ACCOUNTING AND TAXATION OF NONPROFIT ENTITIES

BACHELOR´S DEGREE IN FINANCE AND ACCOUNTING

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ABSTRACT

This work speaks of accounting and taxation of non-profit entity. This analysis focuses on the comparison of the financial statements of a charity with the financial statements of a business company, and also, it explains tax legislation enjoyed by such entities.

To carry out this comparative analysis I have made an extensive study of the Accounting General Plan and the Adaptation of the Accounting Plan to non-profit entities. On the other hand, to explain the taxation of an entity, specifically the corporate income tax and the value added tax, I have resorted to laws (Law 27/2014 and Law 37/1992, respectively).

Also, the study which I have made to know whether non-profit entities require a new accounting rules by their special differences it will be observing in the course of work. And finally, you will know what the charities have not the same fiscal regulation as the commercial enterprise and you are able to understand the reason of it.

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1. INTRODUCTION

The following study aims to explain the accounting and taxation that are carried out in the Non-Profit Organizations. In addition, the intention of this study is to compare the specific features of this type of entities with the characteristics of commercial enterprises, both accounting and general level.

In the last few years, Non-profit entities are successfully increasing in Spain, not only in terms of numbers, but also, in terms of presence. Moreover, the rest of developed countries has reflected this growth, as foundations and associations are the result of great inequalities provoked by existing capitalist system in these areas. Mainly, Non-profit entities born since a claim way and defense of the human and animal rights, or even to the interest respect on a community than is not recognized for society. The biggest expansion of these organizations could be due to the increased in the aid and grants. This support is issued by the government because it has a lot of benefits if the presence of this companies increase. On the one hand, the more presence of NPO provokes an increase of the well-being in the country, and this situation would provide greater richness in the nation. Furthermore, the democracy is one of the essential principles of not-for-profit organization, therefore, the greater freedom of expression provokes that the nation will be more important in the social and political aspects.

The aim of this work is to understand and analyze the special features that have the non-profit entities. That is, it will show that you cannot apply the same rules of business enterprises, both fiscal and accounting, entities without economic purposes. As will be developed in the later study, "the purpose non-profit" has supposed a transformation of the General Accounting Plan and the imposition of new tax rules. To achieve this goal, we will focus on the Adaptation of the General Plan to non-profit entities in the General Accounting Plan, Law 27/2014 Corporate Tax, Law 49/2002 and Law 37/1992 value added tax.

Mainly, this study is divided into three points: definition and classification of non-commercial entities, comparison of financial statements between commercial enterprises and non-commercial entities, and finally, taxation of such entities. In the first section, the concept of "non-profit purpose" shall be defined and the types of entities are discussed, the characteristics of an entity will be compared with those of commercial enterprises, and finally, it will discuss the reasons that led to the creation of an Adaptation of the General Accounting Plan. In the second section, it will be a comparative analysis between the financial statements of an entity and a company. In

addition, it will mention the registration and valuation rules of some elements that appears in the balance sheet. Moreover, in that paragraph, appears a financial statements and a subsection dedicated to the requirements that a credit institution must follow to it will not be requiring to submit to audit his accounts. The third section is devoted to the taxation of a non-profit organization, specifically, I am going to talk about the Corporate Income Tax and Value-Added Tax.

2. NON-PROFIT ENTITIES AND BUSINESS COMPANIES.

2.1 NON-PROFIT ENTITY DEFINITION AND TYPES OF ENTITIES.

To begin with, a non-for-profit entity is formed by a group of individuals or legal entity performing a collective activity with the same goal, to help the community. In recent years, there has been a spectacular growth of non-profit entities within them can distinguish two main groups: associations and foundations. The first premise to be commented on is that "for profit" should be analyzed from the perspective of the founders of the association or foundation, that is, the founders should not participate in the profits of the entity.

The nonprofit purpose refers, as its name suggests, a **NON**-economic objectives. That is, its primary objective is the benefit of society. So, all the services that are carried out in a company, connected with this purpose, be made non-receive in exchange for consideration. It is worth stressing two essential features of the concept "non-profit purpose":

- **Different types of clients**. This section refers to the fact that all entities must engage both attracting resources and the allocation of resources. Thus, the beneficiaries of the services are the group who are given the resources available, and on the other hand, there is a collective contributor of funds.

- **Intangible nature**. Most deals that takes place in a non-profit organization are difficult to measure due to their intangible nature since there are many provisions services. While this does not rule out offering tangible matter, but to a lesser extent.

In line with this purpose, you can comment two types of NPO:

1. **Foundations.** According to Article 2 of the Law on Foundations, "Foundations are organizations established non-profit, by the desire of its creators, have affected lasting heritage to the realization of general interest purposes. Foundations are governed by the will of the founder, by its statutes and, in any case, by law." That is, it is a company that does not seek to maximize their performance, if not pursued the welfare of society without asking anything in return. Subsequently, it also indicates that a chord foundation holds the will of the founder. This means that the person taking the initiative to provide equity must establish a policy for the foundation, and thus, patterns (administrators) cannot modify it.

   In addition, in the Article 3 of Law 50/2002 of Foundations notes that some of its objectives of general interest include following: the defense of human rights of victims of terrorism and violence, social welfare, civic, educational, cultural... As indicated, it is intended to benefit the community of people, so that you cannot start the activity of a foundation whose aim is to benefit the founder.

2. **Associations.** On the other hand, an association is a legal entity established by several persons or groups with a common interest where the benefit that is extracted cannot be distributed among the partners, and also they have the same rights and duties in the General Assembly.

   In practice, the association holds by the will of people who is associated in the entity. With this we want it to be said that the future of the entity is decided among all members of the association. Specifically, this type of entity is characterized by greater autonomy that is due to its wide democracy.

In short, the main difference between the foundations and associations is that the foundation is constituted by a set of founders that give a certain heritage, and thus, they have the power to establish a set of standards to be met. In this regard, employers cannot change them because they have not the same power as the founder since they have not participated in the initial allocation. However, associations are formed by several people who share the same interest. This type of organization is not financed through an initial endowment, but rather it is financed with installments carried out by partners. In addition, all partners have equal power, there is no difference as in the case of the founders.

2.2. DIFFERENCES BETWEEN THE NON-PROFIT ORGANIZATIONS AND COMMERCIAL ENTERPRISES

The following section will explain the main differences between the operation of commercial enterprises and non-profit organizations. Mainly, it should be noted that a non-profit entity does not pursue the maximization economic gain, but rather, it chases the maximization of social benefit, that is, this seeks to increase the provision of services in society.

Thus, according to the General Accounting Plan of companies, economic-equity result is not a valid indicator for such entities because it does not measure the efficiency of the organization. That is, if an entity of this type does not invest in community services will not be acting efficiently, although the result for the year is positive. Under this concept, the main task of these entities focuses on the destination of profit in investment services for different purposes.

First, commercial enterprises, as the name suggests, pursue profit, that is, economic benefit. On the other hand, entities nonprofit pursue social benefit and have an altruistic, humanitarian, artistic and community purpose. In addition, a trading company has quantifiable and measurable objectives, on the contrary, the objectives of an association or foundation are not quantifiable or assessable. It should be added that nonprofits organizations do not compete with other entities, however, companies must continually adapt to technological changes for not become obsolete, and also must offer the best product in relation price-quality to reach to become the market leader. Moreover, business customers may choose one product or another of another entity, however, customers' foundations and associations may be the employees themselves, but when the company pursues a global target customers will not be employees and they require the service offered, since not have the capacity to enter the market.

With regard to pricing policies, in most cases non-profit companies use a price that is usually lower than the cost incurred and sometimes they not estimate any price (no compensation), while business enterprises estimate their selling price based on the costs what they have incurred, and this price also based in competition studies. But always they put a price exceeding the amount of cost that have endured since their first priority is to maximize its economic benefit.

Table 1. *The comparison between characteristics entities nonprofit and commercial enterprises*

	NON-PROFIT ENTITY	COMMERCIAL ENTERPRISE
BENEFIT	Social	Economic
OBJECTIVE	NOT measurable	Measurable
COMPETITIVITY	Not compete	Compete
CUSTOMERS	Employees or people who need the service provided	Can choose one product over another
PRICE	Below cost or without price	Above cost

2.2.1 ADAPTATION OF THE GENERAL PLAN TO NONPROFIT ORGANIZATIONS.

In recent years, Non-profit Organizations perform an accounting regulation adapted to their needs, since previously they had an unprofessional and little customized system. The non-profit entities can be tailored to the general accounting regulation of business, but they do not pursue the same purpose as these, so it is evident that requires a different accounting treatment. There are four reasons that have caused which carry out a sectoral adaptation of the General Plan for non-profit entities.

The main reason is that financial statement of General Accounting Plan for commercial companies measure the effectiveness by the profits, so it will not be a good measure since the success or failure of this entity is valued by the amount services performed, and these services are intangible. Furthermore, you cannot carry out the GAP for nonprofits organizations because the benefit conferred is not split between the partners, but it is reinvested to continue providing more services. Another important reason is that the accounting of NPO must show full transparency because the collective contributor of funds want to know all the information of the entity. In addition, the partners who invest money in a NPO not expect to have a profit and they is not the same people who benefit from the services, so this entity does not need funds from

beneficiaries of the services to be financed. This means that the financial structure of a commercial company will be different, inasmuch as contributors of funds from commercial companies have the hope to obtain profit.

3. COMPARISON OF THE FINANCIAL STATEMENTS OF AN ENTITY WITH FINANCIAL STATEMENTS OF COMPANIES.

The sectoral adaptation of non-profit entities approved on December 24, 2011 has the same structure as the General Accounting Plan of companies. It is the adaptation of the rules of 1998 to the new accounting information framework, facilitating the implementation of the financial reform of 2007 to these entities.

The Institute of Accounting and Auditing drafted a text where presented the Plan of Accounting for Nonprofit Entities and Accounting Plan for Small and Medium Nonprofit Entities. In this regard, foundations and associations must meet certain limits to prepare their financial statements in accordance the Plan of small and medium non-profit entities. The limits are the same as commercial companies (must meet two of the following circumstances at the end of the tax period): total assets must be less than 2,850,000 euros, the net amount of the turnover does not must exceed 5,700,000 euros and the number of employees during the year need not be greater than 50. Moreover, entities that choose to apply GAP for small and medium entities must develop abbreviated balance and memory.

Equally, if two of the following conditions occur at year-end, the entity may prepare the income statement as the abbreviated model: the total assets does not exceed 11,400,000 euros, the annual income figure, which appears in the section "Income of the entity by the activity" is less than 22,800,000 euros and the number of employees during the year must not exceed 250.

In addition, the General Plan adapted dictates that all entities that meet the requirements to make the balance and memory as abbreviated models, information on the cash flow statement is not compulsory for organizations. In order to be classified as micro entities must meet the following requirements: total asset do not exceed 150,000

euros, the total annual income from own activities do not exceed 150,000 euros, and the number of employees of that year should not exceed 5. Also, when they can apply the special requirements of micro-entities, the memory can be produced following the simplified model (Article 25.4 of Law 50/2002). Also, when you can apply the special requirements of micro-entities, the memory can be produced following the simplified model.

Table 2. *Requirements for filing the abbreviated balance sheet income statement and requirements of microentities.*

	ADAPTATION OF GAP TO SMALL AND MEDIUM ENTERPRISES/ ABBREVIATED BALANCE	ABBREVIATED INCOME STATEMENT	REQUIREMENTS OF MICROENTITIES
TOTAL ASSETS	<2.850.000	< 11.400.000	<150.000
SALES TURNOVER	< 5.700.000	< 22.800.000	<150.000
NUMBER OF EMPLOYEES	< 50	< 250	<5

Foundations Law 50/2002 (26 December) and the Organic Law 1/2002 (March 22) dictates that non-profit entities have three financial statements: balance sheet, income statement and memory. Compared to commercial enterprises such entities does not include the statement of changes in equity and cash flow statement. Although Adaptation not recognized as an annual account cash flow statement, institutions should write information about this state in the report.

According to the general accounting regulations, companies must make their annual accounts three months after completing the tax period, however, nonprofits entities have a less restrictive term, six months. In the event that the entity must be audited, it should apply the same term of commercial companies. Thus, the accounting rules established for entities allows them to enjoy a longer period to prepare their financial statements, provided that they are not subject to audit.

3.1. BALANCE SHEET

According to the General Accounting Plan to adapt to non-profit entities, the balance sheet has a division between assets, liabilities and equity.

Just as the general rules considers assets as property and rights available to the company which can come from past events, but with one exception, they not be maintained for future benefits: **they will reinvest in future roadmap services.** Furthermore, the liabilities is considerate as total current liabilities of the entity whose extinction the company must divest assets, and equity are considered equally, as the difference between assets and liabilities of the entity (including the contributions of the partners).

With regard to social fund, it is made up of funds directed to constitute a non-profit organizations. Not only occurs at the time of creation of the entity, but also, it may occurs monetary contributions during activity. The Foundation's endowment is in equity, specifically in the section of own funds. In addition, the counterpart is recorded in assets, classified according to their nature. It may be that the entire social fund is not disbursed, in this case own funds will appear pending disbursement with a negative sign (under the social background).

Table 3. *Comparison between balance sheet commercial company and nonprofit entities.*

BALANCE SHEET COMMERCIAL COMANY	BALANCE SHEET NON-PROFIT ENTITIES
ASSETS	ASSETS
CURRENT ASSETS	*CURRENT ASSETS*
I. Intangible assets	I. Intangible assets
	II. Heritage assets
II. Property, plant and equipment	III. Property, plant and equipment
III. Investment property	V. Investment property
IV. Long-term investments in group companies and associates	V. Long-term investments in group companies and associates
V. Long-term financial investments	VI. Long-term financial investments
VI. Assets by deferred tax	VII. Assets by deferred tax
VII. Non-current COMMERCIAL debtors	VIII. Non-current debtors
NON CURRENT ASSETS	*NO CURRENT ASSETS*
I. Non-current assets for sale	
II. Inventories	I. Inventories
	II. Users and other accounts receivable for the Association's own activity
III. Commercial debtors and other receivables	III. Commercial debtors and other receivables
IV. Short-term investments in Group, Multigroup and Associate companies	IV. Short-term investments in Group, Multigroup and Associate companies
V. Short term investments	V. Short term investments
VI. Short-term accrual accounts	VI. Short-term accrual accounts
VII. Cash and equivalent liquid assets	VII. Cash and equivalent liquid assets
SHAREHOLDERS' EQUITY	**SHAREHOLDERS' EQUITY**
I. Equity	I. Equity
a) Capital	**a) Social fund**
1. Issued capital	1. Social fund
2. Uncalled capital	2. Social background not required
b) Issue premium	
c) Reserves	**b) Reserves**
1. Legal y statutory	**1. Statutory**
2. Other reserves	2. Other reserves
d) Own shares and equity instruments	
e) Prior years' income	**c) Prior years' income**
1. Remainder	1. Remainder
2. Surpluses from previous years	2. Surpluses from previous years
f) Other shareholder contributions	
g) Yearly earnings	**d) Surplus of the year**
h) Interim dividend.	
i) Other equity instruments	

Table 4. *Comparison between liabilities commercial organization and nonprofit entities.*

LIABILITIES COMMERCIAL COMANY	LIABILITIES NON-PROFIT ENTITIES
NO-CURRENT LIABILITIES	*NO-CURRENT LIABILITIES*
I. Long-term Provisions	I. Long-term Provisions
II. Long-term debts	II. Long-term debts
III. Long term debts with group and associated companied	III. Long term debts with group and associated companied
IV. Deferred tax liability	IV. Deferred tax liability
V. Long-term accrued	V. Long-term accrued
VI. Non current commercial payables	VI. Non current payables
CURRENT LIABILITIES	*CURRENT LIABILITIES*
I. Liabilities linked to non-current assets held for sale	
II. Short-term provisions	I. Short-term provisions
III. Short-term debts	II. Short-term debts
IV. Short-term debts with group and associated companied	III. Short-term debts with group and associated companied
	IV. Beneficiaries and creditors.
V. Commercial creditors and other payables	V. Commercial creditors and other payables
VI. Short-term accrual accounts	VI. Short-term accrual accounts

3.1.1 Registration and valuation regulations.

The following paragraph will discuss the main rules to register and valuate the fixed assets in the accounting of non-profit entities. These rules are in the second part of Plan Adapted and they is characterized by the existence of transactions or economic events that need special treatment based on the essence of its assets do not generate cash flows. First, three key concepts in recording and valuation of assets are defined, and then, the rules for registration and valuation of the assets of historical heritage, swaps, impairment, receivables and payables, inventories and grants will be explained, donations and bequests will be explained.

First of all, there are three concepts that must be explained:

1. **Assets generating cash flow.** This is the whole set of asset whose objective is to obtain commercial advantage through the transfer of goods and services. This means, as the name indicates that the entity is willing to achieve cash flow through transactions of such goods.

2. **Assets not generating cash flow.** It is the purchase of fixed assets whose purpose is to obtain social benefits non-commercial, that is, the objective is not obtain economic profit.

3. **Service and operating unit.** It refers to the set of assets from operating activity. It should be clarified that a unit of exploitation is understood as a tangible place where an economic activity is carried out.

Historical patrimony assets.

In contrast to the General Accounting Plan implemented in 2007, the General Accounting Plan adapted to non-profit entities in 2011 shows that the balance sheet of business companies do not cover Historical patrimony assets.

According to Law 16/1985 of June 25, Historical patrimony assets are those elements that are considered important to preserve, understood as irreplaceable assets and cultural and artistic nature. Thus, it is considered current assets and its initial value will calculate using the same rules as other tangible assets. However, its initial value is equal to the cost of accommodation in the event that cannot be measured reliably.

Hence, historical heritage assets acquired free of charge shall be valued by their fair value, however, the goods commercially acquired are valued by the acquisition price. With regard to the depreciation fund, heritage assets are not depreciated since they have an indefinite useful life. On the other hand, works of art and collectors' items that are not Historical Heritage shall be amortized with the exception that the entity being granted, also, indefinite useful life. They are also susceptible to undergo deterioration.

Swaps.

From an accounting point of view, the swap is the exchange of assets where monetary assets may also appear. Then, it will explain the differences to valuate assess operations in swaps from two points of view: commercial and non-commercial companies.

- Swaps in the Non-profit entities.

Mainly, it should be noted that the swaps that appear on the Adaptation come from goods not generate cash flows. In this sense, transactions of property, according to the General Plan adapted from NPO, will be valued at the book value of tangible assets delivered in exchange, if any, monetary or unpaid counterparts paid, establishing a limit the amount fair value of assets received if lower. Moreover, the assets transferred is derecognized by their book value. Notwithstanding the above, it should be noted that if there is an exchange between assets generating cash flow and assets not generating cash flow should apply the general rules of the companies that it discussed below.

- Swaps in the commercial companies.

In business enterprises, swaps are classified as commercial and non-commercial.

  - On the one hand, the asset received will be assessed in plant and equipment operations of commercial nature at the fair value of the asset given over monetary assets that have been obtained in return.

  - Moreover, in the non-commercial nature swaps, the asset received is measured at the carrying amount of the asset given up, taking into account the monetary assets. However, the asset transferred of the non-commercial nature swaps will be dropped at book value.

Impairment loss.

As the name suggests, impairment loss of non-cash flow generators assets is reducing the validity of goods. That is, the drawdown of the yield of property, plant and equipment.

As a result, the possible impairment loss of an item of property does not generate cash flows will happen when the recoverable value is less than the book value. In this sense, the recoverable amount is known as the higher value of fair value less costs to sell and value in use.

In the same way as the assets of commercial companies, the fair value of the assets do not generate cash flow is the most reliable amount existing in the market. Also, the book value refers to the initial amount net of amortization and impairment. However, the value in use of tangible assets not generating cash flow is the difference between the current cost of the asset and the cost for which it was purchased (replacement cost).

It will be necessary to perform a scan to see if any tangible assets must undergo deterioration once completed fiscal year of the foundation or association. Subsequently, depreciation of assets should be performed. Also, if the causes that motivated to carry out a deterioration disappear, it will be to account for an expense or income in the income statement, that is, a reversal.

In short, as is well discussed above, the only difference when registering a impairment loss between profit enterprises and non-profit entities is in the definition of value in use.

Credits and debits.

On the one hand, according to the adaptation of the plan, credits from the activity of the entity are treated third-party debt, that is, receivables of the entity against to the beneficiaries and affiliates. Also, credit is initially recorded at face value, provided that it is carried out in a short period of time. However, it shall be entered as its present value when they are long-term loans. Subsequently, should account for the corresponding financial income from the difference between the current value and the amount by which he gave in his day.

It may be added that if the entity granted a loan without interest rate, that is to say, if the organization broadcast it without remuneration, it shall be measured at fair value. Just as the long-term loans issued, the difference is accounted for in the income statement, but in this case, it will reflect the difference between the fair value and the amount delivered. In this way, financial expense will be recorded.

Moreover, the rules of non-profit entities establishes a regulation to value and register debits of a foundation or association. Mainly debits from the activity are debts from aid for users of the entity. Initially they are recognized at face value, provided that they are short-term debts. However, if they were long-term debts are recorded at present value, and also, the amount arising from the difference between the nominal and current value will be recorded as financial expense. It should be clarified that if the aid is multiannual, debt is counted at its present value of the committed amount. When aid is multiannual, it means that lasts for several years.

Inventories.

The valuation rule sixth of the Adaptation of GAP says that not generating cash flow stocks, that is to say, inventories related to the general purpose of the entity. Usually, they are transactions without remuneration, although there may be transactions with remuneration but the price will be lower than the cost incurred.

As we discussed above, foundations and associations receive all kinds of aid, and among them include, donations of inventories. Being a donation has been executed without paying any price, i.e. free of charge, so it should be recorded at fair value.

With regard to impairment test, there is a difference with commercial enterprises, because to calculate it is considered the largest of its net realizable value and replacement cost. However, business enterprises recognize a loss when the net realizable value is less than their purchase price. Obviously, the difference arises because good received is gratis.

Not only an entity receives stocks without any consideration, but also it delivers inventories gratuitously related to the purposes of the entity. Furthermore, the value of asset transferred is recognized as an expense by its book value.

Grants, donations and legacies.

Subsidies and social fund, too, are in the balance sheet and they have specific characteristics.

With regards to subsidies, they are a sum of money from public entities that are used to finance the expenses incurred in the course of their activity. The GAP adapted to the NPO dictates which grants, donations and bequests of a monetary nature are measured at fair value, instead grants non-monetary nature are accounted for by the value of the goods or services, provided that it can assess reliably. In addition, this rule concludes that it cannot be classified as grants all kinds of support provided by volunteers, that is to say, for all those who collaborate with the entity without any remuneration.

Business enterprises have four types of grants, donations and legacies, however, the non-profit entities only have two of them. The first two classifications of subsidies are shared with NPO, nevertheless, the two endpoints are not covered by the Adaptation of GAP.

- **Grants from financing expenses in particular.** Initially, they are recognized as an influx of cash in the income statement for the same tax period in which the costs are incurred.

- **Subsidies whose purpose is to finance the purchase of any asset or a liability reduced canceling debts.** In this case, it refers to the acquisition of intangible assets, inventories which are not produced as a result of rappel and financial assets. They will be charged as income in the year in which the transfer occurs, and also the impairment test or low of the property is made directly be performed. Also, debt cancellation will be charged as income in the year in which it originates.

  It should be noted that non-profit entities include the acquisition of assets of historical heritage in this section. In this case, they are recognized as income in the tax period in which the sale occurs.

- **When the subsidies are established to ensure a minimum surplus or offset expenses.**

- **Moreover, when an amount of money is received without specific purpose shall be recognized as income for the year.**

Moreover, business enterprises do not contain the following valuation rules, nevertheless in the case of entities are reflected itself (valuation rule ninth Adaptation):

1) **Assignment of use of land for free and concreted period of time:** First, it is counted as an intangible asset because it is a right to use. It will be recorded by the more reliable amount that exists in the market, that is to say, fair value, and subsequently, an income is generated by that amount. In addition, the useful life will refer to the term of the assignment.

2) **Assignment of land and construction for free and period of time materialized:** In this case, it is followed the same procedure as in point 1). Although it should be added that if the transfer period exceeds the useful life of the building, the right of use is recognized as tangible assets.

3) **Assignment of a property**. In any case the company recorded an expense each year according to its nature and revenue from grants will be counted for the best estimate of its fair value.

4) **Services received without consideration.** In this section, it will recognize an expenditure from the service received, and on the other hand, it will count an income from the grant at fair value.

3.2 INCOME STATEMENT

Then, the main differences between the income statement that performs a non-profit organization and the income statement of a business enterprise are detailed. Furthermore, the income statement of a non-profit entity is equivalent to the profit and loss account of commercial enterprises. In this case, **the income statement for entities reflects the changes in equity that occurred in a year**. On the other hand, the income statement of business enterprises includes only income and expenses arising over a year. In this sense, the adaptation has allowed that the income statement of the non-commercial entities not only reflects the revenue and expenditure of the financial year, but also, it reflects all the variations that occur in the equity of the company during the tax period.

When you prepare the income statement, you must consider what the difference between inflows and outflows of money is no longer called “profit for the year”, but in the case of these entities is called **“surplus for the year**”. So, as has been mentioned above, the financial structure of the income statement differs with the profit and loss of a business enterprise because their aim is not profit maximization, since the success or failure of the entity depends on the amount of services provided. It follows from the above that the fate of the surplus or the result, too, is different. On the one hand the benefit of commercial companies is distributed among the partners, nevertheless, nonprofits organizations spend the surplus for future investment activity. It should also be noted that the contributors of funds in profitable companies intend to make a profit, however, contributors of money to the social fund of an entity collaborate with the feasibility of a project of the foundation or association, and also, it requires full transparency in the financial statements of these entities.

As indicated above, income statement will present the inputs and outputs of money and according to the General Accounting Plan adapted to such entities this account appears: the surplus for the year, income and expenses recognized directly in equity, reclassifications surplus exercise, change adjustments and errors and contributions criteria and decreases in the foundation's endowment.

Table 4. *Comparison between Income Statement commercial companies and nonprofit entities.*

INCOME STATEMENT COMMERCIAL COMPANIES	INCOME STATEMENT NON-PROFIT ENTITIES
A. Continuing operations	**A. Surplus of the year**
1. Operating income	1. Surplus of the activity
2. Financial result	2. Surplus of the financial operations.
3. Earnings before tax	3. Surplus before tax
4. Result from continuing operations	4. Change in shareholders' equity
	B. Income and expenditure allocated in the shareholder's equity
	1.Variation in shareholders' equity due to income and expenses
	C. Reclassifications to surplus for the year
	1. Variation in shareholders' equity due to reclassifications to surplus for the year
	D. Variation in shareholders' equity due to income and expenditure allocated in the shareholder's equity
	E. Adjustments due to changes in accounting policies
	F. Adjustments due to errors
	G. Variation in the social fund
	H. Other changes
B. Discontinued operations	
NET INCOME	**TOTAL RESULT, VARIATION OF THE SHAREHOLDERS' EQUITY**

3.3. ANNUAL REPORT.

Annual report, just as commercial enterprises, is a statement that complements and extends the information contained in previous financial statements. Nonetheless, this financial statement, too, provides relevant information to verify the achievement of the objectives that the entity proposed at the beginning of the period, but there is no information related to the action plan. This state, as indicated, shows a set of information that is related to a specific year, but it can be named periods prior to compare.

In addition, the report can be presented in three models depending on the size of the entity: normal, abridged or simplified. On the one hand, the report can be made in abbreviated model when the conditions described above for drafting the abridged balance sheet are met. Moreover, report can be performed according to the simplified model when it chooses to apply the criteria of micro-entities. If it contrast this information with the Plan of commercial companies, it should be noted that they can develop memory in only two models (normal and abbreviated), since it does not have the option of writing the annual report according to the simplified model.

According to the Adaptation nonprofit organizations, the charities include the following information in the memory: the Historical Heritage Assets, People and other debtors of the activity, beneficiaries and creditors, memory activities, application of assets to own purposes, administrative expenses and inventory. In addition, the Adaptation requires distinguish the following categories: assets with permanent restrictions, assets with time constraints and assets unrestricted use.

According to Article 25.2 of the Law on Foundations, the economic report has to consider the information on the activities of foundations, which together with the application of assets, is the essential information in this financial statement. All tasks carried out by the company over a year should appear in **memory of activities**. That is, all activities are identified and they are distinguished between non-profit origin and commercial origin. Moreover, spending what has been supported should be quantified, and the place where it was collected should also appear. Consistent with the above, the information to be specified in each activity are human and non-human resources that have been carried out for processing, the number of individuals who have benefited from the activity, and finally, it may indicates revenues that have resulted in

such an activity if it were an activity of commercial origin. Another aspect which should include is information on the liabilities of the entity with other parties, and the level of performance of the action plan.

According to Article 25.2 of Law 50/2002, of December 26, it is necessary to clarify that all assets listed on the balance sheet will be included in the **inventory**. For this purpose, the date on which they were acquired, the book value, the value changes what have experienced, amortization and impairment will be contemplated.

In this sense, it is recalled that **the information from the cash flow statement** is in annual report, so, it is not fail to be important for an entity. That is, although the cash flow statement is not recognized as an accounting statement more in the Accounting Plan Adapted, as in the case of commercial companies, is very important to the development of this because it provides information regarding with the movements of liquid funds. Thus, you can analyze the evolution of the viability of the charity, since receipts and payments are recognized.

Table 5. *Comparison between report information of commercial enterprises and nonprofit entities.*

REPORT INFORMATION OF THE COMMERCIAL ENTERPRISES	REPORT INFORMATION OF THE NON-PROFIT ENTITIES
1. Business activity	1. Business activity
2. Basis of presentation of the annual accounts	2. Surplus of the year
3. Application of results	
4. Registration and valuation regulations	3. Registration and valuation regulations
5. Property, plant and equipment	4. Property, plant and equipment
	5. Historical heritage assets
6. Investment property	
7. Intangible assets	
8. Leasing and other similar operations	
9. Financial instrument	
	6. Users and other accounts receivable of the own activity
	7. Beneficiaries and creditors.
	8. Own capital
10. Inventories	9. Inventories
11. Foreign currency	
12. Taxation system	10. Taxation system
13. Income and expense	11. Income and expense
14. Provisions and contingencies	
15. Information about environment	
16. Long-term payment	
17. Transactions with payment based on equity instruments	
18. Grant, donation and legacy	
19. Business combinations	12. Business merge and combinations
20. Joint business	
21. Non-current Assets Held for Sale and discontinued operations	
22. Events occurring after the end of the period	
	13. Business activity. Administration cost.
23. Related party transactions	14. Related party transactions
24. Other information	15. Other information
25. Segmented information	
	16. Cash Flow Statement
	17. Inventory

3.4. AUDIT IN THE NON-PROFIT ENTITIES.

The audit is the study of the financial statements of an entity with the aim of checking whether they show a true and fair view of the equity. In addition, the internal control of the entity is reviewed, and the internal structure and functioning of the association and foundation are known.

The auditor's work is very important because stakeholders need reliable information of annual accounts. It is important that the auditor be impartial in their work, and thus, he must show independence to avoid possible changes in the audit report.

Law 50/2002 of Foundations indicates that not all of them are required to submit to external audit the financial statements, since it will depend on the following circumstances: that all asset exceeds 2,400,000 euros, the figure annual income exceed 2,400,000 euros, and finally, what number of workers exceed 50 in a year. In this regard, foundations must undergo audit if two of the above requirements are met in a year.

As a reminder, the activities of non-commercial entities generally are supported by grants or other types of aid. It should be added that the entities will also be required to audit their annual accounts if they pass the limit of subsidized amount. In this regard, according to Royal Decree 1517/2011 approving the Regulation implementing the revised Law on Auditing in its first additional provision is approved, non-profit entities will be required to be audited when they receive subsidies, grants, benefits under the budgets of the government or the European Union funds for more than 600,000 euros in the same year amount. Similarly, if subsidized investments are carried out in another tax period, it will also have to submit to audit that period.
It has to be stated that the entities which carried out works, assistance and services to the Administration for a value of 600,000 euros, and this symbolizes more than 50 percent of the amount of turnover during tax period, they shall be required to audit their annual accounts that period and the next period.

Table 6. *Obligation to audit Non Profit Organizations*

OBLIGATION TO AUDIT NPO	
TOTAL ASSETS	>2.400.000€
SALES TURNOVER	>2.400.000€
NUMBER OF EMPLOYEES	>50
SUBSIDISED AMOUNT	>600.000€

4. TAXATION IN THE NON-PROFIT ORGANIZATIONS.

4.1. CORPORATE INCOME TAX.

The following paragraph will discuss three main points. First, it explains the different existing tax rules for entities. Second, it going to talk the comparison of corporate tax on commercial and non-commercial companies. And finally, the concepts of deductible expenses and exempt or non-exempt income in the charity will be defined.

Mainly, corporate tax levy obtaining of the benefit of legal entity, including NPO. In general, as indicated previously tax profits, but non-commercial organizations have to study to see if revenues are exempt. This tax must be filed, if the end of the fiscal year coincides with the natural year, during the first 25 days of July. Nevertheless, if it do not coincide with the natural year, this tax should be field during the 25 calendar days later than six months following the end of the financial year. The expense for corporate tax will be accounted for in the income statement for the subsequent resulting number to the accounting and non-accounting adjustments. Moreover, such spending should be increased or reduced by the appropriate amount of it, recording the corresponding loss or claim against the Treasury after the end of the tax period

Not all non-profit organizations apply the same tax system, according to the characteristics of the entities there are two corporate tax regimes:

1. **Especial Regime.**

   On the one hand, there are non-profit entities under Law 49/2002, also known as the law of patronage. The Act establishes a set of tax benefits only for foundations, non-governmental development organizations and international cooperation for development and for associations declared of public utility. Therefore, the objective of this law is to encourage the private sector of activities of general interest. This regime requires entities without exception to present and declare all their income, exempt and nonexempt.

2. **Regime partially exempt.**

   On the other hand, there are non-profit entities that not benefiting from the law of patronage because they cannot apply or they decide not to apply (because it is an optional scheme).Thus, fiscal regulation that exists for non-profit entities that do not benefit from the law 49/2002 will be analyzed in depth.

   These entities must comply with the rules of tax which define as partially exempt entities. The Old Law 27/2014 stated that all non-profit entities were obliged to declare this tax, although these entities is very small. As a result of these regulations, such entities were forced also to the keeping of a clear and organized accounting according to the Accounting Plan adapted. To this end, many of the associations and foundations were severely affected as if the tax have to pay it is an expense that must endure.

   Therefore, this reform threatened the viability of many Spanish associations and foundations, not only by the obligation to submit the declaration, but also for the management and payment of the tax. Therefore, the Spanish government reacted rapidly replacing this Act on the other, and thus, they can to save the non-profit entities.

   Furthermore, Law 27/2014 was modified in this way: "All taxpayers are required to declare all of their income, exempt or not. However, some taxpayers have not obligation to submit the declaration what they meet the following

requirements: total income does not exceed 75,000 euros per year, that income for non-exempt income does not exceed 2,000 per year and that all non-exempt income earned are subject to withholding tax." Considering the importance of this change, charities enjoy a less restrictive rules than the previous one, since there are fewer entities affected.

Second, if you compare the Law of Corporate Income of companies with corporate tax law entities, it should be noted that all commercial companies are obliged to declare this tax. Although there are various exemptions among which should be highlighted: the local authorities, autonomous agencies, public companies and other entities that enjoy partial exemption but will not study in this paper. Although there are various exemptions among which should be highlighted: the local authorities, autonomous agencies, public companies and other entities that enjoy partial exemption but they will not study in this paper. It should be clarified that both laws are different because they have different objectives, that is to say, a non-profit organization wants to carry out a set of activities designed to benefit a collective whole. Sometimes, it may be one of its aims the struggle for equality in the world. Thus, being a purpose related to the general interest of the community, the law of Corporate Tax for entities is less restrictive than the law for companies that want to contribute in achieving this objective.

Finally, it will explain the concepts of deductible expenses and exempt or non-exempt income. On the one hand, the revenue derived of an association may be of the nature of the entity (fees associated persons, subsidies and grants). However, income may be other economic activities not specified but these activities are related to the goal of society. Other common income, but not as relevant, is the interest of the bank.

Thus, when Tax office allow that some of the income earned in the tax period not declare, they shall be treated as not exempt income. Also, non-exempt income are those that have previously listed as nature of the entity (fees, grants and donations). Therefore, all income what is not of the nature of the entity will be classified as non-exempt. It should be emphasized that non-exempt income are economic activities, that is to say, activities that the entity makes self-employed, i.e. selling a product or providing a service, and also, the organization collect for it, although the purpose of the activity is related to the purpose of the entity.

On the other hand, just as that entities and companies have exempt income, they also have expenses that can be deducted in the tax declaration. In this sense, they will be

classified as deductible expenses those coming from non-exempt income. For example the expenses arising from economic activities, fines and penalties.

4.2. VALUE-ADDED TAX

According to Law 37/1992, the Value Added Tax is an indirect, real, objective and proportional tax. It is a tax on consumption of goods and services. However, the supplies of goods and provision of services carrying out entrepreneurs and professionals establish the taxable transaction.

Obviously, foundations and associations, too, are subject to VAT regardless of whether the objective is general or community interest. Whenever you receive a consideration for goods and services, it will be subject to Value Added Tax. Only, there will be exempt from this tax when the delivery of goods and services is free, that is to say, when it not exists a consideration by the recipient of goods and services. In this sense, there are two types of VAT exemptions for foundations and associations:

1. **Exemption of direct application**. Mainly, this type of exemption is characterized because it has to go through a preliminary exploration of Tax Office. In this section, it is convenient to highlight the most important non-profit organizations, as well as those related to education, provided that the entity has the work identified in the curricula of public administration, and health-related (authorized price regime). It added that in order to enjoy this exemption, it is desirable what the service is carried out only in that activity and what partners pay the part of common expenses.

2. **Requested Exemption.** It is imperative to ask the Administration prior to recognition. It should be noted for this type of exemption, according Article 20 of the VAT Act, some exemptions:

    - Provision of social assistance services carried out by public law entities or private entities (protection of children and youth, assistance to the elderly, special education and assistance to people with disabilities...).
    - All those performance from the promotion of sport and physical education, provided that the issuing body of performance are public

entities public law, sports federations, Olympic Committee Spanish or private institutions.

- The provision of services related to culture (libraries, museum, theater...).

In the event that it could not apply the exemption in the three previous activities, it will apply a reduced rate of 7% as VAT (article 91 LIVA). It should be clarified that in order to use the requested exemption, it must meet the following requirements: the entity must not have any profit, partners should not have economic interest and exempt activities should not be aimed at relatives of the associated. It should be clarified that in order to use the requested exemption must meet the following requirements: the entity must not have any profit purpose, partners should not have economic objective and exempt activities should not be aimed at families of the associated.

5. CONCLUSION.

To conclude, it cannot exist an identical accounting for all companies because they do not pursue the same goal. . If the non-profit entities will use the general accounting rules, its annual accounts would not show the true picture of the assets.

On general scale, the most notable differences are in the structure of financial statements. First, within the balance sheet it should emphasize the rules of registration and valuation of non-generating elements of cash flows. In addition, the General Adaptation Plan has devoted a section to draft registration rules and assessment of all the elements that will not generate economic benefits to the entity. In addition the good assets of historical heritage are the most important material fixed assets, since it does not appear in the GAP.

Next, the most important difference between the two standards is in the income statement because charities pursue social benefit, so that the income earned will be using to finance the expenses of the entity. Thus, there is no benefit of the entity, but there is a surplus to continue funding the project entity. So, in fact, it will show an account of changes in equity.

Among the financial statements of a non-commercial entity, not only there are the income statement and balance sheet, but also, there is the annual report. It is worth noting, the most significant sections which should be written in the memory are the memory of activities and information of the cash flow statement. That is to say, on the one hand, the activity memory is the report what it should be drafted by foundations and associations on projects that have made in a year. And, on the other hand, it appears the information of the cash flow statement, although it is not defined as an annual account, it is mandatory to write the information in memory.

In addition, this organizations also have an individualized tax legislation, since yields caused by their activity are directed to the benefit of a community. Thus, the State imposes less restrictive laws to help the NPO to expand. On the one hand, corporate tax, may be classified in special regime or partially exempt regime depending on the type of activity that the entity puts. The special regime will force, that is all entities under Law 49/2002 to declare all their incomes, however, the partially exempt regime says that entities that do not meet certain requirements will declare some income, but

not all incomes will have declared as in the case of special regime. Besides this tax, in the value added tax it can distinguish: requested exemption and exemption of direct application. The requested exemption refers to the performance of services related to culture, sport and social welfare. Furthermore, they should require prior recognition of the administration, however, the exemption of direct application is not mandatory. And, exemption from direct application refers to entities related to education and health.

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