

CONSIDERATIONS REGARDING ACCOUNTING POLICIES AND OPTIONS USED WITHIN NON-PROFIT ORGANIZATIONS

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Abstract. The study analyzes the difficulties encountered by non-profit organizations in developing and applying accounting policies within the framework of their activities. As legislation is constantly changing, how to develop and apply accounting policies and options becomes an increasingly complex challenge for accountants. Significant accounting challenges relate, in particular, to the process of defining, developing, applying, monitoring and evaluating accounting policies. Accountants encounter difficulties in understanding the regulatory framework and in applying the specific principles and elements related to special purpose and public utility activities. The proposed optimization solutions regarding the completion of accounting policies with useful information and the integration of sustainable principles will contribute to the exclusion of errors and the risk of applying penalties.

Keywords: non-profit organization, accounting policies, special purpose financing, accounting documents.

JEL Classification: M 41

Introduction

Profit is the driver of the economy, but it is not the purpose of the activities carried out by non-profit organizations. As an essential element of civil society, these entities rely on social and voluntary activities, which in turn require specific rules to be included in accounting policies. In accordance with the requirements stipulated in the Accounting and Financial Reporting Law, accounting records in non-commercial organizations are mandatory, through full compliance with the stages of the accounting cycle. Thus, they must record accounting items on an accrual basis, use double-entry accounting, and present financial statements. (Law on Accounting and Financial Reporting, 2017).

Accounting activity begins with the development and approval of accounting policies. The Accounting and Financial Reporting Law defines accounting policies as "the totality of principles, basic concepts, rules, methods and procedures applied by an entity in keeping accounts and preparing financial statements". (Law on Accounting and Financial Reporting, 2017).

The accounting policies approved by the entity's management constitute the basis for ensuring accurate records in compliance with the legislation in force, as well as for preparing true and complete financial statements. These policies become mandatory for the entire entity and must be applied uniformly in all its subdivisions, starting with the first day of the management period. Accounting policies become an essential tool because accounting data is used to calculate rights and obligations. Therefore, compliance with and correct application of policies contributes to ensuring the entity's financial and tax compliance. Control service, first of all, require accounting policies, when verifying the correctness of accounting transaction records and the veracity of financial, fiscal and statistical reports.

Problems and solutions

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Accounting policies include the mandatory principles followed by the entity's accounting. The accounting system provides founders, management, members and collaborators with information regarding the organization's financial activity, necessary to make operational decisions for the rational organization of the activity and rational management of resources. The way transactions are recorded and their totalization in the entity's financial statements is coordinated by the content of the accounting policies. This regulation ensures the consistency and comparability of financial information, both within the organization and in comparison with different management periods. Therefore, at the end of each accounting period, management must approve the accounting policies for the following year.

Donors, civil society, state services, the press and partners, as external information users, need information on the organization's activity and ability to fulfill its obligations under contracts. For donor control and monitoring services, tax and insurance services, audit services and other control bodies, access to authentic information about financial activity, taxable objects, fulfillment of project contractual conditions, etc. is important.

The importance, structure, and practical aspects of preparing accounting policies have been examined by many economists in the field in the specialized literature. Authors Frecăuțeanu A., Țapu T. and Chișlaru A. in the article "Elaboration of accounting policies: estimating the requirements of various regulatory acts" facilitates understanding of how to develop and apply accounting policies and can be used by managers and accountants of organizations. (Frecăuțeanu A., Țapu T., Chișlaru A. Elaboration of accounting policies: estimating the requirements of various normative acts. 2019d, p.83).

Accounting policies are developed in accordance with the provisions contained in the Law on Accounting and Financial Reporting, the National Accounting Standards (NAS), the General Chart of Accounts, the Methodological Guide for Preparing Financial Statements. NAS "Accounting Policies, Changes in Accounting Estimates, Errors and Subsequent Events" establishes the general rules necessary to be followed in the process of selecting, applying and changing accounting policies, correcting errors, accounting for subsequent events and presenting related information in the financial statements. (National Accounting Standards, 2019a).

The implementation of accounting policies in non-commercial organizations must be preceded by management's consultation of the specific requirements imposed by the Methodological Guidelines on the Particularities of Accounting in Non-Commercial Organizations. (Methodological guidelines on the specifics of accounting in non-commercial organizations, 2014)

The rules included in the accounting policies are selected by the entity's administration based on the accounting regulatory system, which provides for different options for recognizing, evaluating and accounting for accounting elements. In practical terms, the development process consists of identifying procedures, rules, methods with multiple variants, contained in national accounting standards, and choosing the optimal variant, which will be applied by the entity, subsequently being included in the regulation. Therefore, the development process becomes difficult with the multitude of specific aspects of the activities carried out by non-profit organizations, which complicates the process.

The methodological guide for preparing financial statements does not facilitate this process, as it contains a policy model for commercial firms and cannot be used as a reference model by non-commercial organizations. Being involved in coordinating social activities and lacking the necessary knowledge, management leaves the choice of procedures and methods to accountants. Selecting the optimal option is not just a technical process, as it must generate useful information used in managerial processes, and the decisions made must lead to the sustainability of the organization. To make things easier and save time, it would be useful to electronically integrate the entity's various systems, to avoid duplication of accounting work and reduce routine operations

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processed daily. Thus, the focus will be on more control and monitoring of internal processes. State services must provide information sessions, assistance programs, support, training services explaining mechanisms and good practices in this area, which meet the mandatory requirements to be included in accounting policies. In this way, those who advocate for citizens' social and community causes will be supported.

To ensure compliance with the legislation in force, within the framework of financial accounting, organizations annually develop and apply their own accounting policies, which contain the basic compartments proposed by the standard:

1. General provisions;
2. Accounting procedures for which the regulatory acts provide for different variants;
3. Independently developed accounting procedures;
4. Annexes to accounting policies.

The accounting policies of non-profit organizations must contain the details of the accounting elements specific to the activities carried out: types of statutory activities, composition of funding sources, the method of preparing and using accounting documents, accounting procedures for accounting elements, independently developed accounting procedures, other methodological and organizational aspects of accounting.

Accounting in non-commercial organizations contains a set of particularities that distinguish it from the accounting of commercial and public entities. Accountants must possess essential knowledge in the process of recording practical activity and developing objective policies, given the different interpretations of legal provisions. The main objective of accounting in non-commercial organizations is to evaluate and record special-purpose funds that ensure the performance of statutory activities. The administration's task is to use funding strictly in accordance with planned budgets, as well as to disclose the results of the use of special-purpose resources for different user groups. One of the basic features of the accounting of non-commercial organizations, which distinguishes it from other entities, consists in the simultaneous reflection of the recognition of expenses related to special-purpose funds incurred by decreasing financing and increasing revenues related to special-purpose funds.

In our opinion, the methods of accounting for special-purpose funds are not sufficiently substantiated and generate problems when calculating indicators in the financial statements and tax reports of non-commercial organizations. In the accounting process, it is necessary to pay increased attention to the recording of special means, which must be delimited by funding sources and directions of use. This accounting is determined by the conditions and restrictions imposed by the donors. If these conditions are not met, the funding must be returned to the donors, partially or in full. Our proposal consisted of specifying this particularity in the accounting policies of non-profit organizations.

In accordance with the National Accounting Standards and Methodological Guidelines on the particularities of accounting in non-commercial organizations, it is necessary to specify the statutory activities carried out and the sources of financing of the entity. Usually, the administration indicates as sources of funding only funds obtained in the form of grants, conditional donations, financial and technical assistance, and special-purpose membership fees. But, practice often confirms that these entities do not indicate as sources of funding non-designated funds, received as unconditional donations or financial aid, as they are considered unimportant. This aspect was studied in detail in the article "Considerations regarding the accounting of unallocated funds in non-commercial organizations". (Cauș L. Considerations regarding the accounting of non-dedicated funds in non-commercial organizations, 2024, p.76).

The specification omits financing received as a percentage designation, from partners, credits or loans. If interest on credits and loans is accounted for as part of special-purpose funds, then these must also be recorded as a separate source of financing. The most complicated issue is

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the recognition of funding based on accrual accounting, which makes it difficult to evaluate the sources used to carry out projects. (Methodological guidelines on the specifics of accounting in non-commercial organizations, 2014)

In accordance with the Methodological Guidelines for Non-Commercial Organizations, accounting policies must contain the procedures for accounting for the contributions and contributions of founders and members, in particular the date of their recognition. The organization's statute usually indicates the amount of member contributions required to be paid annually or monthly. It would be reasonable for the given regulation to specify the moment of recognition of these contributions, which facilitates correct and timely accounting. This date is important in the event of the expiration of the statute of limitations on the claims of members who have not honored their obligations, the amount of which must be settled against other income. The policies must necessarily mention that membership dues and contributions intended for the accomplishment of statutory missions are reflected as special-purpose funds. And membership dues and unconditional contributions for special purposes are reflected as non-special-purpose funds.

Exchange rate differences related to funding received in foreign currency generate many uncertainties when determining financial statement indicators and reports submitted to funders. Donors require reports on the use of funding and recalculation of expenses with the application of different exchange rates, for example, the rate established by the funder on the day the funding was received, the commercial exchange rate of the currency, the average rate calculated for a period or the InforEuro rate. The accounting policies must indicate how exchange rate differences are recalculated for each project. It is mandatory to highlight the method of accounting for the differences in amounts generated in the financial reports provided to donors.

Among the requirements of financiers, one can list the opening of separate bank current accounts in national or foreign currency for recording special-purpose funds, which allows the application of a transparent and efficient system for identifying and recording receipts and payments related to the financing granted, ensuring transparent internal management for identifying expenses from all sources of financing the activity. Usually, practice shows that entities use separate bank accounts for each project, even if the donor does not impose such a condition. The legislation does not limit the number of bank accounts held by legal entities, however, this aspect must be recorded in the accounting policies within the methods developed independently by the entity.

To ensure efficient tracking of all movements of special-purpose funds, non-profit organizations must create a well-defined internal management system. According to the specialized literature, it is advisable to develop an internal system for marking primary supporting documents, including payment documents, in correlation with the respective funding sources, representing an efficient internal management mechanism. Coding allows for the prompt identification and recording of the appropriate information in accounting, the reconciliation of data from supporting documents with those in accounting records. The lack of a system for identifying primary documents to correlate receipts and payments with the source of financing complicates the recording of the respective operations and creates the risk of distortion of the information necessary for controlling the use of funds according to their intended purpose.

Attention in accounting policies must be paid to the coding method for each assistance project, which can be done with unique numbers assigned to projects carried out based on an internal order, by developing the document called "Detailed Budget Sheet", based on the approved budget and activity plan. This sheet, being included in the computer program, will lead to an efficient record on projects and will generate information regarding the specific project, for various requested periods, with possibilities to filter the information by project code, donor code, budget lines, transaction currency or primary document number. This aspect contributes to the generation

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of financial reports for any project, source, donor, while also contributing to the efficient monitoring of actual expenses compared to budgeted ones. As a result, the risks of erroneous allocation of expenses by budget sources are minimized, the duplication of payments for several projects simultaneously is avoided, as well as timely management decisions are made in the event of savings or overspending on budget lines and activities in general.

Also, in the process of accounting for special-purpose funds, analytical records must be kept by types of funding, donors, purposes of use, which may include different projects or programs, different categories of expenses, as well as in accordance with other aspects, which must be specified in the rules of accounting policies of non-profit organizations. Accounting records kept by funding sources lead to more efficient financial reporting to donors, founders, as well as to informing management and other users about the results obtained. For this, it is necessary to monitor the results and indicators obtained, in comparison with the indicators initially planned in the entity's budget.

Practice shows that in some cases, funding is delayed in being collected into bank accounts. And the calculation and payment of debts regarding labor remuneration and social contributions must be carried out monthly in accordance with the provisions of the legislation in force. Accounting policies should specify that in the event of a lack of funding, the calculation and payment of salaries should be carried out as cash is received, based on the grant budget. The regulation should also include the documents necessary for the calculation of salaries or fees, for example individual employment contracts, service contracts, acts of performance of works or services, invoices and calculation notes. These documents must be approved by the executive director, and then sent to the accounting department.

In accordance with the Methodological Guidelines on the Peculiarities of Accounting in Non-Commercial Organizations, accounting policies must contain the manner of preparation of accounting documents and the documentary circuit. Often, organizations do not specify the forms of primary documents and accounting registers developed by the entity, which must contain the mandatory elements stipulated in the Law on Accounting and Financial Reporting, for example, the model of donation acts or donation minutes. Accounting policies related to the organization and keeping of accounting records can be kept on paper or in electronic form in accordance with the legislation in force, but the method of keeping electronically prepared documents, as well as the method of archiving them, is not specified, and as a result, difficulties arise in obtaining information related to them for fiscal periods. (Methodological guidelines on the specifics of accounting in non-commercial organizations, 2014)

For intangible and tangible assets, accountants do not establish the residual value, considering it insignificant for the activities of organizations. This fact is an impediment when the assets are offered to beneficiaries free of charge, being valued at zero accounting value. The donation cannot be made at zero value and it is necessary to revalue the assets, which is an administrative process that involves additional documentation.

Often there is no method for valuing donated stocks to beneficiaries, which can only be the specific identification method. Many organizations do not use the possibility of directly reflecting in current expenses the materials received at the time of purchase, such as office supplies, cartridges and other similar goods. The requirement regarding goods received for transmission to other beneficiaries related to special missions specifies the need to choose between recording them on the balance sheet as other current assets or off-balance sheet.

The list of positions of the persons responsible for drawing up and signing accounting documents attached to the accounting policies, in addition to the director and accountant, must be supplemented with the positions existing in the organization, for example the project coordinator, project assistants and other persons responsible for each project carried out. In the section of procedures developed independently by the entity, the source of covering the administrative and

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maintenance expenses of the organizations, the remuneration calculated for the board of directors, the special conditions of donors for the distribution of expenses, the fuel consumption norms are often missing.

The working chart of accounts of the non-commercial organization is a key element, which is missing in practice, even if it includes the synthetic accounts and sub-accounts used or possibly used to reflect accounting operations within the activity carried out and the calculation of indicators in the financial statements, as well as accounts for managerial and off-balance sheet accounting in accordance with the information needs, without duplicating and distorting the General Chart of Accounts. (General Chart of Accounts, 2019b).

The working chart of accounts must ensure the recording of accounting elements by funding sources, such as: special-purpose funds, non-pre-purpose funds, founders' contributions, members' dues, funds resulting from statutory economic activities, etc. The plan must allow the collection of the information necessary for recording funding by use and determining indicators in the financial statements. The working chart of accounts annexed to the accounting policies includes the accounting accounts specific to the activity of the non-commercial organization, as presented in table 1.

Table 1. Accounting accounts specific to the activity of the non-profit organization

<i>Account number</i>	<i>Account name</i>
262	<i>"Other current assets"</i>
425	<i>"Long-term financing and special purpose receipts"</i>
537	<i>"Current financing and special purpose receipts"</i>
336	<i>"Net surplus (net deficit) of the management period"</i>
341	<i>"Funds"</i>
616	<i>"Income related to special purpose funds"</i>
617	<i>"Other income (except income from economic activity)"</i>
618	<i>"Income from economic activity"</i>
716	<i>"Expenses related to special purpose funds"</i>
717	<i>"Other expenses (except expenses from economic activity)"</i>
718	<i>"Expenses from economic activity"</i>

Accounting policies should be included in a special chapter of the Explanatory Note to the financial statements. The explanations of accounting policies should be clear, concise, and without duplicating information contained in other sections of the financial statements.

During a financial year, changes in accounting policies are not permitted, as the data in the financial statements will not be comparable. These changes can only be made if required by law. In most cases, policies are changed as a result of changes in accounting regulations in accordance with the rules of the National Accounting Standards "Accounting Policies, Changes in Accounting Estimates, Errors and Subsequent Events". Changes in accounting policies are made by issuing a written order, but sometimes the administration of entities does not issue this order due to lack of knowledge. The order regarding the change of accounting policies must state the need for the changes and the effective date, which is very important in reading the financial statements. Any change must be specified in the explanatory notes in terms of the reason for which they were changed and the amount of the influence of the changes on the reported results, as well as their trend. The explanatory notes must indicate the relevance and credibility of the information presented, as well as the positive assessment of the change made.

Accounting policies constitute an integral part of the financial statements and, if necessary, can be brought to the attention of users of accounting information: members, staff, fiscal and financial bodies, etc. The mandatory presentation of accounting policies to public authorities is not

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provided for by regulatory acts. At the same time, accounting policies may be requested by representatives of control bodies in the process of carrying out planned controls. Information users may be presented with either the order on accounting policies or extracts from them on the procedures and methods used in keeping accounts and preparing financial statements.

To facilitate and simplify the process of developing accounting policies, we propose that specialists in the field form and apply a cumulative information base, in which the methods, rules, procedures with multiple application options imposed by national accounting standards, as well as methodological indications regarding the particularities of accounting in non-commercial organizations, are stored. Thus, by selecting the necessary options, accountants can form the entity's accounting policies, without the need for additional effort by browsing additional legislative provisions. The database will facilitate the process of developing accounting policies, with the possibility of selecting rules, methods and procedures corresponding to the specifics of non-commercial entities. After completing the selection, it is obvious that the accounting policies must be consulted and adjusted according to the information needs and with other specialists within the organization. Given that the accounting policies reflect the totality of processes within any enterprise, so it is not only the responsibility of accountants. These specialists must check the regulation with the submission of notifications in order to prevent possible errors in the process of developing the accounting policy.

Conclusions

The increasing complexity of the activities of entities in the context of globalization requires the adoption of managerial decisions taking into account the data and information that accounting provides. Accounting is an important activity for any entity regardless of the activity profile, due to political and economic changes that have led to a series of legislative amendments, aimed at harmonizing national accounting with international requirements. Thus, accounting activity is faced with the need to have voluminous records accessible in the long term, on the one hand, and on the other hand with the need to process and analyze accounting data at a high qualitative level, allowing decision-making by managers and founders. Thus, accountants must be very familiar with the provisions of the legislation in force related to each accounting method they are going to select. Taking into account the continuous change of legislation, managers are called upon to know more complex notions about the activity of the managed organization. The material provides theoretical and practical aspects regarding the development of accounting policies in non-commercial organizations, providing information on facilitating this process with concrete accounting treatments to improve this mechanism, starting with theoretical and practical aspects, presenting the content of the necessary rules to be included in the composition of this regulation, with the help of which any entity is called upon to provide information to external users.

Accounting policies are one of the mandatory elements of accounting for any entity. The manner of developing, amending and disclosing these policies in non-commercial organizations is established in the Law on Accounting and Financial Reporting, the SNC "Accounting Policies, Changes in Accounting Estimates, Errors and Subsequent Events" and the Methodological Guidelines on the Peculiarities of Accounting in Non-Commercial Organizations. The accounting policies used by the accounting department include certain working procedures established by the management of each entity, depending on the operations carried out, with the aim of facilitating and achieving a general framework with accepted solutions for resolving situations of a repeatable nature, ultimately helping to substantiate rapid future decisions. The accounting policies developed must allow the provision of relevant and credible information, which complements that in the financial statements. The data in the financial statements, as a support in the substantiation of decisions for the end users, must be credible, by presenting the complete reality, uninfluenced by

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any interest. This information must be comparable between different management periods and between entities in a sector of the economy.

The choice of accounting policies must be made in accordance with the activity carried out, and this must be maintained throughout the financial year. Also, when it is necessary to change accounting policies, this must be done with caution so as not to give rise to interpretations that endanger the entity's activity.

We propose the development of methodological guides with practical examples and concrete calculations on real cases of determining the mandatory elements used. The recommendations should be based on the frequent non-conformities detected by the control bodies and the actions necessary to comply with the legislation in force with the changes made over time, in order to avoid errors often encountered in accounting practice. The guides will be beneficial if they contain case studies on the development of accounting policies and solutions proposed in areas specific to non-commercial activities, such as education, social assistance, charity, etc. They will present useful tools that allow the rapid development of accounting policies, being adapted to the specifics of the activity carried out and will contribute to making accounting activities more efficient.

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