Financial Reporting Practices of Non-Profit Organizations (NPOs) in the Municipality of Bulan

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ABSTRACT

This research was conducted to determine the current financial reporting practices of the non-profit organizations in the Municipality of Bulan Sorsogon and its compliance to the generally accepted accounting principles. This study also identified the present gaps and issues encountered by accountants and bookkeepers and the ways on how they resolve these emergent issues in the preparation of financial reports for NPOs. Customized financial reporting manual which was prepared in accordance with the applicable generally accepted accounting principles (GAAP) specifically suitable for not-for-profit organizations (NPOs) was the most tangible output of this research. This study used the Mixed Design which falls under a blind spot study. All the practicing accountants, bookkeepers and owners of the Not-for-Profit Organizations (NPOs) which include all duly registered or recognized hospitals, charitable institutions, religious organizations and all private educational institution operating in the municipality of Bulan, Sorsogon served as the primary respondents. The study revealed that there were financial reporting practices employed by bookkeepers and accountants in the preparation of financial statements but these were not consistently applied and most were not appropriate for not-for-profit organizations, the current financial reporting practices were fairly compliant to the generally accepted accounting principles (GAAP), the accountants and bookkeepers tend to comply with CPD requirements, self-study, consult with peers and subject their organization to financial audit in order to solve the gaps and issues they encountered.

Keywords: Accounting Practices, Financial Reporting, Not for Profit Organizations (NPOs).

INTRODUCTION

A common reason small companies fail to reach their profit potential or eventually go out of business is poor financial reporting. It's not enough to know how much sales are, how much money is in the bank or what the expenses are when its management want to maintain operational efficiencies that create stable cash flows and long-term profits. Creating a financial reporting system will help a company set policies, monitor its activities and generate profit potential. Depending on the size and type of business, financial reporting has different meanings and uses. At nonprofits, the term includes disclosing sources and uses of funds, officer and key employee salaries and other financial information to the public. At small businesses, financial reporting provides managers with a variety of ongoing reports that let them understand how each area of the business's operations affects the company's bottom-line performance; the reports also allow managers to create and monitor budgets and to plan long-term business strategies. At publicly traded companies, financial reporting refers to the public dissemination of data for scrutiny by stakeholders such as shareholders, the Securities and Exchange Commission and the media.

Financial reporting involves the disclosure of financial information to the various stakeholders about the financial performance and financial position of the organization over a specified period of time (ACCA, n.d). Its objective is to provide financial information that is useful to users in making decisions relating to providing resources to the entity. Users' decision involves judgments about buying, selling or holding equity or debt instruments, providing or settling loans and other forms of credit and voting, or otherwise influencing management's actions. Users assess prospects for future net cash inflows to the entity, and management's stewardship of the entity's economic resources in making decision. Both these assessments require users to collect information about both the entity's economic resources, claims against the entity and changes in those resources and claims, and how efficiently and effectively management has discharged its responsibilities to use the entity's economic resources (IASB, 2018).

Financial reporting serves two primary purposes. First, it helps management to engage in effective decision-making concerning the company's objectives and overall strategies. The data disclosed in the reports can help management discern the strengths and weaknesses of the company, as well as its overall financial health. Second, financial reporting provides vital information about the financial health and activities of the company to its stakeholders including its shareholders, potential investors, consumers, and government regulators. It's a means of ensuring that the company is being run appropriately. In 2005, the Philippines adopted the International Financial Reporting Standards (IFRS) — renamed Philippine Financial Reporting Standards (PFRS) — in order to make financial reporting practices in the country consistent with international guidelines. Since that time, entities registered with the Securities and Exchange Commission (SEC) have been required to apply PFRS as their financial reporting framework. In 2010, the SEC adopted PFRS for Small and Medium-sized Entities (PFRS for SMEs), which eased the financial reporting burden of entities that have less complex structures and transactions. However, feedback from the SMEs is that compliance with PFRS for SMEs is still quite complex and burdensome, particularly for micro and small entrepreneurs. In response to this feedback, the Association of Certified Public Accountants in Public Practice (ACPAPP) drafted a new accounting framework called PFRS for Small Entities.

The framework was endorsed to the Financial Reporting Standards Council (FRSC), the country's accounting standard-setting body. According to J. Carlitos G. Cruz, President of the ACPAPP Foundation, the framework was in "response to the Government's efforts to transform the country's economy to make it more inclusive, and to encourage micro entrepreneurs to comply with reportorial requirements by providing them with simplified financial reporting." To further facilitate compliance and for ease of reference, the ACPAPP also drafted illustrative financial statements applying the new framework. After due process, the new framework was approved by the FRSC in December 2017. To date, comprehensive guidelines on accounting issues unique to Non-Profit Organizations have yet to be developed at the international level. Some pronouncements made by standards-setting bodies covering NPOs have been developed in the United States and recently in China. Likewise, in India, the Technical Guide on Accounting and Auditing on NPOs was issued by the Institute of Chartered Accountants of India. Also, the Proposed Financial Accounting Standards for NPOs in the Philippines is being reviewed by the Accounting Standards Council of the Philippines. However, many countries are either practicing *de facto* standards for NPOs or applying current pronouncements in their respective countries to NPOs which may or may not be totally apt to the nature of these organizations. Although all accounting applications are based on the same set of principles, the importance of adopting the specifications and particularities of the NPO community, as a sector, is paramount for uniform interpretation and analysis of financial reports. The resultant diversity of accounting practices has provided the ingredients for the need to standardize accounting practices (APPC, 2006).

Financial reporting in charity organizations is important, not only to monitor their performance in terms of their efficiency and effectiveness in using public resources, but also to provide information to all relevant interest groups on their economic resources and obligation. Interest groups include legislators, donors, government auditors, and tax payers. To legislators, financial statement is important to provide information on the impact of the policies made by them and the achievement of the nation to bring about social and economic development of the society. Information from charity organizations is also important to potential donors in making decisions whether to continue contributing to the charity. Government auditors and oversight committees also need to check the level of compliance with government rules and regulations (Nasir, 2009).

Nonprofit organizations are on the forefronts of tackling issues ranging from poverty to sickness to environmental conservation to economic development. NPOs can offer tangible solutions to the community problems more efficiently and involving less costs than the public administrations in areas such as social work or management of social welfare institutions (Ciucescu, 2009). The nonprofit sector is noted for its tremendous diversity in size, purpose, and formality of organizations. These non-profit organizations are established with the aim of providing public services to communities where they operate, making them as an intermediary between citizens and authorities (Froelich, 2009).

NPOs are not in business to make profit; they are funded through donations or government awards, and they are in existence to provide services for the common good. For NPOs to fulfill their goals and objectives as well as to realize stakeholders' expectations efficiently and effectively, they must be governed by the principles of Fairness, Accountability, and Transparency. Fairness - rights of stakeholders should be observed and respected; Accountability - Board and management should be answerable on their performance to stakeholders; Transparency - timely, accurate and sufficient information must be disclosed (Pswarayi-Riddihough, 2018). Thus, it is expected that the management of such organization shall account all the resources received from the donors on steward basis. This primarily intends to ensure that all the NPO funds are properly utilized, accounted and disbursed based from its legal and main purpose. A high level of transparency particularly with respect to fund accounting is expected from the NPOs. A plethora of recent publications exhort people in the nonprofit sector to be social entrepreneurs or to implement "private sector strategies for social sector success" (Kearns, 2000).

With this, non-profit organizations are now increasingly applying management practices and techniques originally developed for the business sector, for example, strategic planning, forecasting and budgeting techniques, market analysis, performance management, and fund accounting and reporting (Dart, 2004). Behn and Brinkerhoff mentioned that not for profit organizations are responsible for two key domains of accountability namely: performance and finances (Brinkerhoff, 2001). Scholars also stated that by disclosing details of financial standing and social performance, NPOs can build community trust, provide relevant information to donors, demonstrate their responsiveness to stakeholders, and generally help fulfill their "societal quid pro quo" (tax-exempt status) by providing evidence they are responsibly targeting their social mission (Gandia, 2011). The aforementioned pieces of literatures manifest that, similar to business organizations, financial reporting is also an important aspect and area for NPOs. Through financial reporting, NPOs' management can communicate and easily inform the public how effective and efficient they are in managing the funds and resources of the organization. In fact, in spite of the immunity of NPOs to taxation, they are still required by some government agencies to submit the copy of their financial reports namely: the statement of financial position, statement of cash flows, notes to financial statements and the statement of activities, ensuring financial transparency.

However, there are no existing accounting standards promulgated by the government and the Financial Reporting Standard Council (FRSC) that would specifically govern the financial reporting of the non-profit organizations. Ideally, some accounting guidelines should be observed in order to warrant the reliability and fairness of the preparation of these financial reports. It is along this premise that the researchers intend to conduct such study to determine the current accounting practices of the NPOs in the Municipality of Bulan, Sorsogon. Information from this research would serve as inputs in the formulation of a customized financial reporting manual to be utilized by bookkeepers, accountants and non-profit organization managers in the preparation of financial reports.

LITERATURE REVIEW

According to a report published by EduPristine(2017), financial reporting is very important and critical task of an organization. It is a vital part of corporate governance and is usually considered as end-product of accounting. The authors further stated that the typical components of financial reporting are: 1) The Financial Statements which includes Statement of Financial Position, Statement of Financial Performance, Cash Flows Statement and Statement of Changes in Shareholder's Equity, 2) The notes to financial statements, 3) Quarterly & Annual reports (in case of listed companies), 4) Prospectus (in case of companies going for Initial Public Offerings), and 5) Management Discussion and Analysis (in case of public companies).

Another article as published by Averkamp (2019) stated that financial reporting includes all of a company's communication of financial information to people outside of the company. These include the following: External financial statements (income statement, statement of comprehensive income, balance sheet, statement of cash flows, and statement of stockholders' equity), the notes to the financial statements, press releases and conference calls regarding quarterly earnings and related information, quarterly and annual reports to stockholders, financial information posted on a corporation's website, financial reports to governmental agencies including quarterly and annual reports to the Securities and Exchange Commission (SEC), and prospectuses pertaining to the issuance of common stock and other securities.

Wohlner (2019) further discussed the benefits of financial reporting, stating that it is a way to improve debt management as debt can cripple the progress of any company, regardless of sector. While there may be many different types of financial reporting concerning purpose or software, almost all solutions will help keep track of current assets divided by the current liabilities on the balance to help gauge liquidity and manage debts accordingly. According to Durcevic (2019), by using a financial report template, if a company is planning to apply for a business expansion loan, it can explore financial statement data and determine if there is a need to reduce existing liabilities before making an official application. And lastly, as the information served up by financial reporting software is both accurate and robust, not only does access to this level of analytical reporting offer an opportunity to improve financial efficiency over time, but it will also ensure the company will remain 100% compliant – which is essential if the management want the business to remain active.

An understanding of financial statements is a prerequisite for effective oversight of the financial affairs of the organization. Financial statements in the NPO sector can involve accounting methodologies not found in the for-profit sector. NPOs are very diverse and range from small all-volunteer groups to large highly sophisticated enterprises. Some, but not all, have charitable status (CICA, 2012). The demand from various stakeholders for improved transparency regarding the financial data of nonprofit organizations has increased during the latest decades as per the report of Verbruggen (2019).

According to Ghali (1995), non-governmental organizations are a basic element in the representation of the modern world. And their participation in international organizations is in a way a guarantee of the latter's political legitimacy. Relatedly, an article written by Paul (1996) stated that business and government are organized at the international level. There is a growing need to articulate countervailing visions, societal norms and ethical and moral views at the international level.

The World Bank as reported by Anbazhagan (2016) also described non-government organizations (NPOs) as:

> *"…include many groups and institutions that are entirely or largely independent of government and that have primarily humanitarian or cooperative rather than commercial objectives. They are private agencies in industrial countries that support international development; indigenous groups organized regionally or nationally; and member-groups in villages. NPOs include charitable and religious associations that mobilize private funds for development, distribute food and family planning services and promote community organization. They also include independent cooperatives, community associations, water-user societies, women's groups and pastoral associations. Citizen groups that raise awareness and influence policy are also NPOs "*

Furthermore, Raiborn (2006) stressed out that financial accounting requires compliance with generally accepted accounting principles (GAAP), which are primarily issued by the Financial Standard Council Board and the Securities Exchange Commission (SEC). Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

Ballada (2009) pointed out that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions, since they largely portray the financial effects of past events and do not necessarily provide non-financial information. Also, Cabrera (2007) expounded that financial accounting refers to information describing the financial resources, obligations, and activities of an economic entity (either an organization or an individual). Accountants use the term financial position to describe an entity's financial resources and obligations at one point in time and the terms' results of operations to describe its financial activities during the year. It is designed primarily to assists investors and creditors in deciding where to place their scarce investment resources.

According to Aduana (2009), the recording and measuring of business transactions, the presentation of data and the preparation of financial statements are based on sets of rules, procedures and standards. These sets of accounting procedures, practices and rules are technically called the generally accepted accounting principles (GAAP). Robles (2006) affirmed that under accrual basis, determination of periodic net income and financial income depends on the measurement of economic resources and obligations and changes in them as the changes occur rather than simply on recording receipts and payments of money. This assumption establishes appropriate time basis for recognizing time changes in assets and liabilities. Recording the effects of economic activities in the time periods, rather than only when cash is received or paid, is the essence of accrual basis.

Piorkowsky(2000) in his study revealed that 27% of German private households kept accounting records on a regular basis. It was discovered that self-developed bookkeeping systems were predominantly used for keeping those accounting records. It also portrayed that the design of Das Neue Haushaltsbuch (The New Housekeeping Book) charted the development of a number of bookkeeping systems which permits parallel reporting in the Deutschmark and the Euro, a system designed for use by budgeting advice services, and a pocket-money book for children. The study of Kosiol (2000) inferred that bookkeeping systems can be conceived as ascertainment models which determine income as well-defined magnitude computed according to fixed rules of booking (recording) transactions. Therefore, it seems useful to consider accounting system for income determination in general. The study of Gogola (2008) undertook an investigation on the level of compliance to PAS and the extent of implementation of finance-related business practices of hotels in Naga City and its effect to the financial sustainability of the business. The results of the study revealed that the overall compliance of hotel respondents to PAS is moderate. This is considered as a reasonable compliance level considering that the fact that all respondents have satisfactory line up of key employees carrying out finance-related and accounting functions. With a moderate compliance to PAS, reliable financial information useful in decision-making is achieved. PAS compliance and business practices were ascertained to have a positive and direct relationship. This supports the basic concept that accounting plays a part in improving business practices by converting facts and figures into vital information valuable in business decision-making.

This study of Balbastre (2008) determined the level of compliance of wholesale trading business entities to the Philippine Accounting Standards. It examined the scope and purpose, components, structure and content and overall considerations of the financial statements of the wholesale trading business entities. Moreover, the compliance of the business entities was interpreted as whether their financial statements have full, moderate, poor or no compliance to the new Philippine Accounting Standards. This study also provided information about the profile of the wholesale business entities in Naga City and compared the significant differences between types of business organizations in relation to the compliance to the new Philippine Accounting Standards. The level of compliance of the wholesale trading businesses in Naga City to the Philippine Accounting Standards No. 1 is moderate wherein the corporations have the highest level of compliance to the Philippine Accounting Standards compared to sole proprietors and partnerships type of business organizations. The level of compliance to the accounting standards can be traced from the level of capitalization and income level of the business entities. The overall moderate compliance attributed mainly to the failure of the owners of the non-compliant business entities to hire an accountant that will prepare, present and interpret the financial statements. The study of Adrian Ongog (2009) about the Level of Compliance to the Philippine Accounting Standards by selected business establishments in Magarao, Camarines Sur found out that capitalization as well as the level of income of the business entities affects the ability of the business to hire employees, thus poor compliance to accounting standards. Hence, manufacturing and wholesale trading businesses can afford to hire managers, accountant and bookkeeper because of high capitalization while most of the micro business enterprise which are engaged in wholesale – retail trading and service business cannot afford to hire employees because of the limited capital and low level of income. Also, the transactions of wholesale-retail and service business are not complex as manufacturing and wholesale trading business.

OBJECTIVES OF THE STUDY

This research aims to determine the current financial reporting practices of the non-profit organizations in the Municipality of Bulan Sorsogon and its compliance to the generally accepted accounting principles which will serve as the basis in the formulation of a customized financial reporting manual which was prepared in accordance with the applicable generally accepted accounting principles (GAAP) specifically suitable for not-for-profit organizations (NPOs). This will also identify the present gaps and issues encountered by accountants and bookkeepers and the ways on how they resolve these emergent issues in the preparation of financial reports for NPOs.

METHODOLOGY

This study used the Mixed Design which specifically considers the Descriptive-Exploratory Research Method which falls under a blind spot study. This combines both the quantitative and qualitative research components. This was employed to determine the financial reporting practices as well the issues frequently encountered by the bookkeepers and accountants of the NPOs in terms of reporting their assets, liabilities, capital, income and expenses. This also explored the ways on how the bookkeepers and accountants resolve the gaps and issues they encountered in the preparations of their reports.

The study considered all the practicing accountants, bookkeepers and owners of the Not-for-Profit Organizations (NPOs) operating in the Municipality of Bulan, Sorsogon as the primary respondents. NPOs include all the duly registered or recognized hospitals, charitable institutions, religious organizations and all private educational institution. Thus, this utilized total enumeration in the determination of the respondents. This used three data gathering methods to facilitate the collection of primary data, to wit: researcher's made survey questionnaires, structured interview with key informants (KIs) and the process of observation in gathering necessary and relevant data. The required and relevant information were obtained through the used of survey questionnaires which were tested for reliability and internal validity using Cronbach alpha.

RESULTS AND DISCUSSIONS

Financial Reporting Practices of Non-profit Organizations (NPOs)

This portion shows the practices of the respective non-profit organizations in the municipality of Bulan, Sorsogon in terms of recording their assets, liabilities, equity, income, and expenses.

A. Recording Assets

Table 1 presents the financial reporting practices of recording assets. Responses to the survey questionnaire suggested that bookkeepers and accountants very often 1) purchase of supplies on account basis is recorded as debit to supply and credit to payables, sometimes 2) purchase of long-term non-cash assets on credit basis is debited to fixed asset and credited to payable accounts, and 3) collections of receivables are recorded as debit to cash and credit to receivable accounts. These three responses garnered the highest rank in the financial reporting practices in terms of recording assets with a weighted mean of 3.50, 3.00 and 2.50, respectively.

Financial Reporting Practices of Recording Assets	Weighted Mean	Interpretation	Rank
Purchase of supplies on account basis is recorded as debit to supply and credit to payables.	3.50	Very Often	1
Purchase of long-term non-cash assets on credit basis is debited to fixed asset credited to payable accounts.	3.00	Sometimes	2
Collections of receivables are recorded as debit to cash and credit to receivable accounts.	2.50	Sometimes	3.5
Purchase of supplies on cash basis is recorded as debit to supply and credit to cash accounts.	2.50	Sometimes	3.5
Purchase of other assets on credit basis is recorded as debit to inventories and credit to payable accounts.	2.25	Rarely	6
The valuation or measurement of assets is based on the fair value and historical cost.	2.25	Rarely	6
Cash and non-cash donations to the NPO is recorded as debit to cash and credit to capital.	2.25	Rarely	6
Long-term assets are presented as noncurrent assets in the balance sheet.	2.00	Rarely	8.5
Cash and non-cash donations to the NPO is recorded as debit to cash and credit to liability.	2.00	Rarely	8.5
Cash, Receivables, Prepayments and Supplies are presented as current assets in the balance sheet.	1.75	Rarely	10
Average Weighted Mean	**2.00**	**Rarely**	

Table 1.1 Financial reporting practices in terms of recording assets

As also reflected in table 1, the following are the responses that gathered the lowest ranks: 1) cash, receivables, prepayments and supplies are presented as current assets in the balance sheet with a weighted mean of 1.75, 2) cash and non-cash donations to the NPO is recorded as debit to cash and credit to liability, 2.00 weighted mean and 3) long-term assets are presented as noncurrent assets in the balance sheet, weighted mean of 2.00. Generally, the responses about the financial reporting practices of NPO's in terms of recording assets were interpreted as rarely with an average weighted mean (AWM) of 2.00. From the data, it can be noted that NPOs had existing financial reporting practices with regards to recording their assets. It could be stated further that accountants and bookkeepers use different valuation method in asset measurement and that the account titles were not used accordingly. Such information manifests that recording practices were not consistently done and implemented regularly for asset transactions by NPOs. This means that there were no permanent procedures of recording the asset either based on the requirements of Philippine Accounting Standards, Philippine Financial Reporting Standards or from the NPOs' own accounting manual. The result is an implication that the presentation and disclosures of the balance sheet with respect to assets are no longer reliable thereby affecting economic decisions. Finally, there is a probability of misappropriation of assets because of incomplete and inaccurate records relative to assets that might be deceiving to users of financial statements.

Financial Reporting Practices of Recording Liabilities	Weighted Mean	Interpretation	Rank
Interest incurred for the loan is credited to interest payable accounts.	2.50	Sometimes	1.5
Appropriate valuation and presentation of liabilities is always made.	2.50	Sometimes	1.5
Purchase of supplies and other assets on credit basis is recorded as credit to account payables.	2.25	Rarely	4
Expenses incurred but not yet paid are credited to accrued expenses.	2.25	Rarely	4
Liabilities expected to be settled within one year are presented as current liabilities in the balance sheet.	2.25	Rarely	4
Donations received with conditions are credited to liability account.	2.00	Rarely	7.5
Purchase of long-term noncash assets on credit basis is credited to accounts payable.	2.00	Rarely	7.5
Loans granted by the creditors are credited to loans payable.	2.00	Rarely	7.5
Liabilities expected to be settled beyond one year are presented as noncurrent liabilities in the balance sheet.	2.00	Rarely	7.5
Payments and settlement of both long- and short-term liabilities are debited to payable accounts.	1.75	Rarely	10
Average Weighted Mean	**2.15**	**Rarely**	

Table 2. Financial reporting practices in terms of recording liabilities

B. Recording Liabilities

Table 2 indicates the financial reporting practices of NPOs in terms of recording liabilities wherein a general response interpreted as sometimes with average weighted mean of 2.15 is evident.

It can be noted that the three highest ranks were as follows: 1) interest incurred for the loan is credited to interest payable account, 2.50 weighted mean, 2) Appropriate valuation and presentation of liabilities is always made, 2.50 weighted mean, and 3) purchase of supplies and other assets on credit basis is recorded as credit to account payables, 2.25 weighted mean, while the lowest ranks were: 1) payments and settlement of both long- and short-term liabilities are debited to payable accounts, 2) liabilities expected to be settled beyond one year are presented as noncurrent liabilities in the balance sheet, and 3) loans granted by the creditors are credited to loans payable, with weighted mean of 1.75, 2.00 and 2.00, respectively. These can be interpreted such that the existing financial reporting practices are not rightly done in accordance with generally accepted accounting principles. This also represents that there was no uniformity in recording liability transactions in which proper timing and recognition of liabilities were not properly made.

Moreover, the data based from the interview indicates that appropriate account titles are not properly maintained for specific transaction. This could also be interpreted that bookkeepers and accountants of these NPOs do not know how to account for these transactions because of scarce knowledge in the field of accounting for not-for-profit organizations. This implies that proper measurement of this element was not accurately made, thus making liabilities to be misstated and ultimately, affecting the decision of the users. Such scenario makes it difficult for the management of NPOs to assess its ability to pay their obligation on time or on due date since complete data were not maintained.

Limited disclosure by the NPOs due to incomplete record keeping, limited financial monitoring and unstructured financial reporting would hinder NPOs growth, sustainability and effectiveness. This is similar to the findings of Trussel & Parson[2] who agreed that by disclosing details of their financial standing and social performance, NPOs can enhance their credibility, build community trust and demonstrate their responsiveness towards stakeholders. Failure to communicate sufficient information can lead to negative perceptions regarding the organization's effectiveness leading to withdrawals of support by the donors and other stakeholders.

C. Recording Capital

Financial reporting practices of not-for-profit organizations in terms of recording capital is illustrated in table 3. In summary, the responses about the financial reporting practices of NPO's in terms of recording

Financial Reporting Practices of Recording Capital	Weighted Mean	Interpretation	Rank
Recognition of net loss has corresponding debit to capital accounts.	3.00	Sometimes	1
Withdrawal and distribution made by the NPO to its beneficiaries or for administrative use is debited to capital accounts.	2.50	Sometimes	2
Cash donations or contributions are credited to capital accounts.	2.25	Rarely	4
Noncash transfer from the donors is credited to capital accounts at fair value.	2.25	Rarely	4
Recognition of net income has corresponding credit to capital accounts.	2.25	Rarely	4
Additional contribution made is credited to capital accounts.	2.00	Rarely	6
Average Weighted Mean	**2.38**	**Rarely**	

Table 3. Financial reporting practices in terms of recording capital

capital were interpreted as Rarely with an average weighted mean (AWM) of 2.38.

Practices that were ranked highest are 1) recognition of net income has corresponding credit to capital accounts, weighted mean of 3.00, 2) withdrawal and distribution made by the NPO to its beneficiaries or for administrative use is debited to capital accounts, 2.50 weighted mean; and 3) cash donations or contributions are credited to capital accounts, 2.25 weighted mean. The following are the financial reporting practices of recording capital that garnered lowest in rank, 1) additional contribution made is credited to capital accounts, 2.00 weighted mean 2) recognition of net loss has corresponding debit to capital accounts, weighted mean of 2.25 weighted mean; and 3) noncash transfer from the donors is credited to capital accounts at fair value, 2.25 weighted mean. From the data given, proper accounting of capital accounts were inconsistently made and account titles were incorrectly used due to limited knowledge of bookkeepers and accountants in the proper recording of accounting information, which is consistent to the answer given by the respondents during the interview.

D. Recording Revenues/Income

Table 4 generally suggest that financial reporting practice of NPOs in terms of recording revenues/income is interpreted as rarely with an average weighted mean of 2.38. Top three practices were as follows: 1) realization of unearned income is credited to income accounts, 3.00 weighted mean, 2) rendition of service on credit basis is credited to income accounts, 2.75 weighted mean, and 3) interest, gain on sale and other passive income earned are credited to appropriate income accounts, 2.75 weighted mean, while the practices with lowest rankings are: 1) non-cash donation not subject to condition is credited to income account, weighted mean of 1.25, 2) rendition of service on cash basis is credited to income accounts, weighted mean of 2.00, and 3) cash donation not subject to condition is credited to income account, weighted mean of 2.50.

Financial Reporting Practices of Recording Revenues/ Income	Weighted Mean	Interpretation	Rank
Realization of unearned income is credited to income accounts.	3.00	Sometimes	1
Rendition of service on credit basis is credited to income accounts.	2.75	Sometimes	2.5
Interest, gain on sale and other passive income earned are credited to appropriate income accounts.	2.75	Sometimes	2.5
Cash donation not subject to condition is credited to income account.	2.50	Sometimes	4
Rendition of service on cash basis is credited to income accounts.	2.00	Rarely	5
Non-cash donation not subject to condition is credited to income account.	1.25	Never	6
Average Weighted Mean	**2.38**	**Rarely**	

Table 4. Financial reporting practices in terms of recording revenues/income

This finding simply means that the proper timing of recognition and valuation of revenues were considered as below average reflecting that there were misstatements in the income statement. Accordingly, this could be noted that NPO's have no permanent bookkeeping procedures connected to revenue transactions making it difficult for users to evaluate its profitability and performance. This finding is related to the study of Gordon, where reluctant behavior to disclose full organization information could trigger the emergence of corporate scandals, misappropriation of fund and fraudulent activities.

E. Recording Expenses

The financial reporting practices in terms of recording expenses is presented in table 5. It is generally interpreted as rarely with an average weighted mean of 2.00.

Reporting Practices of Recording Expenses	Weighted Mean	Interpretation	Rank
Expenses incurred but not yet paid are debited to appropriate expense account.	2.25	Rarely	1.5
Actual expenses paid are debited to appropriate expense account.	2.00	Rarely	3.5
Depreciation is expense is recognized to all depreciable assets.	2.00	Rarely	3.5
Expiration of prepayments is debited to expense accounts.	2.25	Rarely	1.5
Loss on sales or its equivalent is debited and presented to other expense accounts.	1.75	Rarely	5.5
Legal and statutory expenses are debited to appropriate expense accounts.	1.75	Rarely	5.5
Average Weighted Mean	**2.00**	**Rarely**	

Table 5. Financial reporting practices in terms of recording expenses

The data shows that 1) expenses incurred but not yet paid are debited to appropriate expense account, 2.25 weighted mean, 2) actual expenses paid are debited to appropriate expense account, 2.00 weighted mean 3) depreciation expense is recognized to all depreciable assets, weighted mean of 2.00. Legal and statutory expenses are debited to appropriate expense accounts, 1.75 weighted mean; Loss on sales or its equivalent is debited and presented to other expense accounts, 1.75 weighted mean, and expiration of prepayments is debited to expense accounts, weighted mean of 2.25. This is an implication that the expenses presented in the financial statements were misstated and this will impact the reliability of information for decision making.

Level of Compliance and Non-Compliance of Nonprofit Organizations (NPOs)

This portion shows the level of compliance of not-for-profit organizations on the financial reporting standards and accounting principles as described in table 6, wherein an average weighted mean of 2.48 and interpreted Not Met is noted. A weighted mean of 3.25 for each of the asset recognition principle, liability recognition principle and expense recognition principle is also presented in the table. Complete disclosures of required information in the notes to financial statement, compliance to full PFRS, and preparation of complete set of financial statements garnered a weighted mean of 1.25, 1.75, and 1.75, respectively.

Financial Reporting Standards and Accounting Principles	Weighted Mean	Interpretation	Rank
Asset Recognition Principle	3.25	Met	2
Liability Recognition Principle	3.25	Met	2
Expense Recognition Principle	3.25	Met	2
Income Recognition Principle	3.00	Met	4.5
Presentation of Assets and Liabilities as to Current and Non-Current	3.00	Met	4.5
Compliance to PFRS for SMEs / PFRS for Small Entities	2.25	Not Met	6
Compliance to Philippine Accounting Standards	2.00	Not Met	7
Preparation of complete set of financial statements	1.75	Not Met	8.5
Compliance to Full PFRS	1.75	Not Met	8.5
Complete disclosures of required information in the notes to financial statement	1.25	Serious Non--compliance	10
Average Weighted Mean	**2.48**	**Not Met**	

Table 6. Level of Compliance on Financial reporting standards and accounting principles

The result on the level of compliance of NPOs to financial reporting standards and accounting principles indicates that they are following the standards less than partially and certain disclosures were not recorded as per requirement. NPOs are motivated to provide detailed disclosure of non-financial information due to its mission that are more related to community and social services. The result is already expected since NPOs are subjected to a various reporting requirement under the Philippine environment, depending on the needs of various regulatory agencies.

Reporting of financial information is crucial for NPOs since they are accountable towards a large number of stakeholders including the public and resource providers. In order for NPOs to sustain and successfully deliver their social mission, they are highly dependent on the contribution from external parties. These parties require NPOs to be more reliable and transparent in reporting to help counter their concern on the effectiveness and efficiency of the funds management. Moreover, NPOs are still reluctant to disclose information especially on the financial aspects as compared to non-financial aspects which could reflect that NPOs are still not taking full advantage of the comprehensive reporting as a communication device to gain donors and public trust based on five best practices, namely, completeness, accessibility, transparency, full disclosure and relevance, as found out in a study conducted by Gordon et al.

Financial Reporting Gaps and Issues of Non-profit Organizations (NPOs)

This portion shows the gaps and issues encountered by bookkeepers and accountants of the non-profit organizations in the municipality of Bulan, Sorsogon in terms of recording their assets, liabilities, equity, income, and expenses.

A. Issues in Recording Assets

Data in table 7 shows the financial reporting problems of NPOs in terms of recording assets. Respondents have considered the following problems as the top issues, to wit: 1) technical know-how of person handling the bookkeeping functions (4.50) 2) maintenance of chart of accounts classifying assets whether current or noncurrent, (4.25) 3) Appropriate presentation of assets in the balance sheet is maintained (4.25). The respondents also noted that 1) using appropriate account title for every asset to be presented (3.50), 2) recording the decrease in assets as always credit to asset accounts, (3.50) and 3) preparation of working papers for preparation of asset sections of the balance sheet, (3.50). These three enumerated prolems, even though ranked lowest in the table, were also interpreted as Moderately A Concern. Overall, table 7 registered an average weighted mean of 3.88 which is interpreted to be Moderately A Concern.

Issues Encountered – Maintenance of source documents, presentation and recording assets	Weighted Mean	Interpretation	Rank
Technical know-how of person handling the bookkeeping functions.	4.50	Extremely A Concern	1
Maintenance of chart of accounts classifying assets whether current or noncurrent.	4.25	Moderately A Concern	2.5
Appropriate presentation of assets in the balance sheet is maintained.	4.25	Moderately A Concern	2.5
Maintenance of journals for recording all transactions which are financial in nature.	4.00	Moderately A Concern	5
Valuation of the assets is based on the fair value or historical cost or measurement requirement.	4.00	Moderately A Concern	5
Observance of generally accepted accounting principles in recognizing assets to be recorded.	4.00	Moderately A Concern	5
Recording the increase in assets as always debit to asset accounts.	3.75	Moderately A Concern	7.5
Use of double-entry bookkeeping system is being adopted in recording assets with the use of debit and credit sides of the accounts.	3.75	Moderately A Concern	7.5
Maintenance of ledgers for posting assets to their respective accounts.	3.50	Moderately A Concern	10.5
Preparation of working papers for preparation of asset sections of the balance sheet.	3.50	Moderately A Concern	10.5
Recording the decrease in assets as always credit to asset accounts.	3.50	Moderately A Concern	10.5
Using appropriate account title for every asset to be presented.	3.50	Moderately A Concern	10.5
Average Weighted Mean	**3.88**	**Moderately A Concern**	

Table 7. Financial reporting issues in terms of recording assets

The finding states that technical knowledge of the bookkeepers and accountants who handles the bookkeeping function is very much a burden to the NPOs. Additionally, it was noted that most of the NPOs have no chart of accounts, accounting documents such as ledger, journals and working papers which are burdensome in the part of preparers of the financial statements to reflect the proper classification of the assets. Besides, results show that lack of observance with the Generally Accepted Accounting Principles and standards such as PFRS, IFRS and PAS were also a common problem of NPOs. This result confirms the principles of Kimwell that financial statement are summary of hundreds and thousands of transactions that originated from various documents. Meaning, incomplete accounting records destroy the reliability of a statement. This has implication to the decision of the concerned individuals having direct and indirect interest on the financial statement. This problem leads to the situation that financial statements including the disclosures of assets to be misleading since important accounting documents were omitted.

B. Issues in Recording Liabilities

Financial reporting problems in terms of recording liabilities is illustrated in table 8. It represented an average weighted mean of 3.82 which is interpreted as Moderately A Concern.

Issues Encountered – Maintenance of source documents, presentation and recording liabilities	Weighted Mean	Interpretation	Rank
Technical know-how of person handling the bookkeeping functions.	4.75	Extremely A Concern	1
Preparation of working papers for preparation of liability sections of the balance sheet.	4.25	Moderately A Concern	2
Presentation of liabilities in the balance sheet is maintained.	4.00	Moderately A Concern	4.5
Issuance of disbursement vouchers reflecting the amount of liability settled.	4.00	Moderately A Concern	4.5
Maintenance of journals for recording all transactions.	4.00	Moderately A Concern	4.5
Using appropriate account title for every liability to be presented.	4.00	Moderately A Concern	4.5
Maintenance of chart of accounts classifying liabilities whether current or noncurrent.	3.75	Moderately A Concern	8.5
Recording the decrease in liabilities as always debit to liability accounts.	3.75	Moderately A Concern	8.5
Recording the increase in liabilities as always credit to liability accounts.	3.75	Moderately A Concern	8.5
Observance of generally accepted accounting principles in recognizing liabilities to be recorded.	3.75	Moderately A Concern	8.5
Issuance of invoices such as purchase invoice reflecting cash inflows or receivables.	3.50	Moderately A Concern	12
Maintenance of ledgers for posting liabilities to their respective accounts.	3.50	Moderately A Concern	12
Valuation of the liabilities is based on the face amount or measurement requirement.	3.50	Moderately A Concern	12
Use of double-entry instead of single entry is being adopted in recording liabilities.	2.50	Problem	14
Average Weighted Mean	**3.82**	**Moderately A Concern**	

Table 8. Financial reporting issues in terms of recording liabilities

The following activities were considered by the management of NPOs as dilemma with regards to their system of recording liabilities, to wit: 1) technical know-how of person handling the bookkeeping functions (4.75), 2) preparation of working papers for preparation of liability sections of the balance sheet (4.25), and 3) presentation of liabilities in the balance sheet is maintained (4.00). Recorded as lowest in the rank were 1) use of double-entry instead of single entry is being adopted in recording liabilities (2.50), 2) valuation of the liabilities is based on the face amount or measurement requirement (3.50), and 3) maintenance of ledgers for posting liabilities to their respective accounts (3.50). The result is consistent with the issues on recording assets where technical know-how of financial reporting preparers is Extremely A Concern. It can be noted that working papers, supporting documents such as invoices reflecting the amount of liabilities are not being maintained making it hard for the preparer of financial statements to trace the records. This also implies that accounting documents such as vouchers, journals, ledger and chart of accounts are not being observed leading to misclassification of the liability accounts. In addition, the presentation and valuation of liabilities in the statement of financial position were not properly made.

C. Issues in Recording Capital

Table 9 discloses the problems encountered by the accountants and bookkeepers in terms of recording capital.

The following were considered by the respondents as Moderately A Concern with its corresponding weighted mean: 1) net income earned is added to capital account as increase in equity (4.00), 2) withdrawal made by the NPOs is deducted from the capital account (4.00), and 3) maintenance of chart of accounts classifying items in the capital accounts (3.75).

Issues Encountered – Maintenance of source documents, presentation and recording capital	**Weighted Mean**	**Interpretation**	**Rank**
Net income earned is added to capital account as increase in equity.	4.00	Moderately A Concern	1.5
Withdrawal made by the NPOs is deducted from the capital account.	4.00	Moderately A Concern	1.5
Maintenance of chart of accounts classifying items in the capital accounts.	3.75	Moderately A Concern	4
Recording the increase in capital account is recorded as always credit to specific item in the capital account.	3.75	Moderately A Concern	4
Recording the decrease in capital account is recorded as always debit to specific item in the capital account.	3.75	Moderately A Concern	4
Net loss incurred is deducted in the capital account as decrease in equity.	3.50	Moderately A Concern	6
Average Weighted Mean	**3.79**	**Moderately A Concern**	

Table 9. Financial reporting issues in terms of recording capital

In summary, table 9 registered an average weighted mean of 3.79, interpreted as Moderately A Concern. From the given information, it can be noted that bookkeepers and accountants have not maintained appropriate accounts for specific equity transaction making it hard for the NPOs to reflect the items in their capital section. This also implies that effect of the income, withdrawals and additional investment were not properly posted.

D. Issues in Recording Revenues

Common issues in recording revenues were presented in table 10. An average weighted mean of 3.70 with an interpretation of Moderately A Concern is noted. 1) maintenance of chart of accounts classifying items in the revenue accounts (4.25), 2) recognizing item as income for the rendition of services on credit (3.75), and 3) recording the revenue under double-entry system with the use of debit and credit sides of the accounts (3.50) were ranked as highest.

Proper recognition and timing of revenue were not properly observed making its declaration in the income statement to be misstated. In fact, it indicates that income statement based of the findings, is no longer a reliable basis for assessing the activities of not-for-profit organizations due to this problem.

Issues Encountered – Maintenance of source documents, presentation and recording revenues	Weighted Mean	Interpretation	Rank
Maintenance of chart of accounts classifying items in the revenue accounts.	4.25	Moderately A Concern	1
Recognizing item as income for the rendition of services on credit.	3.75	Moderately A Concern	2
Recording the revenue under double-entry system with the use of debit and credit sides of the accounts.	3.50	Moderately A Concern	4
Recording of revenues is based on generally accepted accounting principles.	3.50	Moderately A Concern	4
Recording of revenues is based of income recognition principle.	3.50	Moderately A Concern	4
Average Weighted Mean	**3.70**	**Moderately A Concern**	

Table 10. Financial reporting issues in terms of recording revenues

E. Issues in Recording Expenses

Table 11 covers the problems in recording expenses in financial reporting. A 3.70 average weighted mean is documented and interpreted as Moderately A Concern. Based from the data in the table, the top three problems were as follow: 1) maintenance of chart of accounts classifying items in the expense accounts (4.50), 2) Recording the increase in expenses is recorded as always debit to specific item in the expense accounts (4.00), and 3) Recognizing item in the disbursement as expense for the payment of selling and general expenses. (4.00)

This finding indicates that chart of accounts for specific expenses is not maintained. Also, proper recognition and timing of expenses were not properly observed, thereby making its declaration in the income statement to be misstated.

It indicates that related statements also are probable of being misstated. Finally, this is an inference that the existing financial reporting practices of the NPOs render the financial reports to be misleading due to the inappropriate recording practices.

Issues Encountered – Maintenance of source documents, presentation and recording expenses	Weighted Mean	Interpretation	Rank
Maintenance of chart of accounts classifying items in the expense accounts.	4.50	Extremely A Concern	1
Recording the increase in expenses is recorded as always debit to specific item in the expense accounts.	4.00	Moderately A Concern	2.5
Recognizing item in the disbursement as expense for the payment of selling and general expenses.	4.00	Moderately A Concern	2.5
Recognizing item in the disbursement as expense for the payment of operating expenses.	3.75	Moderately A Concern	4.5
Recording of revenues is based on generally accepted accounting principles.	3.75	Moderately A Concern	4.5
Recording the expenses under the double-entry system with the use of debit and credit sides of the accounts.	3.00	Somewhat A Concern	6
Average Weighted Mean	**3.70**	**Moderately A Concern**	

Table 11. Financial reporting issues in terms of recording expenses

QUALITATIVE RESULT: Ways to resolve the gaps and issues in the preparations of NPOs financial reports based from the interview

The following presents the results of the conducted interview with bookkeepers and accountants from the different not-for-profit organizations. Information from the interview were transcribed and coded using open coding method.

This section thus provides the results of a more in-depth discussion concerning the means by which bookkeepers and accountants resolve gaps and issues in the preparations of financial reports of NPOs. It highlights the manners and approaches that they do to solve the problems they encounter in financial reporting.

A. Accountants and bookkeepers of the NPOs must Comply to Continuing Professional Development units' requirements.

The respondents mentioned during the interview that compliance to CPD units' help them be updated in the proper accounting of various transactions thereby resolving the issue on the technical know-how of personnel handling the bookkeeping functions.

However, the respondents also revealed that they were not able to attend all of the seminars/ training because they lack funds to defray their expenses which is often not shouldered by their employers.

B. Accountants and bookkeepers of the NPOs must study the Generally Accepted Accounting Principles by themeselves.

It was also cited from the interview that accountants try to study by themselves the different treatment of accounting data to transfer it to useful financial information suited for non-profit organizations. This resolves the issues on the maintenance of chart of accounts, keeping journals and ledgers for recording transactions, use of double-entry bookkeeping system, and usage of appropriate account titles for every asset item.

Although this method sometimes is beneficial, oftentimes lead to misapplication of accounting procedures since the standards can be misinterpreted by bookkeepers and accountants.

C, Accountants and bookkeepers of the NPOs must conduct regularly consultation with peers within the same industry.

The respondents also noted that they sometimes consult with their peers and friends in the profession regarding matters that are unusual and rarely being encountered in the preparation of financial reports. Thus, proper valuation of assets will be resolved, therefore correctly presented in the financial reports. Observance also of the generally accepted accounting principles will be eminent as their peers share how they treat special transactions in the financial reports.

D. Exploring financial reporting knowledge from online sources.

The preparers of financial statements also pointed out that they get ideas from the internet when they feel they need to, especially when none of their peers know how to resolve the issues they encountered.

E. NPOs shall submit the organization to a regularly audit by the external auditors.

Some respondents stated that there are cases when a financial audit is necessary to correct the financial data which they prepared especially when the NPO will be submitting an audited financial statement for compliance to the various sectors of the government such as Securities and Exchange Commission, Bureau of Internal Revenue, etc. By letting auditors do audit on their books, accountants and bookkeepers will gain knowledge on the proper accounting treatment, methods, valuation, etc. in terms of recording assets.

OUTPUT

This customized financial reporting manual for NPOS was furnished to assist managers, bookkeepers and accountants of Not-for-Profit Organizations in the preparation of their financial statements for reporting purposes. Such manual was designed to improve the reliability and enhance the quality of the financial statements for the benefit of the entire society.

This was prepared in accordance with the applicable generally accepted accounting principles (GAAP) specifically suitable for not-for-profit organizations (NPOs). It includes all the policies and accounting treatments of the various transactions of the non-profit organizations.

This manual has adopted the double-entry bookkeeping system in relation to the mandates of the existing accounting provisions or standards and the accrual basis of accounting except for the cash flow transactions. Moreover, the complete flow of the accounting cycle from the analysis of transactions to the reporting procedure were discussed exclusively with corresponding illustrative examples. The chart of accounts was also provided to classify the effect of the transactions to the assets, liabilities, equity/net assets, revenue/income and expenses. Yet, the chart of accounts presented in this manual are only suggested accounts. Meaning, the managers of Not-for-Profit Organizations (NPOs) has the discretion to use other account title for specific items in such a way that accounts used will properly reflect and portray its substance and effect to the financial statements. Some provisions from the Philippine Accounting Standards and Philippine Financial Reporting Standards which were deemed to be relevant were also included in the manual.

The existing financial reporting practices of the NPOs often result to problems such as issuance of accounting documents, maintenance of financial information and recording and presentation of the assets, liabilities, capital, revenues and expenses in the financial statements. Thus, it leads to unreliable financial reports affecting the decisions to be made. Such condition has given the author the motivation to design this manual to address the dilemmas in the current practices. This will aid the preparers of financial statements and the managers in the presentation and preparation of reliable financial statements since all the necessary bookkeeping practices as mandated by the IFRS applicable to NPOs were included in the manual with corresponding illustrative examples. Possibly, this will resolve the problems encountered by these establishments.

Moreover, some tips to use this guide-book more effectively and efficiently were given below:

1. Managers, bookkeepers and accountants must first obtain an interest in reading and studying this manual.

2. In case readers including managers find it difficult to understand some technical terms because of their educational background, seminars and lectures under the supervision of Certified Public Accountant or other experts can be conducted to ex-

plain the terms.

3. If managers have financial difficulty in paying the honoraria of the lecturer, they may just refer to the illustrative example given by the author in the manual since it was discussed by means of procedural approach.

4. The supporting documents presented in the manual can be used as basis of furnishing the documents necessary for recording the transactions.

5. The function of recording the transactions illustrated in the manual can be delegated to personnel who have technical knowledge in accounting for smooth flow of recording process.

6. The content of the manual should be implemented on a regular basis.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that there were financial reporting practices employed by bookkeepers and accountants in the preparation of financial statements but these were not consistently applied and most were not appropriate for not-for-profit organizations, the current financial reporting practices were fairly compliant to the generally accepted accounting principles (GAAP), the accountants and bookkeepers tend to comply with CPD requirements, self-study, consult with peers and subject their organization to financial audit in order to solve the gaps and issues they encountered.

Based from the above findings, the researcher humbly recommends the following, to wit:

1. The Proposed Customized Financial Reporting Manual should be adopted in order to improve the reliability and enhance the quality of the financial statements of the Not-for-Profit Organizations.

2. The Proposed Customized Financial Reporting Manual may be utilized by the Sorsogon State University as an extension project for it to be properly disseminated to the respective NPOs in the Province of Sorsogon.

3. Not-for-Profit Organizations' bookkeepers and accountants should strictly observe the generally accepted accounting principles as basis of their financial reporting practices.

4. The management of the Not-for-Profit Organizations should regularly submit their financial reports for external audit so as to ensure compliance to the existing accounting and auditing standards

5.Future related in-depth researches should be coNducted in order to strengthen the result of this study, to wit: Financial Reporting Practices in compliance with the requirements of the Bureau of Internal Revenue, Financial Reporting Practices of Small and Medium Enterprises in compliance with the Philippine Financial Reporting Standards for SMEs, Accounting Practices for Barangay Micro Business Enterprise, etc.

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