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The Non Profit Incidence in the Consolidated Financial Statement

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ABSTRACT: Through the Knowledge of Ipsas, International Accounting Standards for Public Sector, and the Italian Accounting Standard, Annex 4/4, the research main object is to identify Non Profit incidence in the Consolidated Financial Statement of the Public Local Group in order to achieve the development of a theoretical evidence form a selected case study.

KEYWORDS: non-profit, consolidated, public, group, Ipsas

1. INTRODUCTION

Non Profit Companies are companies managed without the capital accumulation perspective [8]. Many Non Profit organizations are political where decisions and options often submit to conflicting pressures [1]. Today's world of non-profit includes forms of social organization that originated from the desire of private entities for solidarity purposes [6].
Non Profit organizations are also known as companies in the third sector because they connect the private dimension with the state one emerging as an economic-social actor that can offer those services that the community requires and the government is not able to guarantee [3].

"The term non-profit that comes from American "not for profit" can be translated into Italian by the term "non-profit". However, while in the US Non Profit represents a specific and identified legal category, namely that of a tax exempt organization, in Italy the term refers only conceptually the set of institutions - foundations, associative or cooperative institutions of ecclesiastical law and etc. - that do not operate according to a logic of profit [9].

The term " non-profit "identifies the prohibition of "personal profit" and the non-profit companies are generally those non-State companies created, managed and administered by private, not restricted to the distribution of profits and pursuing a socially relevant scope [10].

Non Profit Organizations come from Middle Age when company's scope was charity and assistance to meet the needs of providing basic services to the most vulnerable population [11].

The Civil Code does not have specific rule for non-profit companies accounting and for their financial statements. Therefore there is uncertainty and freedom of choice in making financial reports and budgets for those companies, even if clarity principle and other obligations under special law or connected to statute limits remain committed [5].

Non Profit Financial Statement Documents are:

- Balance Sheet
- Cash Flow Statement
- Notes
- Mission Report

It has to prepare the balance sheet in accordance with Art. 2424 Civil Code, with appropriate changes to the capital structure relative to non-profit organizations.

The Cash Management Statement gives the operating results, positive or negative, for the period.

Non Profit Organizations do not belong to capitalist market but their reporting activities intended to inform stakeholders on institution activities in fulfilling its mission, on the way they used available resources carrying out its functions [8].

Non Profit companies Notes also informs about the entity main features and its governance, about the work done, the used resources, the needs met and generally the operational results [5].

The Mission Report has the scope of integration with the other documents to let know how the company has carried out its activities observing ethical and social principles [4].

Non-Profit organization activities are different, as:

- Tipical institutional activities
- Promotional and fund-raising activities in order to receive grants
- The accessory activity can provide useful resources for institutional purposes
- Financial and management activities
- General Support Activities [7]

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2. METHODS

This research uses the case study method in order to plan, to collect, to analyze data and then to present and discuss results.

At first asking a software/database it has obtained data of 116 Italian Municipalities and its 919 subsidiaries. Then it has carried out data processing and consolidation area analysis using national and international principles; and also the split of profit and Non Profit organizations in order to develop a theory on the incidence of Non Profit organizations within the Consolidated Financial Statement of the Local Public Group.

The use of qualitative method had been preferred because of starting with data collected by databases it has questioned on the main research question as "what" was the incidence of Non Profit organizations.

The researcher ha an active role in data analysis because of the study was made using the concept of Italian Accounting Standard and Ipsas control and not within statistical and mathematical analysis.

Determining IPSAS consolidation area it has been used theoretical concept on collected data referring to power and benefit conditions required.

3. THE SAMPLE

The starting sample consists of 155 Non Profit subsidiaries of the 116 Provincial Municipalities.

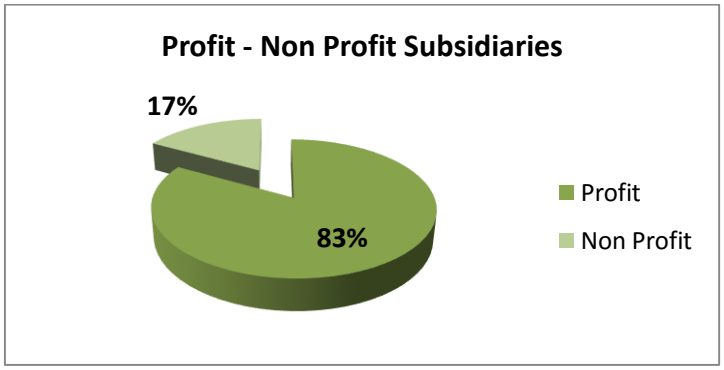

Figure 1 – Profit – Non Profit Subsidiaries. The Sample

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The distinction between Profit and Non Profit has also been studied on the individual municipality. Basing on the starting sample two simulations will be treated below using two different accounting standards: the National Accounting Standard and the Ipsas.

4. DISCUSSION

The first step is to analyze the sample consolidation area in order to evaluate the impact of Non Profit organizations on the starting sample of consolidated subsidiaries.
The analysis was performed on two sections, by defining the National Accounting Standard consolidation area and the Ipsas one.

As there was identified two different consolidation areas by the application of two different accounting standards.

Starting with the 919 subsidiaries of the sample the question was how many of these were Non Profit. The result was 38 Non Profit controlled subsidiaries by the National Accounting Standard Application.

The table below shows the Non Profit subsidiaries of the new analyzed sample and the picture highlights the obtained results on percentage.

Table 1 Incidence of Non Profit Subsidiaries by National Accounting Standard

Non Profit Controlled Entities	Total Subsidiaries
38	**919**

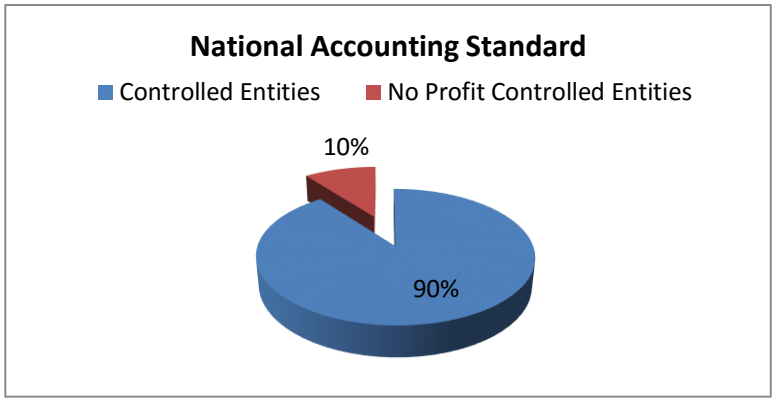

Figure 2 Incidence of Non Profit Subsidiaries by National Accounting Standard

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The same analysis was carried out by applying the International Accounting Standards, Ipsas, on the 919 subsidiaries of the sample. Among the Ipsas subsidiaries only 56 are the Non Profit controlled one.
The table below shows the results as numbers while the picture as percentage.

Table 2 – Non Profit Subsidiaries by Ipsas

Non Profit Controlled Entities	Total Subsidiaries
56	**919**

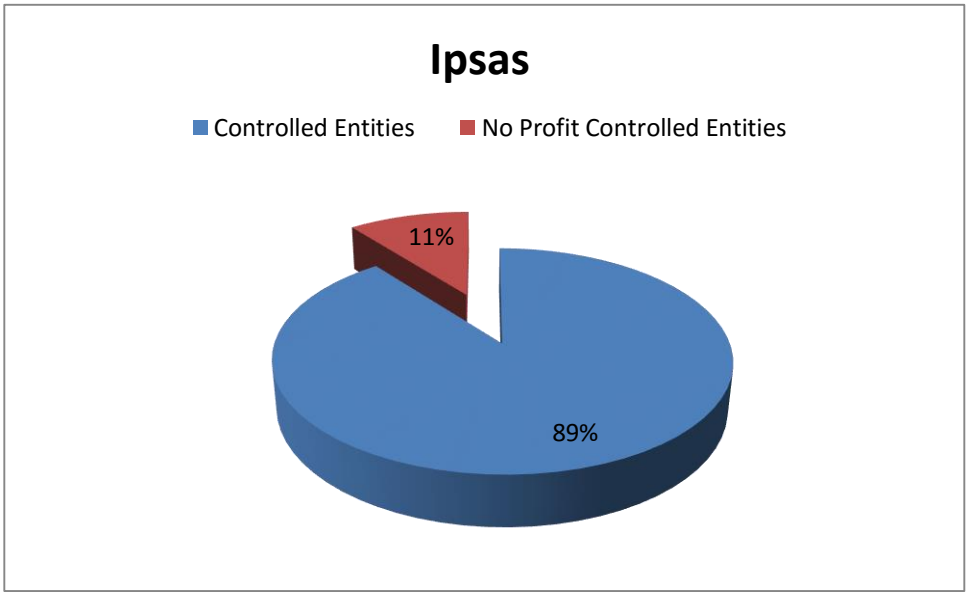

Figure 3 Non Profit Subsidiaries Incidence by Ipsas

4.1 Simulation by applying the National Accounting Standard – Non Profit

After identifying the Non Profit Subsidiaries in the consolidation area, the question was to identify the incidence of Non Profit Subsidiaries in the Consolidated Financial Statement.

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For this purpose certain items were selected for the Non Profit Companies which are outlined below:

- Receivables
- Liabilities
- Operating Revenues
- Operating Costs.

The above data for Non Profit Subsidiaries have been used in National Accounting Standard and Ipsas simulations.

The Non Profit obtained results have been compared to the same Consolidated Financial Statement items in order to identify the incidence of Non Profit.

The obtained results of the 38 Non Profit Consolidated Subsidiaries by applying the National Accounting Standard are shown below. It is possible to identify the Non Profit Subsidiaries results (38 subsidiaries), the all Subsidiaries results and then the incidence of Non Profit Subsidiaries in the National Accounting Standard Consolidated Financial Statement.

The table n. 3 highlights the total operating revenues and costs where it is possible to glimpse, for example, how the Revenues of the controlled companies are 32,4 billion and the 38 Non Profit one are only 74 million, then to 0,23%.

As for the Operating Consolidated Financial Statement Costs for the Controlled companies is about to 30 billion while the Non Profit reach about 81 million, just an incidence of 0,27%.

Table 3 Operating Profits and Costs. Non Profit Incidence

	Operating Revenues	Operating Costs
Non Profit	74.001.040	81.408.542
Consolidated Financial Statement	32.463.165.584	30.032.008.127
Incidence	**0,23%**	**0,27%**

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The analysis has been carried out for Receivables and Liabilities with the achieved results in table n. 4. Even in this case the Non Profit incidence on the total sample turns out to be low, amounting to 0,19% Receivable and 0,25% Liabilities.

Table 4 Operating Receivables and Liabilities, Non Profit Incidence

	Receivables	Liabilities
Non Profit	61.105.068	111.968.287
Consolidated Financial Statement	32.177.114.352	45.454.209.910
Incidence	**0,19%**	**0,25%**

It is important to underline how Non Profit companies are a few companies if compared to all consolidated subsidiaries and their values do not significantly affect the Consolidated Financial Statement by applying the National Accounting Standard.

4.2 Simulation by applying Ipsas – Non Profit

The simulation of Non Profit incidence on the Consolidated Financial Statement has also been performed by applying Ipsas.
For Ipsas purpose, and already highlighted in the consolidation area, Non Profit consolidated companies are 56 on the 919 subsidiaries of the total sample.
Applying Ipsas for the 56 Non Profit controlled companies has been performed the same analysis of the National Accounting Standard.

The table n. 5 shows Operating Revenues and Costs in the Consolidated Financial Statement and, for example, Operating Revenues are 36,9 billion while the Non Profit one are about 112 million. The incidence of Non Profit Revenues on the Consolidated Financial Statement by Ipsas are only 0,30%.

Operating costs in the Consolidated Financial Statement are around to 44,4 billion while Non Profit one amount to 120 million only reaching the 0,36%.

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Table 5 Operating Revenues and Costs – Non Profit Incidence

	Operating Revenues	Operating Costs
Non Profit	111.489.747	120.035.293
Consolidated Financial Statement	36.909.364.460	33.441.704.309
Incidence	**0,30%**	**0,36%**

The same analysis has been carried out for Receivables and Liabilities with the obtained results in table n.6. The Non Profit Incidence on the total sample is low and equal to 0,22% for Receivables and 0,31% for Liabilities.

Table 6 – Receivables and Liabilities. Non Profit Incidence

	Receivables	Liabilities
Non Profit	85.484.923	150.538.389
Consolidated Financial Statement	38.545.427.183	48.741.343.092
Incidence	**0,22%**	**0,31%**

Non Profit Companies in Ipsas Consolidated Financial Statement has a very small incidence. The results are related to the fact that on 919 subsidiaries only 56 are the Non Profit controlled one.

4.3 Compared Simulations

Non Profit Organizations in the Consolidated Financial Statement have a meager percentage of incidence. The results show as in the simulation of the Consolidated Financial Statement by the National Accounting Standard and Ipsas, the Non Profit Companies are a very low number.

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However, comparing the obtained results from the two simulations it can be made arguments about the different rate of incidence by applying different accounting standards.
The comparison is carried out firstly on the Revenues and Costs analysis and then on the Receivables and Liabilities one.
The Table 7 shows the comparison between the obtained results by applying the two different standards.

Table 7 – Non Profit Simulations Compared

	Euro		% Incidence	
	National Accounting Standard	Ipsas	National Accounting Standard	Ipsas
Operating Revenues	74.001.040	111.489.747	0,23%	0,30%
Operating Costs	81.408.542	120.035.293	0,27%	0,36%
Receivables	61.105.068	85.484.923	0,19%	0,22%
Liabilities	111.968.287	150.538.389	0,25%	0,31%

It is important to underline that in all cases the values obtained by Ipsas application are larger than the National Accounting Standard one and also the incidence of those Non Profit values on the Consolidated Financial Statement.

The reason originates in the consolidation area because of Ipsas allow the consolidation of 56 Non Profit controlled entities while the National Accounting Standard 38 entities only.
Everything originates in the concept of control, and then again in the different consolidation methods.

5. CONCLUSION

The analysis first impression is that Non Profit Organizations have a very small incidence on both Ipsas and National Accounting Standard Consolidated Financial Statement.

In addition it is important to reveal how the Ipsas simulation lead to include a large number of Non Profit controlled entities in comparison with the National Accounting Standard.

Non Profit consolidated results in the Ipsas Consolidated Financial Statement, and then their incidence, are larger than the National Accounting Standard one, because of Ipsas allow the consolidation of a large number of entities applying power/benefit concepts criteria.

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