

Comparative Analysis between Ngo & Company Financial Statements

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Abstract

An ordinary business can be defined as an organization or enterprising entity engaged in commercial, industrial or professional activities. A business can be a for-profit entity, such as a publicly-traded corporation, or a non-profit organization engaged in business activities, such as an agricultural cooperative. A non-governmental organization (NGO) is any non-profit, voluntary citizen's group which is organized on a local, national or international level. It can be referred as a task-oriented and driven by people with a common interest, NGOs perform a variety of service and humanitarian functions, bring citizen concerns to Governments, advocate and monitor policies and encourage political participation through provision of information. Generally NGO's does not follow international accounting standards. Non Governmental Organizations (NGOs) have been urged to implement the International Financial Reporting Standards (IFRS) specifically designed to improve accountability by producing respected financial reports. Even though nonprofit organizations aren't required to produce an annual report like publicly traded companies are; most nonprofit managers recognize the value of producing one. An annual report demonstrates accomplishments to current and future donors, cultivate new partnerships, and recognize important people. There are some differences among annual reports prepared by a normal business organization and non profit organizations. Differences in recording of cost, resources, revenues etc. are significant. For these differences an Ngo may involve in various corruptions. To mitigate such kind of problems corrective measures should be taken and should form IAS structures to reduce such differences.

Keywords: profit-entity; international accounting standards; international financial reporting standards; annual report.

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1. Introduction of NGOs

Historically, the non-government organizations (NGOs) started shortly in Bangladesh after the 1971 war of liberation, initially providing relief services and rehabilitation assistance to war-ravaged victims. These NGOs

then shifted their development programs and strategies towards community development, giving special preference to the poor and powerless segments of Bangladeshi society.

We can analyze the evolution of NGO sector in Bangladesh within the framework of the four generations.

- First Generation (1971-1972): NGOs put emphasis on relief and rehabilitation work.
- Second Generation (1973-75): Developmental efforts of NGOs are aimed towards community development with a number of sectorial activities like health, cooperatives etc.
- Third Generation (1976- to date): NGOs extend the breadth of their programs, ensuring sustainability through undertaking large-scale programs, complementing the national development systems and involving various organizations and institutions.
- Fourth Generation: Which entirely depends on the development phase of NGOs in realizing their vision of society characterized by strong People's Movements.

A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized on a local, national or international level. Task-oriented and driven by a people with a common interest, NGOs perform a variety of service and humanitarian functions, bring citizen concerns to Governments, Advocate and monitor policies and encourages political participation through provision of information.

The functions or objectives of NGOs are given below-

- Catalyze rural population.
- Build models and experiment.
- Supplement governmental effects.
- Organizing rural people.
- Provide training.
- Disseminate information.
- Mobilize of resources.

- Promote rural leadership.
- Represent the rural people.

An NGO is a non-governmental organization that is driven and task-oriented by individuals with one common interest. Most of the NGOs are usually structured around specific issues like health, human rights or environment. The advantages of NGOs are-

- Provide important local actions: NGOs are very important since they offer an organization for local communication, action and also distributing resources when there are no existing local organizations. An NGO provides a mechanism that could possibly work where the government has failed. It supports grass roots initiatives as well as recognizing and responding to the realities of the local people.
- Cheaper to implement: Since NGOs are actual non-profit organization, various projects can be achieved without having to use the government's money. This is because there are many private donors who support the NGOs and this means that there will never be a lack of resources. Additionally NGOs provide a good alternative to creating mass structures.
- Better communication: Another major advantage of NGOs is that they have the capability of communicating at all levels. They can easily interact with the local people and relay their messages to top levels of the govt.

In Bangladesh the current situation of NGO is promising as people has become concern toward preservation of human right, prevention of environmental pollution, poverty elimination, mobilization of resources. And media is also putting emphasis on advertising NGOs . Besides all of these concern NGOs does not follow a proper accounting structure which is a disappointing matter. NGOs play a pivotal role on our economy therefore it requires a proper accounting standard.

2. Objectives

The objective of the study is to focus on the following topics:

- To present the differences between NGOs and business organizations.
- To solve the problems usually encountered by the NGOs.
- To identify the factors of the problems and sort them out

3. Research Methodology

The study has been made with the help of secondary data. We have collected data from the annual reports of the NGOs and the companies. We have also taken the help of different books, journals, articles, and reports produced by academicians. Help from websites has also been taken.

4. Literature review

The two major forms of funding sources for the Non-Profit-organizations (NGO) are- donation and grants. Donars, foundations, corporations, governments and individuals have the option to donate to the NGO. Govt.grant, local individual level or corporate level donations, religious donation, nominal amounts as membership fees and training fees are found as the sources of funds of funds to the NGOs of Bangladesh, Chaina, India, Hongkong etc. Two major reasons for donating in NGOs- one is that official funding agencies support NGOs because of their cost effectiveness and secondly, they are seen as representative of poor, which give them greater public legitimacy than some govt. [1]. Analysis done on financial data obtained at different case study NGO vividly revealed that they get their 96% financing through donation [2]. In case of foreign donation, NGO have to follow The Foreign Donation Regulation Ordinance, 1982:

- (a) All foreign funds or foreign currency remitted but received in Bangladeshi taka should be received through only one bank account by each NGO.
- (b) Bangladesh Bank on receipt of six monthly foreign currency accounts received in July and January each year from NGO Affair Bureau and Economic Relation Division.
- (c) All expense vouchers will be preserved for 5 years at head office of the NGO.
- (d) NGO will preserve books of accounts.

Donation to charitable NGOs in Bangladesh are not generally deductible [3]. Part B of 6th schedule permits certain allowances to be taken into account (within a limit of 2 lakh taka). These includes donation to charitable hospitals, donation to organizations for welfare of retarded people, transfer for Zakat and donations to any socio-economic or cultural development institution established in Bangladesh by Aga Khan development network. National government providing direct subsidies in the form of grants and contraction for NGOs. NGOs receive grants from government, national and international agencies. Para 13 of the Accounting Standards(AS) 12- Accounting for Government Grants provides that Government Grants should not be recognized until there is responsible assurance that (i) the enterprise will comply with the conditions attached to them, and (ii) the grants will be received [4,5] . Grants can be recognized in 3 ways-

- i) Grants recognized as income: Most of the NGOs recognize a grant as income in the year in which it is recognize a grant as income in the year in which it is received.
- ii) Grants recognized as liability: This is another method of grant recognition. Grants are donor's money, given to an organization to be spent but not the income for organization. So, here grants are treated as liability [6]
- iii) Grants recognized as income only to the extent of the expenditure incurred: Grants are recognized as income but to the extent of expenditure. Unspent or overspent balance is shown as liability or asset in the Balance sheet and in income and expenditure account the unspent balance is deducted from the grant received.

International Accounting Standards does not have any specific guidelines for NGOs. BRAC follow and prepare the financial reports on the basis of GAAP and IAS [7]. Registration is not mandatory for any NGO but legal framework should be strictly followed by NGOs.

5. Comparative Analysis of NGO & Company Financial Statements

➤ Statement of Financial Performance:

NGO vs. Company:

Table 1

No.	NGO	Company
1.	Revenue: <ul style="list-style-type: none"> • Governmental grants • Endowment income • Member contribution • Donated 	Revenue: <ul style="list-style-type: none"> • Unit sales • Service revenue • Interests • Right of goodwill
2.	Expenses: <ul style="list-style-type: none"> • Public service • Community service • Membership development 	Expenses: <ul style="list-style-type: none"> • Raw material • Taxes • Manufacturing cost
3.	Ultimate result: <ul style="list-style-type: none"> • From income and expenditure we get surplus or deficit. 	Ultimate result: <ul style="list-style-type: none"> • From income statement we get net profit or loss.
4.	Treatment of surplus/net profit: <ul style="list-style-type: none"> • Surplus/deficit cannot be withdrawn. 	Treatment of surplus/net profit: <ul style="list-style-type: none"> • Profit/loss can be withdrawn by owners.
5.	Trading activities: <ul style="list-style-type: none"> • For trading activities subsidiary statement is prepared along with income and expenditure account. 	Trading activities: <ul style="list-style-type: none"> • Trading account's balance is the starting point of company income statement.
6.	Tax treatment: <ul style="list-style-type: none"> • Tax is exempted therefore surplus after tax cannot be determined. 	Tax treatment: <ul style="list-style-type: none"> • Tax is charged therefore net profit after tax can be determined.

Similarities

- Both deals with revenue and expenses.
- The NGO and company prepare income statement or income and expenditure account for

determination of financial performance.

- Income statement or income and expenditure account can measure excess/deficit amount from dealing with revenue and expense.
- Both transfer excess or deficit amount to the statement of cash flow.
- This excess or deficit is also transferred to the statement of financial position or balance sheet by NGO and company respectively.

➤ **Statement of Financial Position:**

NGO vs. company:

Table 2

No.	NGO	Company
1.	Equation: As here is no owner so equation of balance sheet is- $\text{Asset} = \text{liabilities} + \text{surplus of income}.$	Equation: As here owner exists therefore equation is- $\text{Assets} = \text{liabilities} + \text{owners' equity}$
2.	Treatment of surplus/deficit and net profit/loss: Surplus or deficit is shown under accumulated fund account.	Treatment of surplus/deficit and net profit/loss: Net profit or loss is adjusted with capital.
3.	Name of the statement: Termed balance sheet as statement of financial position.	Name of the statement: Termed normally as balance sheet.
4.	Retained earnings: Retained earnings are termed as net assets.	Retained earnings: Termed normally as retained earnings.
5.	Purpose of preparation: Calculates total assets on hand and the availability of those assets for future services or net assets.	Purpose of preparation: Indicates the availability of assets for distribution to shareholders as retained earnings.
6.	Net asset: As no owners therefore difference between assets and liabilities is termed as net asset.	Net asset: Owned by stockholders therefore difference between assets and liabilities represent ownership interest of the stockholder termed as stockholder/owner's equity.

Similarities

- Both list all of the assets owned by the company.
- Ngo and Company prepare a segment for fixed and current assets.
- Ngo and Company list liabilities which are obligations or claims against the assets of the company.

➤ **Statement of Cash Flows:**

Similarities:

- Operating activities
- Investing activities
- Financing activities

Particulars exist in case of NGO:

- Departmental Capital Budget(DCB) which comes under financing activities
- Net GST received which comes under operating activities

➤ **Statement of Changes in Equity:**

Similarities:

- Opening balance
- Balance carried forward from previous period
- Comprehensive income(surplus/deficit)
- Appropriation
- Closing balance

Particulars exist in case of NGO:

- Departmental Capital Budget(DCB)
- Restructuring

➤ **Notes & Disclosures:**

Similarities:

- Summary of significant accounting policies
- Events after the reporting period
- Expenses
- Income
- Payables
- Provisions

- Contingent assets and liabilities
- Remuneration
- Appropriations

Particulars exist in case of NGO:

- Financial assets
- Non-financial assets
- Restructuring
- Financial instruments
- Administered expenses
- Administered income
- Administered financial assets
- Administered non-financial assets
- Administered payables
- Administered provisions
- Administered financial instruments
- Administered contingent assets and liabilities
- Compensation and debt relief
- Permanently restricted/endowment net assets
- Charitable expenditures

Sources of Fund:

NGO:

- Member's savings fund
- Own funds
- Members' security fund
- Loan insurance
- Debt management reserve
- Commercial banks
- Donors
- Other sources

Company:

- Unit sales
- Service revenue
- Interests

- Right of Goodwill

5.1 Comparative Analysis among Five Selected NGOs

Table 3

No.	Particulars	ASA	Australian Agency for International Development	American Social Health Association & Subsidiary	Grameen Foundation USA & Affiliate	OXFAM
01.	Income statement	X	✓	X	X	X
02.	Balance sheet	X	✓	✓	X	✓
03.	Statement of changes in equity	X	✓	✓	X	X
04.	Cash flow statement	X	✓	✓	X	X
05.	Schedule of commitments	X	✓	X	X	X
06.	Administered income statement	X	✓	X	X	X
07.	Administered schedule of assets and liabilities	X	✓	X	X	X
08.	Administered reconciliation schedule	X	✓	X	X	X
09.	Administered schedule of cash flow	X	✓	X	X	X
10.	Administered schedule of commitments	X	✓	X	X	X
11.	Notes to and forming part of the financial statements	X	✓	✓	✓	✓
12.	Consolidated statement of activities	X	X	X	X	X
13.	Consolidated statement of functional expenses	X	X	✓	✓	X
14.	Consolidated balance sheet	X	X	✓	✓	X
15.	Consolidated statement of activities	X	X	✓	✓	✓
16.	Consolidated changes in net assets	X	X	X	✓	X
17.	Consolidated cash flow statement	X	X	X	✓	✓
18.	Income and expenditure	✓	X	X	X	✓
19.	Sources of fund	✓	X	X	X	
20.	Analysis of charitable activities	X	X	X	✓	✓
21.	Analysis of trading and fund raising net income	X	X	X	✓	✓
22.	Incomes resources	X	X	X	X	✓
23.	Resources expended	X	X	X	X	✓

6. Graphical Representation

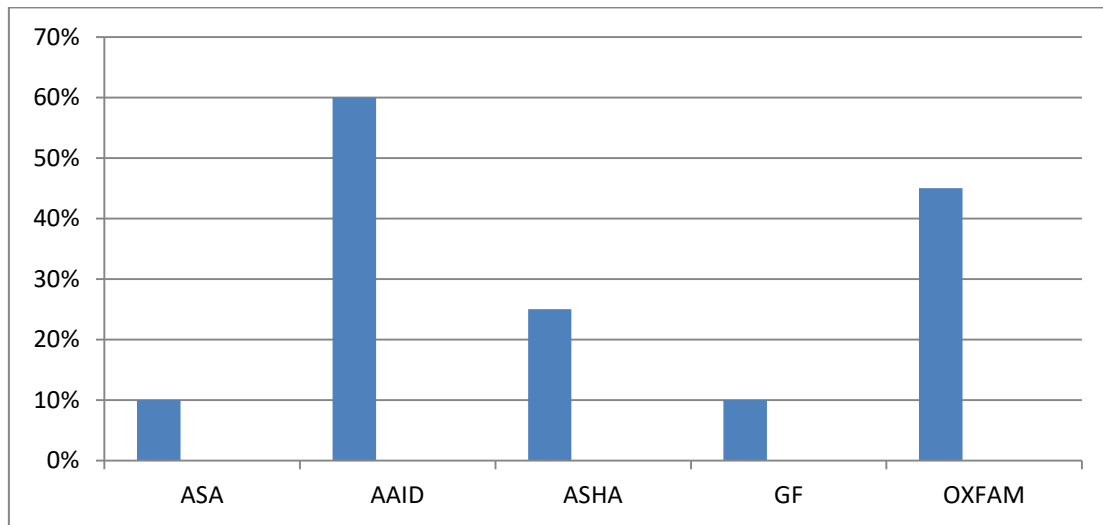


Figure 1: NGO's Compliance with IASs

- Here percentages are assumed based on the accounting treatment kept by each NGO.
- As Australian Agency for International Development (AAID) has tried to keep their accounts as per IASs. So AAID has been assigned highest percentage.
- For ASA and Grameen Foundation (GF) it is vice versa.

7. Checklist

By this paper, the readers will be able to answer the following questions:

1. What is NGO?
2. What is the role of NGO in our economy?
3. Whether the sources of fund of NGO match with that of the company?
4. What are the differences between NGO financial statements and company financial statements?
5. Whether the NGOs comply with IAS or not?
6. What are the objectives of this analysis?
7. What is the result of the analysis?

8. Recommendations

1. All NGOs may follow an identical financial statements structure.
2. Periodicity of preparing financial statements may be followed.
3. All documents of NGOs may be prepared in a manner that can be understandable by a reader or user whether having accounting knowledge or not.
4. All NGOs may make proper audit of their financial statements for reliability.
5. Government may take proper steps for NGO accounting transparency.

9. Concluding Remarks

From our study we have observed the treatment of accounting on NGO and company financial statements. NGO financial statements differ from company financial statements in terms of IAS compliance. As NGOs do not comply the IAS standards fully we cannot get the proper information whether they are following proper accounting procedures or not. To mitigate this problem both NGO and company should follow an identical financial statements structure.

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