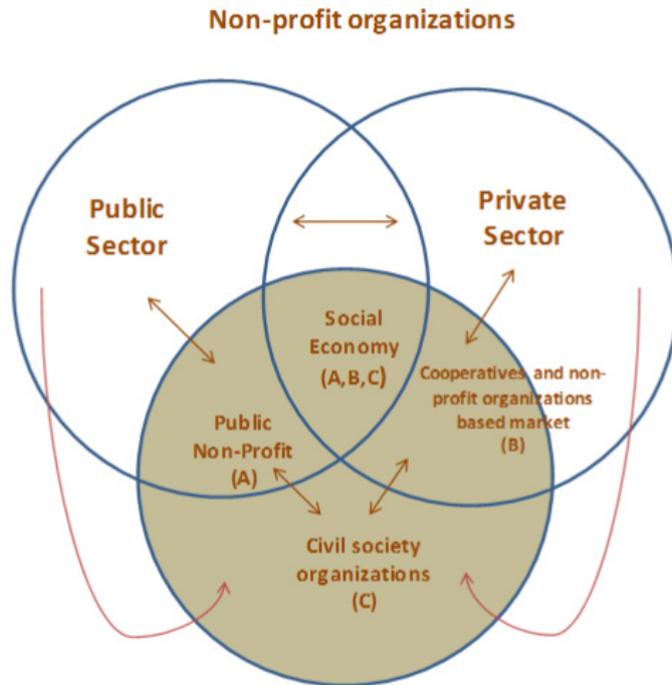


Figure 1: The interconnection among the various organizations.

Source: Adapted from Semedo (2005)

In continuation can be seen several examples of entities that can be found in the “nonprofit sector” (United Nations, 2004):

- a) Non-profit service providers;
- b) Non-governmental organizations;
- c) Arts and culture organizations;
- d) Sports clubs;
- e) Advocacy groups;
- f) Foundations;
- g) Community associations or ethno-cultural associations;
- h) Social clubs, including automotive clubs and country clubs;
- i) Religious congregations, such as parishes, synagogues, monasteries, temples and shrines.

The Private Institutions of Social Solidarity

In accordance with paragraph 1 of Article 1 of Decree Law (DL) No 119/83 of February 25, IPSS, institutions are non-profit created by the initiative of individuals, with the purpose of giving organized expression to the duty moral solidarity and justice between individuals and provided they are not administered by the State or a local government body, to pursue, among others, their goals, through the provision of goods and services.

Institutions are of one of the following forms:

- Associations of social solidarity;
- Associations of voluntary social action;
- Associations of mutual aid;
- Foundations of social solidarity;
- Brotherhood of mercy.

These institutions can be grouped into: (a) unions, (b) Federations and (c) confederations. McLeish (1995:18) argues that despite the IPSS to constitute non-profit, their “profit” can be measured in several ways, as this can be measured by the level of growth of the organization, the welfare of employees, the quality product and / or service, the development of management, financial balance, by movement of respective donations and financial contributions, the investment in a new program and acceptance of donor programs.

According to data from Social Security ([www2.seg-social.pt /](http://www2.seg-social.pt/)) there are 5298 IPSS and assimilated institutions (Cooperatives and People’s Houses) registered in Portugal, namely:

Table 1. IPSS registered.

IPSS REGISTERED	
Associations	3202
Social and Parochial Centre	1052
Foundations	207
Institutes of Religious Organization	226
Mercies	346
Not defined	18
Total	5051

Source: www2.seg-social.pt (2012)

Table 2. Institutions assimilated to IPSS.

INSTITUTIONS ASSIMILATED TO IPSS	
Cooperatives	136
House of the People	111
Total	247

Source: www2.seg-social.pt (2012)

The Social Responsibility and Stakeholders

According to Carroll (1979, 2008) the social responsibility of business encompasses the economic expectations, legal, ethical and discretionary that society has of organizations at a given time period.

Usually the term “stakeholder” (interested party) is a word that is intended to more appropriately describe those groups or individuals who have a stake, a claim or an interest in the operations and business decisions. Sometimes it can mean a lawsuit brought by an owner, an employee or a customer who has an explicit or implicit contract. Sometimes that interest can be a moral claim, for example the right to be treated fairly or to assert your opinion on important business decision.

The management challenge is to decide which stakeholders deserve to be considered in the decision-making. In any case, there may be a large group of stakeholders (shareholders, customers, employees, suppliers, community groups, social activists) clamoring for the attention of management.

For Drucker (1974), and the responsibility or irresponsibility are core problems, not just companies but any kind of organization, because they all have power and are responsible for their decisions. This author argues that strategies aimed at satisfying the social needs and community, can turn into opportunities for action and getting results, not only for generating profits but also ensuring the satisfaction of an ethical requirement that the company makes.

The social responsibility as part of the concept of sustainable development, is part of the social dimension, together with the economic and environmental dimensions, form the three pillars of sustainable development. Hence, by participating in social actions for the benefit of the community, the company operates in the social dimension of sustainable development and carries out its social responsibility (Bowen (1948/1953).

In recent years there has been a change in behavior, with the evolution in the form of donations to charitable donations directed to social investment. This initiative represents an investment company, not just a personal commitment of entrepreneurs. That is, philanthropic actions are evolving from mere charity to social investment, seen as a support for participatory citizenship. **Emerges, therefore, the idea of a company communally compromised.**

However, the IPSS in Portugal up for the exercise of social action in the prevention and support in various situations of fragility, exclusion or human need, promoting social inclusion and integration, developing for such diverse activities to support children and young people, family, youth, old age, invalidity and, in general, to all the needy.

In these institutions, stakeholders and all other stakeholders, they do so for different reasons. Relations with the various stakeholders are driven by values of a spiritual, cultural and humanistic, which far exceeded what was necessary to achieve its specific purposes. The IPSS is therefore an object of special attention from a wide range of stakeholders.

Accounting Standards of the Nonprofit Sector (ESNL)

Framework

Decree-Law no. 36-A/2011 of March 9, approved the scheme of accounting standards for entities non-profit sector (ESNL), part of the Accounting Standardisation System (SNC), through which accounting rules to create their own, application-specific entities to continue, primarily, non-profit activities and not distribute to its members or taxpayers any direct financial or economic gain. These entities shape the form of associations, foundations, public legal persons of such associations, clubs, federations and confederations. The cooperatives accepted from this new regime, as well as entities applying international accounting standards.

Therefore, entities such as Private Institutions of Social Solidarity (IPSS), corporations and associations of firefighters, football clubs, sports and cultural associations, among others, that do not adopt the International Accounting Standards (IAS) should be prepared with the resources necessary to meet the challenge of adopting new accounting regime of ESNL. Its financial services are going to have Chartered Accountants (TOC) empowered to implement and execute this new accounting or accounting framework, then, professional services to external entities in order to respond adequately to the requirements of accounting and financial reporting they now stand, following the entry into force of the Standard Accounting and Financial Reporting for the non-profit sector entities (NC-ESNL), as exemplified in the Figure 2:



Figure 2: Organizations addressed the ESNL.

Source: Adapted from Moneris (2011)

The New Challenge of IPSS of Social Solidarity

Under the reform of Portuguese accounting, through the internationally process of accounting harmonization, including by aligning the accounting standards of the IASB (International Accounting Standards Board), was approved by Decree No. 158/2009 of July 13 the Accounting Standardisation System (SNC).

Although the SNC is found mainly devoted to for-profit entities, paragraph 2 of Article 2 of that statute provided for the adoption of specific entities for non-profit sector.

In this context, the scheme is approved accounting standard for the Nonprofit Sector Entities (ESNL) by DL No. 36-A/2011 of March 9, attending to an alignment of regulatory accountability of private Institutions of Social Solidarity (IPSS), the System Accounting Standards, with the said legislation repealed the Chart of Accounts of the IPSS (PCIPSS), approved by Decree-Law No. 78/89 of 3 March.

The Accounting Standards Regime for ESNL applies to entities pursuing an activity primarily nonprofit and cannot distribute to its members or taxpayers any economic or financial gain.

The IPSS have as part of the exercise in the prevention and social support in different situations of fragility, exclusion or human need, promoting social inclusion and integration, formed by private, non-profit, effecting their activities for the development of social responses.

Although the IPSS are legal persons of public utility, are liable for Income Tax of the People Collective (IRC) and Value Added Tax (VAT), providing exemptions for these codes the activity exerted by these institutions, provided that are involved in business income derived from the exercise of commercial, industrial, performed outside of the statutory purposes, as well as income from bearer securities were not registered or deposited under the legislation, and is subject to compliance with certain requirements in particular the violation to the statutory

purposes of at least 50% of total net income [paragraph 3 of article 10 of the Code of income Tax of Individuals Collective (IRC)].

This new accounting regime is not applicable to cooperatives and entities applying international accounting standards.

The Accounting Standards Regime for ESNL consists of the following qualifications:

Normative	Subject
Decree-Law 36-A/2011, of 9 de Março	Adopting the accounting regime for non-profit sector entities
Ordinance 105/2011, of 14/03	Models of Financial Statements and Financial Maps SNC to ESNL
Ordinance 106/2011, of 14/03	Code of accounts specific to ESNL
Notice 6726-B/2011, of 14/03	Accounting Standard and Financial Reporting for ESNL (NCRF-ESNL)

The application of accounting standards will be mandatory from the year 2012, and is optional for the financial year 2011.

Shall only be exempted from applying the new regime on the ESNL, institutions (entities) whose sales and other income do not exceed € 150,000 in any of the previous two years, and did not choose to apply the accounting standard. In this case, these entities will be obliged to pay accounts on a cash basis, disseminating information regarding:

- Payments and receipts made;
- Assets that are part of your fixed assets;
- Rights existing and future commitments in a given fiscal year.

Since the IPSS must have proper accounting and accounts must be signed by a TOC, this requirement accepted by the Union of Portuguese Mercies, by the National Institutions of the Union Solidarity and Mutual Societies, with the exception of cooperatives, which are not covered by this norm, most of these entities must implement this mandatory standards [Resolution No. 32/2005 of 17 March 2005 the Board of the Institute of Social Security, IP (ISS, IP)].

Where the SNC-ESNL not respond to particular aspects of transactions or circumstances, is applied, additionally the following order, only for the integration of this gap, the accounting standard, hereafter referred to:

1. SNC approved by Decree No. 158/2009 of 13 July and relevant technical complementary legislation;
2. International Accounting Standards, adopted under Regulation (EC) No 1606/2002 of the European Parliament and Council of July 19;
3. International accounting standards (IAS) and Accounting Standards and Financial Reporting Standards (IFRS) issued by the IASB and respective SIC-IFRIC interpretations.

Financial Statements

The IPSS and similar, which applies to the CNS-ESNL will be accountable to the supervisory body via OCIP (electronics), until 30 April of the year following that to which they relate management accounts, being forced to submit the following financial statements:

- a) Balance Sheet;

- b) Income Statement by nature or by function;
- c) Statement of cash flows;
- d) Notes.

The public funds, like Social Security for example, may require other maps, including the profit and loss for answers, and other social activities, travel grants and the minutes of the administrative / management statutory and opinion of the supervisory board of the institution, and the already legally established, including the trading account estimates, by virtue of paragraph 1 of Article 33 of Decree-Law No. 119/83 of February 25.

The statement of changes in endowments, named thus because it is non-profit entities, delivery is optional, since the entities do not require public funding to delivery, is always an important part accounting for the explanation of the amendments to endowments, especially in the transition year. As for the entities required to submit accounts on a cash basis will be required to submit the following financial reporting:

- a) Payments and receipts;
- b) Fixed Assets;
- c) Rights and upcoming appointments.

Sanctions

As with companies, also for the entities subject to SNC-ESNL is provided a system of penalties, with fines varying between € 500 to € 10,000 if the entity does not comply with the provisions in the standard accounting and financial reporting, distorting the its financial statements. Just as the SNC, the gap is punishable, this time with a fine from 500 € to 15,000 €, and non-submission of financial statements is punishable by fines of the same amount. In case of negligence, the fine is reduced by half.

Failure to comply with the obligations in the provision of accounts and budgets, the IPSS incur the possibility of suspending payment of cooperation agreements or even the cancellation of registration as IPSS.

With regard to the Code of Accounts approved, it contains specific accounts targeted at ESNL, achieving coalesce, even at times with other designations, specific accounts of several plans of Auditors, as the PCIPSS and Chart of Accounts for Mutual.

The Accounting Standards for ESNL as defined in Annex II to the DL 36-A/2011 of March 9, consists of:

- a) Basis of presentation of financial statements;
- b) Models of financial statements (balance sheet, income statement by nature or by function, statement of cash flows and Annex. Eventually, they may submit a statement of changes in endowments, by choice or requirement of public funding);
- c) Code of accounts;
- d) Standard accounting and financial reporting;
- e) Interpretive standards.

Consolidation of Accounts

It should be noted that the ESNL are obliged to prepare consolidated accounts in accordance with Article 6 of Decree 158/2009 of 13 July, i.e. in terms of what is required of a parent, *mutatis mutandis*.

However, the parent company is exempted from preparing consolidated financial statements when the date of its balance sheet, all the ESNL to consolidate, based on their latest annual accounts, two of the three does not exceed the following limits:

- a) Total assets: € 5,000,000;
- b) Total net sales and other income: € 10 million;
- c) Number of employees on average during the year: 250.

Exemption from preparing consolidated financial statements is also applicable in the cases specified in paragraphs 3-6 of article 7 of DL 158/2009 of July 13, as is the case of the parent company, which is also a subsidiary when their own parent company is subject to the legislation of a Member of the European Union (EU).

On the other hand, ESNL applying the system of accounting standard expected for this type of entities can be excluded from consolidation in the cases and pursuant to the provisions of Article 8 of Decree 158/2009 of 13 from July, i.e. in case of entities not materially relevant to the consolidation or in situations where there are severe and lasting restrictions substantially hinders the exercise by the parent company of its rights over the assets or management of the entity.

Finally, note should be a requirement for the IPSS, as they are subject annually to the Statutory Auditors (CLC) ESNL of the financial statements that present consolidated accounts, as well as the financial statements of those who exceed the limits specified in Article 262 of the Companies Code as provided therein, or in two consecutive years are exceeded two of three following limits:

- a) Balance sheet total: € 1.5 million;
- b) Total Sales and other revenue: € 3,000,000;
- c) Number of employees on average during the year: 50.

This law enforcement SNC even for nonprofits, is transported into the realm of non-profit sector convergence of accounting practices and valuation of assets and liabilities, costs and revenues, as well as enhance the comparability of financial statements and transparency in a perspective of information disclosure policy very detailed and transparent.

For the IPSS and similar entities, this is undoubtedly another great challenge, but it is for the supervisory authority, which must, in record time, comply with the accounting changes and adapt the OCIP (electronic application) - Budget and Accounts IPSS - the delivery of accountability by the CNS.

Conclusions

The non-profit organizations can have a variety of legal and organizational forms, such as associations, foundations, corporations, etc., The IPSS are nonprofits that provide social welfare, play a role of undeniable importance in society, have a privileged regime and noticeably more favorable, as enjoy many perks and benefits.

The evaluation of performance, which can be considered in conjunction with other quantitative and qualitative measures, is not directly related to economic performance, although this is considered a useful information. The calculation of this result contributes to the efficiency analysis of entities in accordance with objective criteria, because it allows to calculate the revenue provided by products with social purposes, even if offered for free, taking as basis the market prices of similar products. The new system of standards for non-profit sector as well as change the way the story of the IPSS, can also contribute to better management information, which may be useful in decision making.

The accounting system provides ESNL of two new financial statements, statement of changes in fund equity and cash flow statement, as well as consideration of the Annex to the Financial Statement. The statement of changes in endowments provides increased information about the changes that have arisen in endowments that occurred in the period from the previous period.

The fact that there is a statement of cash flows provides obtaining information on the movement of cash and cash equivalents of the entity in terms of payments and receipts, classified as operating, investing and financing activities.

The adoption of the accounting regime of ESNL comes this way contribute to the modernization and improvement of accounting in Portugal.

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