

A Preliminary Study on the Problems Related to the Preparation of Financial Accounting Reports of Charitable Organizations

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Abstract: Charitable organizations have gradually become an important force to promote social development, but the transparency of their financial information has been questioned by the public again and again. People pay more and more attention to the financial reports of charitable organizations, which makes the importance of the interpretation of financial accounting reports continuously increased. This paper starts from the Angle of compiling the report, analyzes its influencing factors, and finally puts forward some suggestions for the development of charitable organizations.

1. Introduction

Although disaster relief and relief for the poor and weak are the obligations and responsibilities of the government, with the continuous enhancement of people's public consciousness in modern society, the fact that social forces can play a significant role in disaster relief and relief for the poor and weak has been recognized by more and more people, and the number of charitable organizations is also increasing. In this context, how to ensure the stable and healthy development of charitable organizations has become an increasingly important issue for decision-makers at the level of national governance. Requiring charitable organizations to disclose financial information is a specific response to these issues. In terms of the world, this initiative has become an important part of the governance mechanism built around charitable organizations in various countries, and our country is no exception^[1]. At present, our country has issued a series of laws and regulations related to financial information disclosure of charitable organizations. Because financial information is disclosed in the form of financial accounting report, so the financial accounting report is actually the concrete carrier of financial information. Many judgments and decisions of stakeholders of charitable organizations need to be made using the information conveyed by this carrier^[2]. Because the quality of information has a direct and vital impact on the judgment and decision of stakeholders, the preparation of financial accounting report becomes an extremely important work -- the preparation quality of financial accounting report determines the quality of financial information. In view of this, this paper will focus on the problem of financial accounting report preparation of charitable organizations to research. The research conclusions of this paper can play the following roles: to provide reference for improving the rule system and related content; Promote the effect of practical work; Expand the thinking of academic research. In order to facilitate the discussion, this paper especially puts forward the concept of financial accounting report preparation quality (see article 3.1 for details).

2. Financial Information Carrier - Financial Accounting Report

2.1. Content of Financial Accounting Report

Charitable organizations shall disclose their financial and accounting reports to the public every year, and the financial and accounting reports of charitable organizations qualified for public

fundraising shall be audited. Financial reports consist of financial statements, notes to financial statements and financial statements, which in turn include balance sheets, statements of business activities and cash flow statements. It is generally believed that the financial accounting reports of charitable organizations should at least provide the following information: reflect the financial status of charitable organizations, the results of business activities, and the inflow, outflow, increase or decrease of cash; Information reflecting the performance of fiduciary duties by the management of the charitable organization; Provide information on the income and expenditure of donations, including daily donations, large donations and public donations; Information such as fund use efficiency and organizational operation efficiency is provided to facilitate information users to evaluate the overall situation of charitable organizations^[3].

2.2. Basis for the Preparation of Financial Accounting Reports

In order to regulate the accounting behavior of charitable organizations and improve the quality of their financial information, the Ministry of Finance formulated and issued the Accounting System for Non-governmental Non-profit Organizations in accordance with the Accounting Law of the People's Republic of China and relevant regulations, which took effect on January 1, 2005. The system covers a total of 76 chapters in eight chapters: general provisions, assets, liabilities, net assets, income, expenses, financial and accounting reports and supplementary provisions. Charitable organizations shall set up and use accounting accounts in accordance with the provisions of the Accounting System for Civil Non-profit Organizations, and provide authentic and complete financial and accounting reports to the public in accordance with the requirements of the preparation basis, basis, principles and methods^[4]. In addition, the accompanying Accounting System for Non-governmental Non-profit Organizations -- Accounting Accounts and Financial Statements further clarified the compilation methods and formats of balance sheets, business activity statements and cash flow statements, which became the basis for charitable organizations to prepare financial and accounting reports.

3. Financial Accounting Report Preparation Quality and Influencing Factors

In this paper, 30 representative charitable organizations with high attention are selected, and their financial accounting reports are statistically analyzed.

3.1. Quality of Financial Accounting Report Preparation

The preparation quality of financial accounting reports mentioned in this paper refers to the extent to which the financial information it carries is useful for stakeholders to make decisions. They are embodied in the following aspects: whether the articulation between different accounting statements can be directly verified; Whether the classification of financial statements is reasonable; Whether the data of each item in the financial statements are correctly presented; Whether the content of notes to financial statements is reasonable and sufficient. If the above aspects are positive, the quality of the preparation of financial accounting reports is reliable.

3.1.1. The Articulation between Financial Statements Cannot Be Directly Verified

In the financial accounting reports of some charitable organizations, there are two situations in which the relative articulation relationship is not equal. The first relationship is the relationship between the change in the "monetary assets" of the balance sheet (the difference between the ending number and the beginning number) and the "net increase in cash and cash equivalents" of the cash flow statement; The second relationship is the relationship between the change in "total net assets" of the balance sheet and the change in "net assets" of the statement of business activities. If the organization has cash equivalents and special restricted cash, relationship 1 will be unequal. If relationship 2 is unequal, it is necessary to consider whether the accounting documents of net assets, income and expenses are correct, which can not be reflected by the entries in the accounting statements. In addition, these charitable organizations have not explained the reasons for the differences in articulations in the notes to the financial statements. As a result, it is not possible to

directly verify the degree of faithful expression of statement items.

3.1.2. Accounting Statement Item Classification is Not Reasonable

According to the Accounting System for Civil non-profit Organizations, income is divided into income from major business activities such as donations, membership dues, service provision, government subsidies, investment income, commodity sales income and other income. However, there are only four items in the design of expense items, such as business activity cost, administrative cost, financing cost and other expenses, which is too simple compared with the division of income. Many charitable organizations report according to the classification of such projects, and some subdivide the cost of business activities into the expenses of various charitable projects carried out by the organization. Neither of these two situations can reflect the principle of matching income and expenses.

3.1.3. The Data of Each Item in the Accounting Statement Can Be Presented Correctly

By checking the absolute articulation equality of financial statements, we can know that the data of various items in the accounting statements of charitable organizations can be presented correctly. In the process of statistical analysis, it was found that there was a mistake in filling in the project data of a charitable organization. In the audit report of the organization, the net increase of cash and cash equivalents in this year was listed as -4,951,811.48 yuan, while in the annual report, the project was incorrectly listed as 0 yuan. The data of other items in the accounting statements of charitable organizations were basically correct.

3.1.4. The Notes to the Financial Statements Are Missing Items in the Cash Flow Statement

The cash flow statement can reflect the cash inflow and outflow of the business activities, investment activities and financing activities of the charity organization, but for the activities that do not involve cash, they are not reflected in the main statement. In this case, it is necessary to list the major activities that do not involve cash in the supplementary information of the cash flow statement attached. The combination of the main statement and the notes can fully reflect the business activities, investment activities and financing activities of the organization, and help information users understand and analyze other matters that need to be explained in the accounting statements. The cash flow statement items in the notes of the accounting statements are indispensable. However, almost no charitable organizations disclose cash flow statement items in the notes to the financial statements, so the content of the notes to the accounting statements is not sufficient.

3.2. Factors and Problems Affecting the Quality of Financial Accounting Report Preparation

3.2.1. The Management Lacks a Correct Understanding of the Role of Financial Information

People's subjective consciousness can guide behavior. Similarly, the understanding of decision-makers in an organization largely determines how the organization will prepare financial accounting reports and disclose financial information. Transparent financial information plays a positive role in the reputation and social credibility of charitable organizations. However, under the current accounting system, there is a large gap in the quality of financial information among charitable organizations. Some charitable organizations have disclosed their financial and accounting reports since their establishment, while some charitable organizations have yet to release their 2021 financial and accounting reports. Some charitable organizations released their 2021 financial and accounting reports within four months after the end of the year according to the regulations, but most of them failed to disclose their financial and accounting reports in a timely manner, and there was a gap of 2-4 months between the actual release time of the report on the self-built website of charitable organizations and the signing time of the audit report, which ignored the timely quality of financial information. These situations reflect the general lack of correct understanding of the role of financial information at the decision-making level of the preparation unit. The preparation of financial accounting reports is to provide information users with useful

financial information for decision-making. If the quality of financial information cannot be guaranteed, the preparation of financial accounting reports is meaningless for the credibility construction of stakeholders and charitable organizations themselves.

3.2.2. The Professional Competence of the Establishment Personnel is Obviously Insufficient

The development of Chinese charitable organizations started relatively late, the financial management system is not perfect, and the characteristics of non-profit organizations lead to low salary, so it is difficult to attract accountants with strong professional competence. Therefore, charitable organizations should strengthen the management of accounting personnel, non-professionals should not take corresponding positions, and raise the salary to attract external accounting talents to join. Conduct training for accountants with poor professional skills in the organization, improve their professional level and professional ethics, strengthen integrity and responsibility education, realize that the preparation of financial accounting reports is to provide information users with useful financial information for decision-making, and understand the importance of financial information disclosure to charitable organizations.

3.2.3. The Current Formulation of Standards Has Lagged Behind the Actual Needs of Practice

Since its promulgation and implementation, the Accounting System for Non-governmental Non-profit Organizations has not been revised. This situation is likely to cause the preparation standards to lag behind the practical needs, which is not conducive to providing adequate and effective guidance for the preparation of financial reports for charitable organizations. On the one hand, it can follow the pace of updating the accounting standards for business enterprises, supplement the new content applicable to charitable organizations in the accounting standards for charitable organizations as far as possible, and do a good job in the publicity and training of the "System". On the other hand, accounting standards should be more consistent with the characteristics of charitable organizations according to the development of the scale of charitable organizations and the change of organizational environment. From the perspective of content, the accounting system of charitable organizations shows the characteristics of broad outline, lack of detailed norms for specific business treatment and financial information disclosure. It is necessary to supplement the supporting standards of the accounting system of charitable organizations as soon as possible, refine the requirements of financial information disclosure of charitable organizations, so that there are rules to follow for the preparation of financial accounting reports of charitable organizations.

4. Conclusion

This paper evaluates the quality of financial accounting reports of Chinese charitable organizations, and analyzes its influencing factors. The quality of financial accounting reports of charitable organizations is affected by the decision-making concepts of the organization, the professional competence of the preparers and the quality of the preparers' standards, etc. The quality of financial information reflected in the current financial accounting reports is uneven. Many studies show that the quality of financial information disclosure is positively correlated with donation income, which is related to the sustainable and healthy development of charitable organizations. This paper believes that the improvement of the compilation of financial accounting reports of charitable organizations should be carried out from the following three aspects: first, continue to improve the accounting system of charitable organizations, refine the supporting standards, and gradually form a set of continuously revised accounting standards; Secondly, relevant departments should not only strengthen the law enforcement of financial information disclosure, pay attention to the quality of financial and accounting report preparation, but also call for social supervision, so that the decision-making level of the preparation unit attaches importance to the role of financial information, as well as the purpose of charitable organization service. Finally, the organization should strengthen the professional training of accounting personnel, and take the initiative to recruit accounting talents with sufficient professional competence.

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