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FINANCIAL-ACCOUNTING REPORTING OF NON-COMMERCIAL ORGANIZATIONS IN THE REPUBLIC OF MOLDOVA: PROBLEMS AND SOLUTIONS

This article examines the main problems that arise in the day-to-day operations of non-commercial organizations (hereinafter referred to as NCO) in the Republic of Moldova concerning preparation and presentation of financial statements and other accounting reports. According to the Accounting and Financial Reporting Law [1], financial statements are mandatory for all NCOs regardless of the legal form, size or particularities of the activity. The composition and method of calculating the indicators of the financial statements are regulated by the provisions of the Methodical Guidelines regarding the particularities of accounting in non-commercial organizations/representatives of non-resident entities (hereinafter – Methodical Guidelines) [2], the National Accounting Standards (hereinafter referred to as NAS) [3] and The General chart of accounts [4].

According to the Methodical Guidelines, the financial statements of NCOs are prepared annually using standardized forms and include: the balance sheet, the income and expenditure statement, the statement of changes in funding sources and the explanatory note. It should be noted that the Methodological Guidelines provide only a general description of the financial statement indicators without indicating their interconnection with the accounting accounts. This situation creates difficulties for NCOs when completing their financial statements and does not ensure the comparability and transparency of these indicators.

In the preparation and presentation of financial statements for NCOs, it is essential to adhere to a specific sequence of tasks. Violating this sequence can negatively impact the accuracy of the indicators and, consequently, the managerial and economic decisions made by users of financial information. In our opinion, the preparation and presentation of financial statements should include the following main stages: conducting preliminary work prior to preparing financial statements, completing the financial statement forms, preparing the explanatory notes for the financial statements, approving, signing, and presenting the financial statements, and restructuring the balance sheet. Not all NCOs follow this sequence, which leads to errors in financial statement preparation and unfavorable tax consequences. Additionally, the failure to maintain the sequence of financial statement preparation can be noted in external audit reports. Consequently, funders may make unfavorable decisions regarding the funding of special missions and other activities of NCOs.

Preliminary tasks are to be carried out before the preparation of financial statements and must include: complete inventory of the accounting elements; settlement of anticipated expenses and revenues related to the management period, recalculation of monetary elements (receivables, cash and liabilities) in foreign currency and reflecting exchange rate differences; making corrective accounting entries; determining the current ratio of fixed assets and long-term liabilities; calculating the income tax expenses; closing the income and expense accounts and determining the net surplus (deficit) of the current management period.

The completion of financial statements is based on summarized information in the general ledger or another mandatory ledger. To calculate certain indicators in the aforementioned financial statements for some synthetic accounts, such as: "Other current receivables," "Funds," and "Special-purpose financing and receipts," corresponding sub-accounts must be opened. Therefore, to calculate the indicators for the funding situation in the "Funds" account, the following sub-accounts should be opened: "Initial contributions from founders," "Fixed asset fund," "Self-financing fund," and "Other funds". Additionally, to determine the indicators for contributions from founders and members of NCOs, summarized information is required in the following sub-accounts of the "Other current receivables" account: "Membership fees and member dues" and "Other contributions" and for the special-purpose financing and receipt accounts, sub-accounts such as "Special-purpose financing and receipts from the national budget," "Special-purpose financing and receipts from the local budget," "Financial and technical assistance," and "Other special-purpose financing and receipts" are necessary. The information collected in the aforementioned sub-accounts is essential for calculating the balance sheet and the statement of changes in funding sources.

The explanatory note must contain additional information that is not included in the basic forms of the financial statements. The nomenclature of the information to be presented in the explanatory note, as well as the method of its preparation, are regulated by the Accounting and Financial Reporting Law and the Methodical Guidelines. When preparing this note, it is necessary to take into account the following main aspects:

- information in the explanatory note is presented in the same order as in the financial statements;
- the volume, structure, and format of the explanatory note are determined independently by each NCO, taking into account the requirements of funders, donors, and the informational and decision-making needs of financial statement users. For example, information in the explanatory note can be presented in the form of text, tables, schemes, diagrams, in a combined form, etc.;

- the provisions of the accounting policies applied by the NCO in calculating the indicators of the financial statements can be presented in a separate section or in different sections of the explanatory note.

Based on the provisions of the Methodological Guidelines, the explanatory note must include at least the following sections: information regarding the compliance of the financial statements with the NAS and Methodological Guidelines requirements, disclosure of accounting policies, disclosure of information regarding the execution of budgets related to implemented projects, and other information necessary for users to make economic and managerial decisions.

Financial statements are subject to approval by the governing body or another authorized entity within the NCO, and they are signed before being presented to users. The signatory can be the organization's leader (executive director, manager), or another individual responsible for accounting and financial statement preparation.

According to the current legislation, the financial statements of NCOs are required to be presented in either hard copy or electronic form to the founders (members of the board of directors) and the National Bureau of Statistics within 150 days from the last day of the reporting period, which is until May 30 of the following year.

It should be noted that financial statements must be presented even if the NCO has not conducted any activities during the reporting period. In this context, it is necessary to consider that regardless of whether there has been activity or not, the NCO is required to calculate the depreciation of fixed assets for the reporting period and to revalue monetary items in foreign currency based on the official exchange rate of the Moldovan Leu on the reporting date.

When revaluing monetary items related to the economic activities of the NCO, it is important to consider that advances given/received in foreign currency are not subject to revaluation on the reporting date. They should be recorded in the financial statements based on the official exchange rate of the Moldovan Leu at the date of their initial recognition. This exchange rate should also be applied when recording advances given/received for the settlement of liabilities/receivables, as well as for their repayment or reimbursement.

The restructuring of the balance sheet is carried out after the approval and presentation of the financial statements. It involves transferring the corrections of the results from previous years and the net surplus (or deficit) of the management period to the self-financing fund. Following the restructuring of the balance sheet, the accounts that track current financial results and corrections from previous years are closed, and at the beginning of the subsequent management period, they do not carry any balances.

In conclusion, it's important to note that the financial statements of NCOs generally align with the specific nature of their activities and international standards. However, the indicators in these statements are not directly linked to the indicators in the Income Tax Declaration of NCOs [5]. Specifically, the financial statements do not separately account for the amounts designated as percentage-based allocations, which are received from the state budget to support public utility activities and offset administrative expenses. Furthermore, the indicators regarding the balances and changes in these allocated funds should be included in a separate financial report, presented as an annex to the tax declaration. This situation complicates the process of preparing the aforementioned declaration and does not fully ensure alignment between its indicators and the financial statements. In our opinion, the amounts designated as percentage-based allocations should be presented as separate indicators in the balance sheet and in the statement of funding sources for NCOs. Additionally, it is reasonable to establish distinct accounting accounts for tracking these allocated amounts.

In addition to financial statements and the tax declaration, NCOs are obligated to present reports to their funders and internal reports, including those related to the utilization of special-purpose funds for financing specific programs and projects. The formats for these reports are determined independently by each NCO, based on the informational requirements of funders (donors) and other categories of financial information users.

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