



**UNIVERSITAT
JAUME·I**

**NON-PROFIT ORGANISATIONS
MANAGEMENT:
SPECIAL REFERNCE TO SMALL ASSOCIATIONS**

STUDENT: PAU HERRERO SALES

FINANCE AND ACCOUNTING DEGREE (2017/2018)

FINAL DEGREE PROJECT

TUTOR: ANDREU ARNAU PARADÍS

Title:

Non-Profit Organisations Management: Special reference to small associations.

Author:

Pau Herrero Sales

Tutor:

Andreu Arnau Paradís

Summary:

The growth of the associative movement is taking a lot of strength in recent decades and therefore the creation of small associations by people who are not prepared to face with the management of those, it is being a reality. In this project we want to carry out a study and analyse the management techniques that are developed in the non-profit entities so that they can operate correctly and have an economic control. Besides, we want to be a refernce for all those people who want to start a new project by creating an association, so they could find any answers related with the creation, management and organisation of this type of corporation, and so we make it easier for them to develop the suitable work that the association pursues.

Keywords:

Non-profit organisation (NPO), Spanish General Accounting Plan (PGC), association, public utility, management, Social fund, grant, budget, project, The Income Statement

INDEX

1. INTRODUCTION	3
2. DELIMITATION OF THE NON-PROFIT SECTOR, DEFINITIONS AND ITS TYPES	4
2.1. FEATURES OF NON-PROFIT ORGANISATIONS.....	5
2.2. TYPE OF NON-PROFIT ORGANISATIONS	6
3. METHODOLOGY	7
4. SMALL ASSOCIATIONS MANAGEMENT	8
4.1. LEGISLATION AND FUNDAMENTAL RULES FOR ASSOCIATIONS	8
4.2. CONSTITUTION OF AN ASSOCIATION	10
4.3. MANAGEMENT TECHNIQUES IN NON-PROFIT ORGANISATIONS ...	12
4.3.1. ACCOUNTING AS A MANAGEMENT TOOL	13
4.3.2. OTHER MANAGEMENT TOOLS	26
5. CONCLUSIONS	28
6. BIOGRAPHY	30

1. INTRODUCTION

The non-profit entities are mainly linked to the provision of social services to all kind of people, these seek to promote solutions for the problems of the society in general as can be the aid to any disadvantaged person, the struggle for human rights and freedoms, the concern for the Environment, education, culture, development cooperation, and the intervention against natural disasters such as tsunamis or earthquakes that can devastate homes, towns and even entire cities. All these problems mentioned are continually taking place in our society and the public administrations cannot cope with all these drawbacks or do not have enough resources. For providing support to the public sector, the non-profit organisations or also called companies of the third economic sector are set up.

In the last decades, non-profit organisations have been gaining weight in the business sector of the most developed countries, the boom of these companies arises with the Spanish Constitution of 1987 when the right of association (art. 22) and the right of Foundation for the purposes of general interest (art. 34) are recognised. This phenomenon is also being favoured by the approval of the laws that regulate this sector.

On the one hand, the study of accounting for these entities has been limited in recent decades and the growing of this sector makes the accounting regulation improve. This is due to the Royal Decree 1491/2011, which was passed in 2011 and regulates the rules of adaptation of the Spanish General Accounting Plan (PGC) for non-profit entities. The approval of this decree arises from the need of a useful financial information framework that serves to make external users aware of the true and fair view of the property, financial situation and results of the entity. This regulation was improved with the resolution of March 26th, 2013, the Institute of Accounting and Audit of accounts together with the final disposition of the Royal Decree 1491/2011 dictated the resolution approving the PGC of the non-profit entities and their action plan model.

On the other hand, the study of the management of this type of entities is having few studies in reference to the improvement of management and organisation by having characteristics similar to commercial or civil companies for lucrative purposes. But, as we will see later, these entities that form the third sector have a very different purpose than the profit-making companies. It is for this reason that the management and organisation, in our opinion, should be subject of study in this project in order to improve the techniques of management to obtain a correct control of these entities without economic profits.

Because of the peculiarities of non-profit entities, it is important that they make a budget of expenses and income of the projects that the entity will carry out throughout the year, and also it is equally important to register the resources obtained and used in each project to compare with the budget that the entities have previously made. The development of these tools will help to improve the management, organization and control of non-profit entities so that they can achieve the social objectives that they pursue.

2. DELIMITATION OF THE NON-PROFIT SECTOR, DEFINITIONS, AND ITS TYPES

To define the economic sector that we are going to study in this project we are going to establish a first classification of the whole economic area. Traditionally, we knew two sectors in the economic field, the private and the public, but, in the last decades of the twentieth century, a new type of companies, which do not seek to obtain profits, emerged. If they are of private character, these companies become the Third Sector, so currently our society is characterized by having three large sectors.

Cabra de Luna (2005) classifies the three economic sectors in the following way:

"The private mercantile sector comprises entities that develop the activity for profit and are ultimately controlled by private owners, i.e. the market." (p. 99)

"The public sector is formed by the public administrations (Central and territorial), the autonomous agencies and the public companies. Their common characteristic is that the ultimate control corresponds to representatives elected by society or, in general, to individuals or groups legitimized by political power. " (p. 99)

"The third sector is made up of those entities of voluntary character that, emerged from the free citizen initiative and managed in an autonomous way, they seek, through the intervention of the social policy, to obtain an increase of the levels of quality of life through social progress in solidarity. It is a much complex and heterogeneous sector whose entities are usually defined by not belonging to any of the two sectors mentioned above, that is to say, this comprises all except state and market. " (p. 100)

However, Julio Jiménez (2006), another author specialised in the topic defines the third Sector as "The social space that forms an heterogeneous group of entities that have a purpose to carry out functions of denunciation and social vindication or to provide services in which the relationship of encounter with the beneficiary primes, this contributes to guarantee and to promote certain social values and it constitutes, therefore, an institutionalized channel for the exercise of the voluntary solidarity of many citizens. " (p. 36)

On the other hand, the Law 50/2002, December 26th, defines the companies in this sector as "the non-profit organisations that, by the will of their creators, have a lasting impact on their patrimony in the realization of the aims of general interest".

With the definitions of these well-known authors in the sector and as defined by the law, we can reach a definition of what the non-profit entities are. In our opinion, non-profit entities are those that carry out activities for the social good and pursue purposes of general interest for the community own good and without obtaining results that generate wealth to the members of the company or related third parties, that is to say, they do not aim their own economic benefit, but they pursue the gratification of the users and the society in general by providing the maximum possible services. The economic benefit obtained will be reinvested to reach the social objectives of the company.

2.1. FEATURES OF NON-PROFIT ORGANISATIONS

In recent decades, the third sector has experienced a growth caused by the increase of people's solidarity. These entities are characterized by the absence of profit, this means that, they do not seek to obtain an economic benefit, but they seek to achieve their social aims. This does not mean that they are not able to make a profit, but on the condition that the benefit they obtain is reinvested in projects that serve to achieve their social goals. Another characteristic is that their income and expenses are not relevant because the result of the exercise does not measure the performance of these companies, but it is measured depending on the degree of accomplishment of the objectives that have been marked by the company, that is to say, they obtain the result by comparing the activities that previously have been fixed with the activities that they have carried out. Let's look at an example to understand it better, an association previously makes a budget in which it is reflected the different projects that they will carry out during the year, for example, a summer camp or a clothes collection to supply poor families. The clothes that have been collected are sold and a benefit is obtained, this means that what was previously said is not what has been done, therefore the results will differ from the objectives that had been marked.

These entities characterised by not developing economic activities to obtain benefits are financed through donations and aid from individuals and organisations of all kinds and also through state aid as grants to be able to provide goods and social services. It must also be taken into account that many of these companies carry out economic activities, they do not obtain an economic benefit, but they gain financing and they develop their projects.

In addition, being present and being social solidarity a fundamental characteristic in these entities, the presence of volunteering is a very common resource in this type of entities as there are many people who identify with the purposes of an association and they do not care to devote part of their time carrying out the activities in an altruistic way.

2.2. TYPE OF NON-PROFIT ORGANISATIONS

Throughout the different studies carried out by well-known authors, the classification of this type of entities has been based on different criteria, we will differentiate these entities taking into account their legal form, we can distinguish between associations and foundations:

Foundation

The Law 50/2002 defines the foundations as "constituted non-profit organisations that, by the will of their creators, are linked to their patrimony in a lasting way, depending on the realization of aims of interest. They are managed by the will of the founder, by his statutes, and in any case by the law."

Association

According to Organic Law 1/2002, of 22 March, regulating the right of association, these are defined as, "a group of natural or legal people who are grouped together to carry out an activity and achieve social purposes, they are organized democratically, and they have no profit, that is to say, the obtained result must be destined to the purposes established in the statutes of these entities "

This type of entity is the most registered and within this type, we can find cultural, women, elderly, neighbours, consumers, environmental, professionals, students, parents and mothers of students, volunteers, youth, and many other kinds.

To see more clearly the differences according to the legal form of non-profit entities we have developed table 1 that we observe below, which shows us the differences between the associations and the foundations.

Table 1

Differences between ENL according to their legal form.

Feature	<u>Association</u>	<u>Foundation</u>
Members for its constitution	Minimum 3	1 or more founders
Document for its constitution	Public or private document	Public document
Minimum initial equity	Social Fund 0 €	Founding Endowment €30,000

Minimum organs	Board of Directors and General Assembly	Patronage and Protectorate
Type of operation	Democratic	Founder's decision
Control of the entity	General Assembly	Protectorate
Positions	Elected by the Assembly	Chosen by the founder

Source: Self-elaboration

Next, we will explain two key concepts of table 1, patronage and protectorate.

On the one hand, the protectorate is a public administrative organ that is responsible for ensuring the correct functioning of the right of foundation and for the legality of the Constitution and functioning of the foundations. The latter assumes principally the function of control and this is legitimized to challenge the agreements of the patronage that are contrary to the law or to the statutes of the foundation. On the other hand, the patronage is an organ composed of a minimum of three persons, one of whom will be the president. The main functions are to administer, govern, manage and represent the foundation.

3. METHODOLOGY

In the last few decades, we have witnessed a significant growth of the associative movement. This is common knowledge, for example, at the University Jaume I there are a total of 80 non-profit entities, including 10 foundations and 70 associations according to the general secretary of the UJI and to put another example, based solely on Associations, in Castellón, there are a total of 3,200 associations, according to data provided by Víctor Excoin, citizen participation technician of the city of Castelló. That means that in a city of 169,498 inhabitants, there is an association for every 53.

Therefore, we see that there are many people who start their participation in non-profit associations and the vast majority of them without having a minimum knowledge of this type of entities and less still have clear what is the legal framework that governs them, what are their documentary obligations and their fiscal obligations. Well, with this project we want to study and investigate the best management techniques of this type of entities and take advantage so that people who put the controls of an association at least know where it is going to get and what are the basic tasks of managing this entity. The objective of this project is to be able to give a support to the management of small non-profit entities since this activity is becoming increasingly complex and its resources present a very important role when making their projects. An association that obtains minimal resources and knows how to invest in carrying out its future projects will be better managed than an association that obtains many resources and at the end of the year

has not invested them in carrying out its activities. As the funding in these entities is very limited and the management of these resources is becoming more complex every day, in this project we want to study the management techniques for supporting the people who manage this kind of entities, we will focus on small associations.

Firstly, we will recite the laws and regulations of these entities in a schematic manner. Secondly, we will explain very briefly the guidelines to be followed for the creation of an association, and the procedures that it must make throughout its life. And finally, we will develop the basic records that should follow an association so that it can be well managed in all areas mainly using accounting as this is the best tool that exists for the management and organisation of an entity of this kind.

4. SMALL ASSOCIATIONS MANAGEMENT

4.1. LEGISLATION AND FUNDAMENTAL RULES FOR ASSOCIATIONS

Then, we will introduce in an outlined way the general information that covers the associations in reference to the legislation and norms that must follow an association to comply with the laws that protect it.

The current legislation that everyone who wants to create an association must know is as follows:

- Spanish Constitution (article 22), of 27 December 1978
- Organic Law 1/2002, of 22 March, regulating the right of association.
- Law 14/2008, of 18 November, of associations of the Valencian Community.
- Royal Decree 949/2015, of 23 October, approving the regulation of the National Register of Associations.
- Royal Decree 1740/2003, of 19 December, on procedures related to public utility associations.
- Resolution of 26 March 2013, of the Institute of Accounting and Audit of accounts, which approves the accounting Plan of non-profit entities.

The accounting regulations applied to non-profit entities are as follows:

- Real Decree 1514/2007, of 16th November, by which approves the Spanish General Accounting Plan.
- Real Decree 1515/2007, of 16th November, by which approves the Spanish General Accounting Plan of Small and medium enterprises.
- Real Decree 1491/2011, of 24th October, by which approve the rules of adaptation of the Spanish General Accounting Plan to the non-profit entities and the model of Plan of Action of the non-profit entities.

- Spanish General Accounting Plan to the non-profit entities and accounting plan for small and medium-sized non-profit entities, approved after the publication of resolutions of 26 March 2013 of the Institute of Accounting and Audit of accounts.

It is important to note in this section that the foundations and the associations declared of public utility must carry out their accounting according to the rules of adaptation of the General Plan of accounting to the non-profit entities and the model of Plan of Action of the non-profit entities approved in the Royal Decree 149/2011, of 24 October, approved in the publication of November 24, 2011 of the "Boletín Oficial del Estado". The obligation to keep an accounting allows these non-profit entities to obtain information about the financial situation of the entity, knowing what its credits and debits are, allows it to know which resources are being allocated to each project and so let them know if the resources obtained from the different projects are being properly allocated. But in the case of all other non-profit entities that do not accept the rules of having to present the annual accounts, it is very important that they carry an accounting to be able to manage all their projects and their operations in a correct way.

In the article 14 of the Organic Law 1/2002, of 22 March, it is said that "the associations must have an updated relationship of their associates, carry an accounting that allows them to obtain the faithful image of the patrimony, the result and the financial situation of the entity, as well as the activities carried out, take an inventory of its assets and have a record of the meetings of its bodies of government and representation in a book of minutes. They must keep their accounts according to the specific rules that apply to them. "

Since in this project we will focus on accounting as a management tool for the proper functioning of the entity, we want to make clear that all associations that are not declared public utility and do not carry out economic activities are not required to present the accounts in any agency, although in our opinion it is advisable for all associations to do it.

As far as the tax management of non-profit entities is concerned, it is a difficult task for the people who manage them because of the complexity of these tasks, which require experts in this field to carry them out. The main tax obligations affecting small associations are the Tax Identification Number (CIF), the Economic Activity Tax (IAE), the Value Added Tax (VAT), the Corporate Tax (IS) and the income tax of natural people (IRPF). Then, we are going to enumerate the laws to which the non-profit entities are exposed without going into the development of these.

- Law 49/2002, of 23rd December, of tax regime of non-profit entities and tax incentives to patronage.
- Royal Decree 1270/2003, of 10th October, of the regulation for the application of the tax regime of the non-profit entities and of the tax incentives to patronage.
- Royal Legislative Decree 2/2004, of 5th March, approving the consolidated text of the law regulating local haciendas. (Art. 79 IAE)
- Law 37/1992, of 28th December, of the value added tax.
- Royal Decree 2126/2008, of 26th December, approving the modifications of the regulation of the value added tax.
- Law 27/2014, of 27th November, of the corporate tax

In our opinion this issue of fiscal management in non-profit entities is not well regulated as these companies have many benefits for exemptions by having social interest objectives and because they do not have to share the benefits among partners, but the criterion that each entity uses to know what benefits society and what not, it is very different between the sector and therefore it is difficult for the tax agency to regulate these entities.

4.2. CONSTITUTION OF AN ASSOCIATION

In the following points of this section, we will briefly develop the main steps that an association will follow throughout its existence.

The first fact to make the move to the creation of an association occurs when a group of natural or legal people joins together in a democratic way to carry out a non-profit activity. Once this group of people is associated, with a minimum of three people, a meeting is held to formalize the Founding Act, the statutes that will follow the entity and establish the allocation of the board of directors, it is in this moment when they can start to operate as a not profitable entity as we could see in the following sections.

The Founding Act

The Founding Act is the document in which the founders expose their willingness to form an association and it will serve to register our association in the register of associations. The minimum concepts to be contained in the Founding Act are as follows:

- Name and surname, nationality and address of all the founders of the association.
- The will of the promoters to constitute the association.
- The approval of the statutes

-Place and date of the event next to the sponsors' signature.

-The designation of the members of the representative bodies.

The Statutes

For the creation of an association, it is essential to formalize some statutes that serve as basic principles of the association and to collect the philosophy of what is to be done as an association throughout its existence. This reflects the type of association, the aims pursued, the type of organisation, the procedures of the election of charges, decision-making and other aspects that refer to the internal organisation of the association.

Registration of associations

The first step will be to choose a name to register the association that we will create with a social reason. With the name and the necessary documents, we will go to the register of associations of our province to record it in the autonomous register and been added in the census of associations. The documents to be presented in the Register are:

- An instance of application for registration of the association
- Two copies of the Founding Act
- Photocopies of the identity of the founding people
- Relationship of the people forming the provisional Government body
- Two copies of the original statutes
- Pay the corresponding fees (model 790 for a national level)

It can happen that an association of autonomous area that carries out its activities in the own territory wants to carry out them throughout the state, therefore, it has to change its scope of action and it will have to register in the National Register of Associations, but we are not going to entry into detail of all the required documents, we only have to know that if we changed the level of action we will have to be added in the register and we will have to change the statutes if they were affected.

Entity TIN Request

The TIN (Tax Identification Number) is for any association as the ID card for a person. The TIN card contains a number preceded by the letter G in the case of associations which fiscally identifies our entity. In order to be able to function legally, we must request it and that code will accompany the association throughout its life, it is necessary to identify the entity in its relations with the public treasury and it is essential for the commercial trade.

The TIN must be applied at the tax administration that corresponds to us and, for this, we will have to present the following documents:

- Original and photocopy of the statutes stamped by the corresponding register
- Original and photocopy of the founding act
- Photocopy of the person, included among the founding partners, to sign the application form, called the Census Declaration form (model 036).

Bank Account Application

Any association that is going to have some kind of economic movement is apt to have a bank account in a financial institution. It serves as a basic tool for the treasurer to examine the economic situation, to check the income and expenses of the entity and it is also compulsory to receive subsidies from public administrations.

Elaboration of the Book of Proceedings

The book of proceedings is a book in which all the sessions of the governing bodies are collected chronologically, the data that the act will contain are the following:

- Date, time and place of the session
- All the attendees of the meeting
- Order of the day
- Agreements Adopted
- Signature of the Secretary and approval of the President

Updated partner Relationship

The association must have a document that certifies the relationship of the partners whom it counts with, and the data of the partners must comply with the provisions of Royal Decree 1720/2007, of 21st December, approving the regulations for the development of the Organic Law 15/ 1999, of 13th December, on personal data protection.

The modification of the board of directors or the body of representation

This section is important because in small associations it is normal that every two or four years the people who form the board of directors are alternating so as to have involved the whole assembly in the entity and that the power does not always fall in the same people. At the end of the deadline for the board of directors, the assembly is reconvened, and the new members of the board are democratically elected, which is reflected in the proceedings that are presented to the registry together with the instance or application and after payment of the corresponding fees.

4.3. MANAGEMENT TECHNIQUES IN NON-PROFIT ORGANISATIONS

To carry out a correct management of the entity it is necessary to use tools that allow us to control, organize and maintain all the information of the company to allocate the

resources in the most efficient and effective possible way and to be able to take the right decisions. The accounting of an entity gives us information about the economic and financial situation of the company at any time, it offers us the deviations produced in the budget and its causes, it allows us to analyze our company and make the timely decisions. In addition, it allows external agents to make arrangements, such as, assisting prospective members to take the decision of paying the fee or not, helping public entities to grant subsidies or not to grant them or it reflects if it has to be declared of public utility or not.

For not declared of public utility and not carrying out economic activities associations, there is no obligation to present the annual accounts in any public organisation, but as we have seen before, to carry out the correct management of the entity and to take the timely decisions in every moment, the best tool is to carry out the accounting of the entity.

The management techniques or fundamental tools to properly manage an association are the elaboration of projects, plans of action and budgets, and of course the keeping of the accounting and the account of results.

4.3.1. ACCOUNTING AS A MANAGEMENT TOOL

Then we are going to analyze the main accounting records that happen in the associations and that allow us to control, organize and manage correctly the operation of this type of non-profit entities.

The Social Fund

Once the association is discharged in all the necessary bodies and registries, we will proceed to account the bookkeeping that has to be registered in the newly created entities. In non-profit companies a very important concept is the Endowment Foundation or the Social Fund, the latter is the contribution of non-obligatory character of the associations at the time of constituting the entity, on the other hand, the foundations are obliged to contribute in the moment of its constitution with the Endowment Foundation. This may well consist of money or other goods which must be appropriate to initiate and carry out the founding activities of the entity. These material contributions will have to be valued for their reasonable worth and they will form part of the entity's own funds.

If the initial contribution is made by the members with money entered into the account, the accounting entry would be as follows:

	Debit	Credit
(572). Banks	5.000,00 €	
(101). Social Fund		5.000,00 €

On the other hand, if the initial contribution was made with goods, such as a computer and a desk, it would be account for as follows:

	Debit	Credit
(216). Furnitures	1.200,00 €	
(217). Information processing equipment	2.800,00 €	
(101). Social Fund		4.000,00 €

From our point of view, we can conclude that good management in the NPO implies that the amount that the entity has in its net equity should be equal or approximate to the Social Fund, as we consider that the income obtained during the year must be spent that year without a positive or negative surplus.

For this,

$$\text{Net equity} \approx \text{Shareholders equity}$$

Since: Net Income \approx 0

Obtaining funding

Financing in NPO mainly comes from membership dues, grants received from public administrations, donations from any natural or legal person, sponsorships or sales of products. To carry out a proper functioning and management of these types of entities, it is necessary that these resources obtained are destined in the best possible way to the realization of the projects of the entity. One characteristic of the small associations is that the resources they obtain for their activities are limited, therefore, we can say that the company is doing a perfect management when with the minimum resources they can accomplish the maximum activities. Another characteristic of these entities is that all the resources that are obtained have to be destined to the realisation of the projects to obtain the aim that seeks the association, therefore, if at the end of the financial period they have not destined almost all the resources to the realization of projects, this entity will not have followed a correct management. Although it is necessary that we indicate here that the entity will perfectly be able to allocate these resources in the next years for the achievement of its social objectives.

With this we could conclude that the correct management of these entities is fulfilled when with the minimum resources obtained, they carried out the maximum possible activities and the difference at the end of the year between the income and the expenses is zero or a quantity very close to zero, always bearing in mind that all companies have to take part of benefits to cope with unforeseen disbursements. Consequently, we are going to put several examples to understand this criterion:

A case could be that a public administration, gives us a grant for a quantity to develop a certain activity and only a part of this amount is allocated in doing this activity. The remaining money of the grant should be returned to the administration because we have not fulfilled the requirements that we had previously planned and, therefore, we have financial savings from mismanagement of our obtained resources.

Another case in which we are badly managing the obtained resources is when the membership dues are not invested entirely in reaching the social ends of the company because the partners invest some money in our association for doing some activities and fulfill their objectives that are the same as the entity in which they have invested and if the partners notice that their money has not been disbursed to achieve these objectives, they will not invest any more money in this company no matter whether the objectives have been fulfilled or not. In case the goals have not been achieved, the members will see that there is no need to pay the fee and they will not want to invest in an association that does not invest the money of partners to meet the objectives, and if they have been fulfilled but the resources obtained in the concept of fees are not reinvested because it is not necessary, this means that the entity has been able to self-finance in other ways and the objectives sought by users are achieved without the need of their contribution. The idea with which we are going to base this is that non-profit entities arise to cover the social needs that cannot be reached by the public sector and therefore the society invests part of its material and financial resources. So, we can conclude that, if society observes that without its financial resources social requirements are also covered, it will not invest any money, or it will not spend time to cover these needs.

Then let's look at the examples of the most common accounting entries when it comes to getting funding that can be given in a small association. We shall note that a partnership will recognize an income when the entity's resources increase and as long as the amount can be reliably estimated.

Partner Dues

One of the ways in which the associations are financed is by means of the dues that are made by the members periodically and in a certain amount. These fees do not give the partners the right to a monetary compensation of any kind but it should be taken into account that if they invest an amount in an entity it is because it follows the same principles and seeks the same objectives that them, so if they note that the objectives have not been achieved, they will not invest more in this association.

Let's see a practical example of the accounting entry. Suppose that an association charges a fee of €15 annual per partner and this has a total of 350 members, the registration of partner fees will be as follows:

	Debit	Credit
(572). Banks	5.250,00 €	
(720). Fees of memberships and affiliates		5.250,00 €

It may also occur that the membership fee is delayed for several days, therefore, first we account for the right of collection and when the affiliate makes the income of the fees, we will account for the entry to the bank, a peculiarity of non-profit entities is that the dues of the partners will be recognised as income in the financial year to which it corresponds, therefore the accounting entries would be as follows:

	Debit	Credit
(4472). Debts of memberships	350,00 €	
(720). Fees of memberships and affiliates		350,00 €

	Debit	Credit
(572). Banks	350,00 €	
(4472). Debts of memberships		350,00 €

Sponsorships

These associations carry out many activities intended for the public and therefore many companies opt to promote themselves in the face of the people in these events. According to Cabra de Luna (2005) the sponsors "are the companies that invest money to promote their brand with the aim that the public knows them and therefore the participants become in the target audience of their market". (p.112) In the sponsorship contract, both parties achieve their objectives, the sponsor promotes its brand and the entity that carries out the activities obtains financing.

Incomes from resource capture promotions, sponsors and collaborations will be recognized when campaigns and events occur. These accounting entries are registered in the non-profit entities as follows:

1. At the time the activities are carried out:

	Debit	Credit
(448). Sponsorships	6.000,00 €	
(723). Sponsorship income		6.000,00 €

2. At the time the debt collection is made:

	Debit	Credit
(572). Banks	6.000,00 €	
(448). Sponsorships		6.000,00 €

In this section, it must be remarked that when a public entity attributes a grant to a non-profit entity, one of the requirements of the grant is that the logo of the public entity appears in all the events that they are subsidising, therefore, this would not be registered as a sponsorship.

Grants

The main source of financing in non-profit entities comes from the monetary amounts that the public entities give us to carry out certain activities. These resources are fundamental and therefore the contributors are too, which require detailed information of the fulfillment of the destination of these resources. When we refer to these obtained resources we refer to the subsidies that according to Cabra de Luna (2005) are defined as "an economic aid received by a person, an organisation or a public entity or administration that will have to disburse an economic amount. When a grant is conceded, the receiver will have to allocate those resources for the agreed purposes for conceding the grant." (p. 117)

The main characteristic of subsidies is that they are perceived to promote a social interest or to promote the achievement of a public purpose.

Therefore, it will be compulsory for the beneficiary:

- To carry out the subsidised activities and to certify to the public entity that has granted the subsidy the carrying out of the activity, as well as the fulfillment of the different criteria established in the grant.

- Be prepared to submit the verification actions necessary to the granting entity and to submit to the checks of the financial control corresponding to the General Intervention of the State Administration.

- To inform to the granting entity of obtaining other subsidies for the same purpose.

- Justify the expense of the money received by submitting legal invoices and other required documents.

For an association, it is essential to follow a structured process so that at all times we must know what step we are in, that is what we should do and what tools we have. Therefore, the steps to be followed for our association to obtain a public subsidy are basically the following:

1. To prepare the project that the association wants to carry out which includes the set of activities with a budget of the expected income and expenses.
2. When the announcement of the subsidy granting is published by the public organisation, the entity must submit the documentation required by the administration and fill out the application forms within the foreseen period.
3. Once the grant is received, we will begin to work on the project with the available resources and we will have to disaggregate the project to meet the criteria required by the subsidy.
4. We will execute the project, tracking and evaluating this.
5. We will present the required documentation for the development of the activities that make up the project to the entity that has conceded us the grant.
6. We will receive the amount of the money corresponding to the subsidy from the administration, normally, this amount is received after the realisation of activities.

Grants are classified in capital subsidies, if they are to finance long-term investments (non-current assets) or operating subsidies, for current operations. The most common subsidies that are conceded to us year after year are the exploitation subsidies, the associations ask for these subsidies for the realization of a concrete project and to be able to cope with the expenses.

To register in the account a grant you must be sure that it can be classified as refundable or non-refundable. It is considered as non-refundable when there is an agreement for the concession with the public administration or the private enterprise, the conditions that required the granting of the subsidy have been fulfilled and there are no reasonable doubts about its reception. On the contrary, those subsidies that are not yet eligible to be considered as non-refundable are considered as refundable subsidies, this means that the administration may not terminate conceding the amount if the grant criteria have not been fulfilled.

Now we are going to see an example of the record that must be made by obtaining a capital subsidy to finance the 50% of the purchase of a transport element that wants to buy our association. As the purchase of the van will be made in the coming months, the subsidy will be of a refundable nature until the moment in which the purpose for which

we have been granted the subsidy is fulfilled. The first accounting notes will be the following:

1. The moment they tell us that they have granted us the grant:

	Debit	Credit
(4708). H.P.,Debtor by conceded grants	12.000,00 €	
(522). Debts a s.t. subsidized investments		12.000,00 €

2. When we enter the money granted in our bank account:

	Debit	Credit
(572). Banks	12.000,00 €	
(4708). H.P.,Debtor by conceded grants		12.000,00 €

At the time of the purchase, this grant will be considered as non-refundable as the purpose was to buy a van and this purpose has been fulfilled. Therefore, at the time of van purchase, we will have to account for the grant in the net equity for subsequent reclassification to the surplus of the financial year.

3. For the purchase of the transport element

	Debit	Credit
(218). Transport elements	24.000,00 €	
(572). Banks		24.000,00 €

4. By reclassifying the grant to non-refundable

	Debit	Credit
(522). Debts a s.t. subsidized investments	12.000,00 €	
(130). Government capital grants		12.000,00 €

In addition to registering the subsidy in our accounts, we will have to assign this subsidy to the result of the exercise at the end of the year as an income following the same criterion that to impute as the expense of the exercise the purchase of the element of transport. Bearing in mind that the useful life of the van is 10 years and that the subsidy has been 50% of the value of the transport element, the accounting entry at the end of the year would be as follows.

To 31.12, by the amortisation of the van:

	Debit	Credit
(6818). Amortisation of transport elements	2.400,00€	
(2818). Acumulated Amortisation of transport elements		2.400,00 €

To 31.12, for the imputation of the subsidy to the exercise surplus,

	Debit	Credit
(130). Government capital grants	1.200,00 €	
(740). Grants, donations and legacies received		1.200,00 €

Another example we are going to see is when we are given a subsidy to deal with the specific expenses of a normal activity that our association develops. In this case, the local administration grants us a grant at the end of the year for an amount of €800 to make activities during the same year in our city.

1. At the time they give us the grant:

	Debit	Credit
(4708). H.P.,Debtor by conced grants	800,00 €	
(740). Grants, donations and legacies received		800,00 €

2. At the moment we enter the amount granted in the bank account:

	Debit	Credit
(572). Banks	800,00 €	
(4708). H.P.,Debtor by conced grants		800,00 €

Product Sales

Another way that the associations use to obtain financing is the sale of products, it is not the main function of this type of entities, but on specific occasions may arise this type of operations in which the non-profit entities provide services or sell products in exchange for an economic benefit in order to obtain resources so that they can afford to carry out their activities. An example may be that an association designs some T-shirts to sell to consumers to finance part of their projects. When making this type of sales, assuming that the unit price of the sale of the T-shirts is 10 Euros and they have sold a total of 80 T-shirts, we will have to make a accounting entry as follows:

1. For the sale of the T-shirts will be recorded a collection fee, therefore

	Debit	Credit
(430). Customers	800,00 €	
(700). Sale of goods		800,00 €

2. For the recovery of T-shirts, reclassify the asset by lowering the right to collection.

	Debit	Credit
(572). Banks	800,00 €	
(430). Customers		800,00 €

Resources allocated

One of the characteristics of non-profit entities is that all the resources obtained are used for the development of their projects and that the entity is well managed, that is to say, the difference between the income obtained during an exercise is equal to the expenses used in it. Therefore, just as we have explained the registration of the most typical accounting entries of financing in a non-profit entity, now we are going to explain its relationship with the expenses that are given in a more common way in an association.

In this section, we want to make a special mention of the importance of analytical accounting or also called cost accounting by projects. This involves registering all the expensive accounting entries and the association has to assign each spending movement to a project of the different ones developed by the association. This will allow us to identify in which projects the entity is being profitable and in which not, and thus make the appropriate decisions regarding whether to continue doing that project or not. It will also allow us to compare if those that have been estimated in the budgets initially are being what we are really spending and if there are deviations between the budgeted and the done correct the deviations. The process of estimating the economic cost for each project allowing us to assess, control and coordinate each of the projects, but it has the inconvenience of allocating the costs in a reliable, detailed and appropriate way and the indirect costs are often difficult to allocate which proportion will correspond to each of the projects, for example, renting a local, electricity, light or water.

Product Purchases

We start with the expenses that are given in an association when making the purchase of products. Following the example of the T-shirts that we used as an example to make the accounting entry of the purchases of products, suppose that the purchase price of

these T-shirts has been of 5 Euros and that the association has acquired a total of 100 T-shirts for its posterior sale, we should register:

1. At the moment we purchase the T-shirts:

	Debit	Credit
(600). Purchasing of goods	500,00 €	
(400). Suppliers		500,00 €

2. When we make the payment to the supplier:

	Debit	Credit
(400). Suppliers	500,00 €	
(572). Banks		500,00 €

The provision of services is a very characteristic expenditure of these entities since the presentation of papers or informative talks to the society are a characteristic activity of this type of entities, for example, the education talks that an association makes to raise awareness to the society of the importance of paying attention to the road when we are driving or the lectures that can be made to raise awareness among people, for example, the equality between men and women. In this case, the accounting entry would be registered in the following way:

1. At the time when we provide the service:

	Debit	Credit
(623). Self-employed professionals services	400,00 €	
(410). Creditors for services rendered		400,00 €

2. When we make the payment to the creditor

	Debit	Credit
(410). Creditors for services rendered	400,00 €	
(572). Banks		400,00 €

Purchases of property, plant, and equipment

In NPO the elements of property, plant, and equipment are differentiated between cash flow generators and non-cash flow generators, the latter being the elements that are acquired for a different purpose than to obtain a profit or to generate a future economic

return for the company. An example of this type of asset is historical and cultural goods, such as a monument, or public goods, such as public parks.

In small associations, it is not very common to invest money in acquiring long-term goods, but in some cases, we will have to register the acquisition of a good that we will have in our entity during the following years. Let's say that the association makes the purchase of a commercial place where it can store its stock and at the same time have a space for the development of its assemblies and meetings for an amount of 20,000 Euros, the registration accounting entry would be as follows:

1. By the purchase of the local:

	Debit	Credit
(211). Buildings	20.000,00 €	
(400). Suppliers		20.000,00 €

2. For the disbursement of the purchase price to the supplier:

	Debit	Credit
(400). Suppliers	20.000,00 €	
(572). Banks		20.000,00 €

Considering that the commercial place will have a remaining useful life of 25 years, at the end of the year we will have to provide the amortisation corresponding to that element, therefore at 31st of December the accounting entry to be made will be:

	Debit	Credit
(6811). Amortisation of buildings	800,00 €	
(2811). Acumulated amortisation of buildings		800,00 €

Within the assets that these entities receive, it is very common to encounter goods of historical patrimony because the community has marked them in this way for some artistic or cultural reason and their main feature is that they cannot be replaced by another equal. These assets are declared by law 16/1985, of 25th June, of the Spanish historical patrimony, which defines them as: "The real estate and movable objects of artistic, historical, paleontological, archaeological, ethnographic, scientific or technical interest. Also included are the documentary and bibliographic heritage, the

archaeological sites and areas, as well as the natural places, gardens, and parks, which have artistic, historical and anthropological value. "

These goods have to be valued initially with the same accounting treatment as other tangible property. Although many times it occurs that for various reasons such as the age of the good or the state in which it is, these, cannot be valued reliably and therefore be valued initially by the costs of conditioning, depending on their original features. In addition, the adaptation for the non-profit entities of PGC establishes that the facilities and other elements that form part of the essential characteristics of the good will not be part of this value, although they have character of permanence. Regarding the amortisation of these elements, they may not be amortized when it is estimated that their potential of service is used very slowly and therefore the useful life of the good is considered indefinite, provided that the good does not suffer a damage by its operation, its application or its enjoyment. The clear majority of these assets have the peculiarity that should be submitted to great reparations throughout their lives. These repairs will account for as the higher value of the asset at the time of their initial valuation and the amount of this cost will be amortized differently than the remainder of the element and with a useful life equivalent to the period that rests until the next great repair. If in the moment of initial valuation the historical good is not known the cost of the great repair, we will be able to use the current price of the market for a similar repair. In the moment of the great repair, we will proceed to activate to the asset the real cost of the great repair in the form of substitution by deregistering the amount and accumulated amortisation of the initial estimate of the great repair. The estimation of the next great repair will be amortized independently until the time comes for the next great repair.

Monetary aid

In the case of many non-profit entities, one of the principles contained in their statutes is to make donations to other associations or to any person in need of resources to cover social basic necessities, such as food. These donations will be recorded at the time the grant is approved irrespective of the time when these grants are delivered to the recipients, and regardless of the financial flow in subsequent periods.

When the monetary flow occurs before the real flow, that is, when the monetary exchange is before the exchange of goods and services, it should be recognised the expenditure when the real flow occurs. In this case, when the real flow is extended to subsequent exercises different than the monetary exchange, the corresponding expenditure will be recorded in each of the following exercises.

Suppose our association makes a donation to the research department of the Jaume I University for colon cancer research for an amount of €1,500. The accounting entry would be as follows:

By monetary donations to other entities or people, provided that the time when the aid is granted, and payment is made:

	Debit	Credit
(650). Monetary aids	1.500,00 €	
(572). Banks		1.500,00 €

When the grant of aid is established before a transfer of money:

	Debit	Credit
(650). Monetary aids	1.500,00 €	
(412). Beneficiaries, creditors		1.500,00 €

At the moment that money is transferred:

	Debit	Credit
(412). Beneficiaries, creditors	1.500,00 €	
(572). Banks		1.500,00 €

Volunteer expenses

One of the features that stands out in non-profit organisations is volunteering. A volunteer is a person who freely offers to take part in an organisation, carrying out solidarity and altruistic actions without being paid. It is illegal for the volunteer and the entity to accept a material or economic compensation since for this it would be necessary to make a labour contract previously. The expenses that the association will have been only those that correspond to the expenses produced by the volunteers or collaborators because of the diets, the transport or the professional clothing. According to article 14 of law 45/2015, of 14th October, of volunteering, "the voluntary entities are obliged to cover the expenses of the provision of the service and, where appropriate, reimburse the volunteers for the expenses that they have due to the development of their activity. Therefore, an example, it may be that if our association has fifteen volunteers who have offered to repopulate the ground that was burned in a fire, in this case, they will reward

them with the cost of transportation that is five euros per person and food that is five euros per person too.

For the expenses of the Volunteers:

	Debit	Credit
(653). Compensation collaborative expenses	150,00 €	
(572). Banks		150,00 €

4.3.2. OTHER MANAGEMENT TOOLS

In this type of entities not the keeping of the accounting only is important to manage and control the actions of the company, but there are also several techniques that help us to control the tasks, such as elaboration of budgets and elaboration of projects. All these management techniques will see that they are prepared ex-ante, this is to say, always before doing the activities and tasks to follow steps and know where and how you want to get the association and correct the deviations that may occur on the way. In addition, we will be carried out the account of results in which we observe ex post the economic result that the company has obtained and to take corrective measures for the elaboration of the budgets of the following year.

The Budget

The budget is a planning tool which in a document we collect the forecast of the budgetary expenses and the income with which it hopes to count, in other words, elaborating a budget consists of allocating costs and income to each item or activity that will be carried out by the company within the next financial year. It will also allow us to detect the deviations that have arisen between the budgeted and the done and if the decisions are made to correct them. You also have the possibility to know a priori the viability of the project. In the next case, if during the elaboration of the budget we observe that the cost to realising the project is so high that we will not be able to obtain the sufficient resources to finance them, the company will realise that it is not going to be able to make this project.

Therefore, we can conclude that the elaboration of the budget will help us to the management of the entity a priori and a posteriori and it will inform us of the level of income that will be sufficient to finance the expenses of the activity, which will allow us to guarantee the viability of the entity.

The Project

A way that helps the management and organisation of all the activities carried out by the associations throughout the year is the elaboration of a project that include so much that it wants to do, what are the goals we want to achieve and how it will act to reach the objectives that have been proposed.

The elaboration of the project will contain the following characteristics:

- Temporal: It must to have a beginning and a final
- Unique: Each project will be of a single realisation, will not be repeated in the future
- Progressive: follows a series of steps to come to an end
- Composed by a leader who leads the project and a motivated team for the execution of the activities

The steps we will follow in the development of the project are the elaboration, planning, execution, and control.

The Income Statement

The income statement of a non-profit entity presents the expenses and incomes of the financial year, this account is an essential management tool for NPO, it allows us to control that the entity is being well managed when the result at the end of the year has been close to zero. When this is the case it will mean that the entity has correctly distributed all the resources obtained for the realisation of its projects. If the entity has obtained a benefit, it will mean that more activities could have been carried out for the social benefit of the people and if, on the contrary, the result of the income statement is negative, it will mean that the entity has not been able to obtain the needed resources to achieve the goals that the association wanted to cover. The accounting plan says that this account collects the variations originating in the net worth over the year, for the following concepts:

1. Exercise surplus: This section of the income statement is basically the difference between the revenues and the expenses accrued in the accounting year and is formed by the surplus of the activity and the financial surplus. The surplus of the activity is formed by the income of the activity (subsidies, donations, fees of the users and other incomes) minus the expenses of the activity (monetary aid, collaborations, personnel, amortisations of the fixed assets and other activity expenses). On the other hand, the difference between the financial income minus the financial expenses for the costs of the financing outside the entity is called financial surplus.

2. Amount of income or expenses recognised directly to the net income, as required by the rules of registration and valuation.
3. Reclassifications made to the surplus of the year, according to the rules.
4. Adjustments due to changes in accounting criteria and error fixes.
5. Variations in the Foundation Endowment or Social Fund.
6. The remaining variations in equity.

The classification of expenses and income is made according to the nature of these, but as we have previously mentioned, we should add each movement of income and expenditure to each of the projects that the entity does to analyse each of these projects.

The outstanding feature of the income statement in the NPO is that the result obtained in the financial year will not go to the shareholders or partners, it should be always destinate to the activities carried out by the company, therefore, if one year we have had some savings, the following year we will allocate these resources to the realization of the project of the entity.

5. CONCLUSIONS

The purpose of this work has been to carry out a study of the third sector to understand the objectives that seek to achieve the non-profit entities. And with this study we can expose the legislation of NPO, the administrative management and finally the tools of internal management, mainly based on accounting.

Once this project has been done, we can conclude that the key to achieving success in these non-profit entities is efficacy and efficiency, that is, to carry out the maximum activities, with the minimum resources, in order to achieve the objectives that the entity has proposed and in which people and public administrations have invested money.

In our opinion, the registration of all operations that make the entity is an adjusted tool for the perfect management of a non-profit organisation, because it controls the resources obtained and the resources used, in order to be able to allocate them in the best way and to help the NPO to be viable.

It is of great importance to work with defined and well-budgeted projects to analyze as projects are implemented. With these tools, we can make a control of the budget against what was done to take measures to the possible deviations that we can find and have a script to follow the guidelines for carrying out the activities too.

From our point of view, we have concluded that the income statement is a good indicator for any company because it will be working well when you get the greatest result of the

exercise, but in the NPO is not a good indicator of the management of the company since the result of the exercise must be zero or an approximate value. Although in the non-profit organization, this indicator will tell us that we must extinguish this society when for several years in a row there are economical losses or that all resources are not being allocated when there is benefits year after year.

We recommend that the revenues and expenses are tracked in an analytical way, that is to say, allocating each income and each expenditure to a project and then being able to evaluate these projects and to observe which are being viable and which are not.

Finally, we understand that this project should leave some future lines of research open. In a later study, we would like to study the application of these techniques to some of the entities studied in this project to implement each of the premises analyzed and to corroborate the usefulness of accounting as a management tool for the correct operation of this type of entities.

BIBLIOGRAFIA

- Arnau Paradís, A. (2002). *La contabilidad de las entidades sin finalidad lucrativa: especial referencia a las fundaciones*. (tesis doctoral). Universidad Jaume I, Castellón.
- Cabra de Luna, M.A. (1998). *El tercer sector y las fundaciones de España hacia el nuevo milenio: enfoque económico, sociológico y jurídico*. Madrid: Escuela Libre Editorial.
- Cruz Amoros, M. and Lopez Ribas, S. (2004). *La fiscalidad en las entidades sin ánimo de lucro: estímulo público y acción privada*. Madrid: Cideal.
- Gutiérrez Viguera, M. (2012). *Contabilidad de las entidades sin fines lucrativos y sus implicaciones fiscales*. Valencia: Wolters Kluwer España.
- Lorenzo García, R. and Cabra de Luna, M.A. (2005). El sector no lucrativo en España. *Revista española del tercer sector*. (1), 95-134.
- Manville, G. and Greatbanks, R. (2016). *Third sector performance: Management and finance in Non-profit and social enterprises*. London: Routledge
- Moreno Aragoneses, J. (2007). *Gestión de entidades no lucrativas*. Madrid: International Thomson
- Rua Alonso de Corrales, E. (2006). *Contabilidad de Fundaciones: Manual Práctico*. Madrid: Cinca.
- Ruiz Olabuénaga, J.L. (2006). *El sector no lucrativo en España: Una visión reciente*. Bilbao: Fundación BBVA
- Soldevila García, P. (2004). *La contabilidad de gestión en las organizaciones sin ánimo de lucro*. Madrid: Universidad Pontificia de Comillas.
- Taylor, R. (2010). *Third Sector Research*. New York: Springer New York
- Real Decree 1491/2011, of 24th October, by which approve the rules of adaptation of the Spanish General Accounting Plan to the non-profit entities.
- Law 50/2002, of 26th December, of Foundations.
- Organic Law 1/2002, of 22th March, regulating the right of associations.