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RESEARCH ARTICLE
Accounting

Financial Reporting Framework for Non-Profit Organizations: Application of MSUGT and IFRS *

Kâr Amacı Gütmeyen İşletmelerde Finansal Raporlama Çerçevesi: MSUGT VE UFRS Uygulamaları

İlknur Ergün [1]

ÖZET

Kâr Amacı Gütmeyen Kuruluşların (KAGİ) kurulma amacı ne olursa olsun, faaliyetlerine devam edebilmek için çeşitli şekillerde gelir elde etmeleri gerekmektedir. En önemli gelir kaynakları bağışlardır. Bu nedenle öncelikle bağışçılar olmak üzere bu kuruluşların tüm paydaşları kurumun faaliyetleri ve elde ettikleri bağışları nerelere harcadıklarını öğrenmek isterler. Ayrıca bu kuruluşların sürekliliğinin sağlanması, etkin yönetilmelerine ve kaynakların etkin kullanımına bağlıdır. Yöneticiler, doğru kararlar alabilmek için muhasebe bilgi sistemi içerisinde üretilmiş olan finansal bilgilere ve raporlara ihtiyaç duyarlar. Ticari işletmelerden farklı faaliyetleri olan KAGİ'ler için henüz bir raporlama çerçevesi oluşturulmadığından bu kuruluşlar yerel finansal raporlama çerçevelerini veya ticari işletmeler için geliştirilmiş olan raporlama çerçevelerini kullanmaktadırlar. Çalışmada bu çerçevelerin KAGİ'lerin raporlamalarına uygun olup olmadığı ve KAGİ'ler için hazırlanacak olan raporlama çerçeveleri için kavramsal bir zemin hazırlamak amaçlanmıştır. Bu nedenle Darüşşafaka Cemiyeti'nin 2022 yılı finansal raporları içerik analizi yöntemi ile incelenmiştir. Yapılan araştırma sonucunda MSUGT ve UFRS kapsamında hazırlanan finansal raporların KAGİ'lere uygun olmadığı tespit edilmiştir. Çalışmada, tahakkuk esaslı muhasebenin KAGİ'ler için uygun olduğu ancak küçük hacimli işletmelerin yapılarına uygun olduğu durumlarda nakit esaslı muhasebe sistemini kullanma olanağının sağlanması önerilmiştir. Hesap planlarında sermaye yerine fonları dikkate alan sunum, gayri nakdi bağışlarda ölçüm esasları ile amortisman ayırma, güvence hizmetleri, karşılık ayırma diğer önerilen konulardır. Fon muhasebesinin kullanımı, paydaşlara daha şeffaf ve açıklayıcı bilgiler sağlayacaktır.

Anahtar Kelimeler: Kâr Amacı Gütmeyen Kuruluşlar, Finansal Raporlama Çerçevesi, MSUGT, UFRS.

ABSTRACT

Whatever their purpose, non-profit organizations (NPOs) need to generate income in various ways to continue their activities. Their most important source of income is donations. Therefore, all of an NPO's stakeholders, but especially donors, want to learn about the organization's activities and where it spends the received donations. The continuity of NPOs also depends on effective management and efficient use of resources. To make the right decisions, NPO managers need financial information and reports produced within the accounting information system. However, because no reporting framework has been established for NPOs—whose activities differ from those of commercial enterprises—they use local financial reporting frameworks or reporting frameworks developed for commercial enterprises. The aim of the study was to determine whether such frameworks are suitable for the reporting of NPOs and to develop a conceptual basis for NPO-specific reporting frameworks. To do so, the 2022 financial reports of the Darüşşafaka Cemiyeti were examined using content analysis. The findings indicated that financial reports prepared within the scope of MSUGT and IFRS were not suitable for NPOs. It is recommended that accrual accounting is suitable for NPOs, but in cases where it is not suitable for the structure of small-scale enterprises, it is recommended that cash basis accounting system should be used. In addition, it suggested that NPOs should use a presentation that takes into account funds instead of capital in the chart of accounts, measurement principles in non-cash donations and amortization, assurance services, and provisioning. By using fund accounting, NPOs can provide more transparent and explanatory information to stakeholders.

Keywords: Non-profit organizations, financial reporting framework, MSUGT, IFRS.

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INTRODUCTION

An organization's accounting information system processes financial data for decision-making, produces reliable reports, and stores accurate information for internal and external users (Doğan, 2016:198). Organizations have relationships with many people and organizations in their environment who want to access the information generated by its accounting information system for various reasons. This information will be useful to users in direct proportion to its accuracy, reliability, and suitability. Meeting these stakeholder expectations can maximize the benefits to users in both for-profit and non-profit organizations.

Non-profit organizations (NPOs) can be broadly defined as economic entities that provide socially demanded services without the aim of making a profit. They are not established as commercial or manufacturing enterprises, nor do they

[1] Instr. Dr., Tekirdağ Namık Kemal University, Muratlı Vocational School, Department of Management and Organization, Tekirdağ, Türkiye.

have shares that express ownership. In an NPO, the amount remaining after deducting expenses and costs from income is used to improve its service capacity (Aydın, 1992: 235). In other words, NPOs are organizations that do not distribute their income or profit to their members, partners, or employees. Because NPOs are established for very different purposes, they are referred to by different names, including non-profit organizations, voluntary organizations, non-governmental organizations, charitable aid organizations, or tax-exempt organizations, and considered as working in the non-profit sector or third sector (Uslu, 1999: 24).

To achieve their aims, NPOs need to generate income in various ways to continue their activities. The individuals and organizations that provide this income naturally want to know how it is spent. In addition, these organizations need to be managed effectively and use their resources efficiently. To make the right decisions, managers and NPO funders rely on the financial information and reports produced within the organization's accounting information system. It is extremely important that managers, especially those who are not under pressure to make a profit, remain accountable to stakeholders. Hence, the ways that NPOs conduct their financial reporting is an issue that attracts attention.

NPOs, which are increasing rapidly, contribute to societal development in both developed and developing countries. To ensure accountability and audit these organizations more effectively, it is considered beneficial to comply with international standards. High quality reporting will also increase the confidence of donors, who are an important source of funding (Crawford, 2014:21). Various efforts have been made internationally to establish specific reporting frameworks for NPOs to report accountable, accurate, reliable, and transparent information, including in Turkey.

Currently, NPO accountants and auditors rely on international accounting standards because the existing financial reporting frameworks are inadequate for reporting the diverse activities of NPOs. However, these international standards are also not sufficient because the objectives and activities of an NPO differ to those of a for-profit company. Due to the complexity of reporting, NPOs have produced poor quality financial reports. The lack of a suitable NPO reporting framework has left many practitioners confused about the content of revenue, income, accounts, receipts, profit, surplus, excess of income over expenses or vice versa, depreciation of assets, recognition of income and expenses, balance sheet, profit and loss account, and equity. There is also a debate about how much information should be disclosed in financial statements (Kisaku, 2017: 6).

NPOs' objectives and operations differ from those of commercial organizations. Nevertheless, it is still extremely important for an NPO to prepare transparent and accountable financial statements that reflect its real situation, both for the organization's managers and its donors and other stakeholders. With this in mind, the study examines whether the financial statements of NPOs operating in Turkey are appropriate for their purposes and activities, and whether the legal requirements and international reporting frameworks are sufficient to provide stakeholders with transparent, understandable, and reliable information. Given ongoing efforts to prepare a new reporting framework for NPOs in Turkey, the findings of our study will be useful to the institutions regulating these standards.

The following section reviews the literature on NPO reporting frameworks while section three discusses the differences between NPO reporting frameworks and NPO accounting. The fourth section explains the application and results, and discusses the relevance of the findings to the needs of NPOs. The final section evaluates the findings and provides some recommendations for regulators.

LITERATURE REVIEW

Research over many years has demonstrated that NPOs differ from commercial enterprises in terms of the reason for their establishment, their activities, and their revenues, which leads to specific issues for NPOs in financial reporting (Aydın, 1992; Sağlam, 1997; Khumuwala et al., 1997; Gross et al., 2005). Accordingly, an increasing number of studies has investigated how to develop a new reporting framework for NPOs. The following paragraphs explain the need for an NPO-specific reporting framework and discuss some studies that offer suggestions.

Erol (2007) examined the accounting system of non-governmental organizations (NGOs) and foundations in Turkey by evaluating relevant legislation and academic studies. He found that NGOs generally use the Uniform Chart of Accounts designed for foundations by Turkey's Ministry of Finance, but noted that there are many problems with this accounting system in practice.

Şahin (2016) analyzed the accounting and tax legislation used by foundations operating in Turkey. The findings showed that, although these foundations use the Uniform Chart of Accounts prepared for foundations, this plan is unsuitable for foundations because it is oriented towards commercial enterprises. Moreover, in order to benefit from the tax exemptions granted to foundations, many commercial enterprises try to operate as if they were foundations.

Breen et al. (2018) conducted an international survey to determine whether NPOs should prepare their financial statements according to specific standards. The participants, from various regions, agreed that NPOs can increase their accountability through high quality financial reporting. In addition, the findings clearly identified the need for a reporting framework for the financial information and statements that NPOs should report in accordance with their objectives and activities.

Crawford et al. (2018) surveyed more than 600 respondents from 179 countries to better understand the financial reporting practices of organizations in the non-profit sector globally, and to determine whether there is a need to improve their international financial reporting. More than 72 per cent of respondents recognized the need for a new reporting framework appropriate for NPOs. The findings also indicated that it is important to establish a standard to avoid inconsistencies in the requirements of funders, especially for NPOs with a large presence in developing countries.

Gacar (2020) focused on NPOs in Turkey that produce integrated reports, finding that only a few NPOs engage in integrated reporting, and concluding that it would be appropriate for NPOs to produce integrated reports like commercial enterprises. A content analysis of the 2018 integrated report of the Türk Eğitim Gönüllüleri Vakfı revealed that the institution presented financial and non-financial information in the relevant period report.

Based on an analysis of the financial reporting requirements of NPOs in Turkey, Solangi (2021) made several recommendations to improve the quality of financial reporting. More specifically, he analyzed the financial statements for 2010-2015 of 19 NPOs in Ankara that were audited by one of the major audit firms or received funding from at least one of the top ten global donors. He found no relationship between audit firm and reporting quality, and concluded that NPOs' financial accountability can be measured using the KAR-QMT method.

Galip (2023) examined the applicability of international accounting and financial reporting standards to NPOs in Turkey in terms of the quality of financial information reporting in order to make conceptual contributions to the draft reporting text to be prepared for these organizations. He suggested that instead of the 3-grouping used in fund accounting, a 2-grouping should be used, expressing only restricted and unrestricted funds, and that a narrative reporting section should be added to the financial reporting section.

Haberal (2024) identified the financial and non-financial information that Turkish NPOs should report and proposed a framework for doing so, given the lack of a framework for NPO financial reporting. She also determined how non-financial information reporting contributes to achieving the UN's Sustainable Development Goals (SDGs). The findings showed that 177 Turkish NPOs do not share their financial reports public while only 22 include contributions towards the SDGs on their websites. These related to healthy and quality life, gender equality, quality education, and climate action.

This review of the literature reveals that only a few studies have compared international reporting standards with NPO reporting requirements and provided opinions on the drafts produced. No study has evaluated NPO's financial reporting according to international accounting standards or General Communiqué on the Implementation of Accounting System (MSUGT), which is applied in Turkey. Hence, the present study makes an original contribution and provides useful information for the institutions that regulate financial reporting standards.

REPORTING FRAMEWORK FOR NPO'S AND DIFFERENCES BETWEEN NPO AND COMMERCIAL BUSINESS ACCOUNTING

There are many different types of NPOs depending on the purpose for which they were established. According to the American Institute of Certified Public Accountants (AICPA), these include associations, social clubs, professional organizations, private foundations, libraries, trade unions, museums, childcare centers, political parties, research organizations, public broadcasting, religious organizations, hospitals, universities and nursing homes. The main difference between these organizations and profit-oriented enterprises is that the measure of success is not profit but using the available resources to provide the highest quality service possible (Aydın, 1992: 236). NPOs currently operate in many different fields and can range in size from small local communities to large international aid organizations, although most are small communities. Their sources of funding can also vary (Haberal, 2024: 949).

An NPO accounts for its financial transactions in accordance with local legislation, which varies across countries. Foundations and associations established under the auspices of audited companies have their own legislation regulating accounting rules and principles (Yener, 2023: 61). Studies are ongoing to create an international reporting framework for NPOs. More specifically, since 2019, Humentum and CIPFA have been developing the International Non-Profit Accounting Guide (INPAG) as part of the IFR4NPO project. The new reporting framework is expected to be published in mid-2025 (https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/;

https://www.ifr4npo.org/). In the US, the Financial Accounting Standards Board (FASB) issued the first significant regulation for NPOs in 2016: ASC 2016-14, Not-for-Profit Entities (Topic 958) (Yener, 2023: 51).

In Turkey, a Uniform Chart of Accounts for Foundations was published in 2008. Foundations exceeding a certain volume are obliged to keep accounts according to the balance sheet method and to report in accordance with the corresponding uniform chart of accounts (Vakıflar Yönetmeliği, p.50). Associations, on the other hand, are obliged to keep accounts and submit declarations in accordance with Turkish legislation. They have to submit their declarations and financial reports to a digital platform called DERBIS under the Ministry of Interior (https://www.siviltoplum.gov.tr/dernekler-bilgi-sistemi-derbis). Although there is not yet an accounting framework for all NPOs in Turkey, the Public Oversight Accounting and Auditing Standards Authority (POA) has initiated studies to prepare a local reporting framework for NPOs in accordance with Turkey's specific conditions. The Turkish Commercial Code (TCC) has empowered the authority in this regard. TCC Article 88, paragraph 3 states: "The POA shall have the authority to set special and exceptional standards and make different regulations for different sizes of companies, sectors and NPOs. These standards and regulations shall be considered as part of the Turkish Accounting Standards."

When establishing an accounting framework for NPOs, it is important to first understand the main differences between for-profit and non-profit accounting. These differences are explained below, divided into four groups (Aydın, 1992: 241).

Cash and Accrual Based Accounting

In cash accounting, income is recognized when it is received. Similarly, an expense is recorded when it is actually paid. In this case, it does not matter when the income is actually received or when the expense is incurred. Rather, the accounts are kept entirely on the basis of cash flows (Shakdwipee, 2023: 45). When prepared on this basis, financial reports include cash receipts, cash payments, and the difference between them. However, such as balance sheet is of limited use because it provides limited accounting information. For example, it is not possible to highlight a deterioration in the organization's financial structure (Akgün, 2022: 22-23).

Cash-based accounting is a simpler method than accrual-based accounting because less information needs to be tracked, which makes it easier for business owners to learn, use, and monitor their accounting systems. In particular, because cash-based accounting focuses solely on tangible funds, it is simpler to see exactly how much money is on hand. However, while this system makes it straightforward to track cash flows, it offers users limited information. For example, it is not possible to monitor the business's receivables or liabilities. Furthermore, cash-based accounting does not accurately reflect a company's assets, liabilities, revenues, or expenses (Gnanarajah, 2014: 3). Hence, the system may not be suitable for some businesses despite its practicality (Shakdwipee, 2023: 46).

Many small NPOs use cash-based accounting while differentiating themselves from commercial enterprises. For example, some use a modified cash-based accounting method, which records certain entries on an accrual basis whereas others follow the cash basis. These organizations maintain their records throughout the year on a cash basis, but at the end of the year, they transition to the accrual basis by recording their liabilities and receivables. The key is that the maintained records align with the organization's nature and needs (Gross et al., 2005:19).

In accrual-based accounting, all transactions and events are recorded at the moment they occur, regardless of any cash inflows or outflows. Consequently, these transactions and events are also reported in the financial statements for the relevant period. The components recognized under accrual-based accounting include assets, liabilities, net assets/equity, revenue, and expenses (https://www.ipsasb.org). In an accrual accounting system, revenues represent amounts attributable to the reporting year, regardless of whether those amounts have actually been collected, while expenses reflect the quantity of goods and services consumed during the year, irrespective of when they were paid for within the reporting period. At the end of the period, the accrued revenues are compared with the actual expenditures to determine the financial outcome of the period (Akgün, 2022: 18).

Fund Accounting and Fund Transfer

Fund accounting is not commonly used in commercial enterprises. Instead, it is specific to NPOs and based on the nature of the funds provided by donors. Some donors allow their donated funds to be used only for purposes determined by the board of directors. In this system, all unrestricted amounts are recorded in a single fund, while restricted funds are tracked in separate fund accounts. Consequently, separate financial statements are prepared for each fund. Fund accounting is suitable for NPOs because it complies with legal restrictions and makes it easy to report how the organization is managing donor-specified funds. On the other hand, interpreting the financial statements may be confusing for those without accounting backgrounds (Gross et al., 2005: 19). In addition, the presence of numerous fund identities can complicate the accounting data, potentially hindering the preparation of useful financial reports at the organizational level (Kırel, 2000: 28).

Fund accounting also makes use of the accounting or balance sheet equation (assets = capital + liabilities). Each fund is considered as a commercial enterprise and thus achieves this balance. NPOs collect their assets in numerous fund accounts, called funds, which are balanced by the equation (assets = fund balance (equity) + liabilities) (Aydın, 1992: 243).

An NPO's board of directors may sometimes be authorized for various reasons to transfer such funds among themselves. However, it is extremely important that a transferred fund is neither recorded as income in the fund account to which it is transferred nor as an expense in the fund account from which it is withdrawn. The easiest way to avoid this is to show the transfer in the statement of activities just before the heading "change in net assets". That is, fund transfers are neither expense- nor income- generating because they are a purely internal activity. The most effective way to present a transfer between funds in a way that minimizes the risk of misunderstanding is in a columnar table, where the activity of each fund is shown in a separate column side by side. This allows the reader to easily see both sides of the transfer (Gross et al., 2005: 44).

Capitalization and Depreciation of Fixed Assets

In commercial enterprises, fixed assets are capitalized on acquisition and depreciated over their useful lives, whereas in NPOs, fixed assets are not fully capitalized at the time of acquisition and may be depreciated as an expense, although some NPOs follow the same practice as commercial enterprises (Sağlam, 1997: 192). Property acquired through donations is recorded at historical cost or market value and then depreciated over its economic life. The difference between the book value and the accumulated depreciation is reported as the net value of the asset. However, an asset that has increased in value over the years is carried at its fair value until it is sold. In general, NPOs do not record fixed assets at fair value. Depreciation is spread evenly over this recorded value (Gross et al., 2005: 50-52).

Donations, Restrictions, and Non-Cash Donations

Unlike commercial enterprises, many NPOs derive a significant proportion of their income from donations. The timing of fundraising is partly under the control of the organization. Over time, donors may, for a variety of reasons, lose interest in the organization and stop giving. In practice, many NPOs have developed the ability to determine with considerable accuracy the amount they can or cannot collect. According to the accounting literature, unconditional pledges that the organization expects to collect should be recorded as assets while a provision should be made for the portion estimated to be uncollectible (Gross et al., 2005: 114).

Donations to NPOs may be unrestricted, temporarily restricted, or fully restricted. An unrestricted donation is a fund that is free to be used for any purpose. A restricted donation may be limited in relation to the organization's activities, nature, charter, objectives, etc. A temporarily restricted donation may be linked to the passage of time or the occurrence of an event. Sometimes, however, the restriction is permanent, and unaffected by the passage of time or the occurrence of an event. These are called permanently restricted donations (Budak and Gary, 2010:2-3). For temporary restrictions, determining the passage of time or the occurrence of an event may sometimes require considerable judgment. In addition, the present value of donations that are not received immediately but over a period of time is also calculated in the accounts (Gross et al., 2005: 114-116).

NPOs may also receive non-cash donations, such as equipment, securities, materials, or buildings. Commercial enterprises usually do not receive such donations. In accounting for such donations, NPOs should consider individually when and at what value it is appropriate to account for them (Gross et al, 2005: 20).

METHODOLOGY

This section presents the purpose, scope, and method of the present study, the findings, and the discussion of the findings.

Purpose, Scope, and Method of the Study

In the absence of a specific accounting framework for NPOs in Turkey, these organizations report their financial statements within the framework of existing legislation, although some also strive to report in accordance with international accounting frameworks. However, this results in a wide variety of reporting formats. The aim of this study is to compare the reporting formats applied by NPOs in accordance with Turkish legislation and determine the consistency of these reporting frameworks with the objectives and activities of NPOs.

The financial statements of NPOs in Turkey were analyzed through their websites using the document analysis method. As there is no obligation to disclose financial statements to the public, the financial statements of a small number of NPOs were accessed. Among these, the financial statements of Darüşşafaka Cemiyeti for the year 2022, which provided the most detailed disclosure, were included in the scope of the study.

Darüşşafaka Cemiyeti is one of the first non-governmental organizations in the field of education in Turkey and was founded in 1863. Today, it provides qualified education to children whose father and/or mother are not alive and who have insufficient financial means. Analysis of the web site has showed that the organization keeps its books on a balance sheet basis in accordance with Article 11 of the Law on Associations No. 5253 and Articles 31 and 41 of the Regulation on Associations and prepares its balance sheet and income statement in accordance with the General Communiqué on the Implementation of Accounting System (MSUGT). In accordance with Turkish legislation, Darüşşafaka Cemiyeti submits its financial statements, through the DERBIS system. Darüşşafaka Cemiyeti also prepares an independently audited Consolidated Financial Statement and Consolidated Comprehensive Statement of Profit or Loss prepared in accordance with Turkish Financial Reporting Standards.

Given that financial statements enable their users to evaluate NPOs, the present study used content analysis to evaluate Darüşşafaka Cemiyeti's annually published consolidated statement of financial position, balance sheet, consolidated statement of comprehensive activities, and income statement for 2022. Daçka Eğitim Araştırma Tanıtım Organization Hizmetleri A.Ş. is a subsidiary of Darüşşafaka Cemiyeti, which also has a commercial enterprise. Therefore, consolidated financial statements are presented.

The main limitation of the present study is that it only analyzes the financial statements of one NPO in Turkey, namely Darüşşafaka Cemiyeti.

Results and Discussion

As an NPO, Darüşşafaka Cemiyeti collects both cash and non-cash donations from individuals and legal entities. The majority of donations are in the form of real estate. Under protocols signed with its donors, the NPO allocates independent sections in various housing complexes to the donors for the duration of their lives and provides them with free food, accommodation, care, and health services (Darüşşafaka Independent Auditor's Report, 2022: 5). In addition, the revenues of other foundations may be allocated for Darüşşafaka Cemiyeti's use.

Table 1 presents the Consolidated Financial Statements of Darüşşafaka Cemiyeti and its subsidiaries for 2022 in accordance with the IFRS legislation, while Table 2 presents the balance sheet for 2022 prepared in accordance with the MSUGT legislation.

Table 1. Consolidated Financial Statement of Darüşşafaka Cemiyeti and Subsidiaries, for the Year Ending December 31, 2022 (TL)

ASSETS	**1,478,193,120**	**LIABILITIES**	**54,323,890**
Liquid Assets	**738,294,820**	**Trade Payables**	**33,520,690**
Cash	140,750	Suppliers	29,092,360
Checks Received	535,000	Deposits and Guarantees Taken	3,055,790
Banks	730,816,320	Other Trade Payables	1,372,550
Checks Given and Payment Orders (-)	(62,840)	**Other Payables**	**7,860,230**
Cash Equivalent Investments	78,490	Due to Subsidiaries	1,212,030
Other liquid Assets	6,787,100	Due to Members	6,572,360
Marketable Securities	**706,668,490**	Due to Personnel	75,840
Common Stocks	21,440	**Advances Received**	**5,463,060**
Public Sector Bonds, Notes And Shares	589,699,020	Advances Received	1,017,000
Other Marketable Securities	116,949,020	Other Advances Received	4,446,060
Provision for Decrees in Value of Marketable Securities (-)	(1,000)	**Taxes And Other Payables**	**4,233,520**
Trade Receivables	**3,629,680**	Taxes And Funds Payables	1575.110
Customers	1,881,490	Social Security Premiums Payable	2,658,410
Notes Receivable	515,650	**Deferred Income and Expenses Accruals**	**3,160,390**
Rediscount of Notes Receivables (-)	(58,550)	Short Term Deferred Income	163,000
Deposits and Guarantees Given	1,291,090	Expense Accruals	2,997,390
Doubtful Trade Receivables	55,260	**LONG TERM LIABILITIES**	**155,374,700**
Provisions for Doubtful Trade Rec. (-)	(379)	**Financial Liabilities**	**154,260,980**
Other Receivables	**2,087,420**	Bank Loans	154,260,980
Due from Subsidiaries	2,028,380	**Provisions for Liabilities and Expenses**	**957,730**
Due from Members	55,260	Employee Termination Benefits	957,730
Other Receivables	379	**Deferred Income and Expenses Following Years**	**156,000**
Inventories	**3,404,420**	Long Term Deferred Income	156,000
Trade Goods	870,360	**EQUITIES**	**4,075,083,800**
Other Inventories	335	**Share Capital**	**377,938,190**
Advances Given to Suppliers	2,530,720	Share Capital	377,938,190

Prepaid Expenses and Income Accounts Following Months	20,218,560	**Share Capital Reserves**	**49,433,900**
Income Accruals	20,218,560	Reval. Fund of Tangible Fixed Assets	49,433,900
Other Current Assets	3,889,720	Profit Reserves	842,843,650
Work Advance	31,110	Special Funds	842,843,650
Advance Given To Personnel	595,300	**Previous Year's Profits**	**1,582,843,330**
Other Current Assets	3,263,310	Previous Year's Profits	1,582,843,330
FIX ASSETS	**2,806,503,270**	**Net Profit For The Period**	**1,222,024,730**
Trade Receivables	**86,690**	Net Profit For The Period	1,222,024,730
Deposits and Guarantees Given	86,690		
Financial Fix Assets	**822,460**		
Long Term Securities	72,460		
Subsidiaries	750,000		
Tangible Fixed Assets	**2,453,885,260**		
Land	448,217,320		
Buildings	1,925,019,350		
Motor Vehicles	6,515,450		
Furniture and Fixtures	84,244,390		
Accumulated Amortization (-)	(20,460,080)		
Construction in Progress	10,528,830		
Intangible Fix Assets	**325,730**		
Rights	3,079,320		
Accumulated Amortization (-)	(2,753,590)		
Prepaid Expenses and Income Accounts Following Years	**6,093,930**		
Prepaid Expenses for the Following Years	6,093,930		
Other Fixed Assets	**345,289,200**		
Assets and Inventories Held for Sale	345,289,200		
TOTAL ASSETS	**4,284,696,390**	**TOTAL LIABILITIES**	**4,284,696,390**

Source: Darüşşafaka Cemiyeti Integrated Report, 2022

Table 2. Darüşşafaka Cemiyeti Balance Sheet for the Year Ending December 31, 2022 (TL)

ASSETS	**1,478,193,120**	**LIABILITIES**	**54,323,890**
Liquid Assets	**738,294,820**	**Trade Payables**	**33,520,690**
Cash	140,750	Suppliers	29,092,360
Checks Received	535,000	Deposits and Guarantees Taken	3,055,790
Banks	730,816,320	Other Trade Payables	1,372,550
Checks Given and Payment Orders (-)	(62,840)	**Other Payables**	**7,860,230**
Cash Equivalent Investments	78,490	Due to Subsidiaries	1,212,030
Other liquid Assets	6,787,100	Due to Members	6,572,360
Marketable Securities	**706,668,490**	Due to Personnel	75,840
Common Stocks	21,440	**Advances Received**	**5,463,060**
Public Sector Bonds, Notes And Shares	589,699,020	Advances Received	1,017,000
Other Marketable Securities	116,949,020	Other Advances Received	4,446,060
Provision for Decrees in Value of Marketable Securities (-)	(1,000)	**Taxes And Other Payables**	**4,233,520**
Trade Receivables	**3,629,680**	Taxes And Funds Payables	1575.110
Customers	1,881,490	Social Security Premiums Payable	2,658,410
Notes Receivable	515,650	**Deferred Income and Expenses Accruals**	**3,160,390**
Rediscount of Notes Receivables (-)	(58,550)	Short Term Deferred Income	163,000
Deposits and Guarantees Given	1,291,090	Expense Accruals	2,997,390
Doubtful Trade Receivables	55,260	**LONG TERM LIABILITIES**	**155,374,700**
Provisions for Doubtful Trade Rec. (-)	(379)	**Financial Liabilities**	**154,260,980**
Other Receivables	**2,087,420**	Bank Loans	154,260,980
Due from Subsidiaries	2,028,380	**Provisions for Liabilities and Expenses**	**957,730**
Due from Members	55,260	Employee Termination Benefits	957,730
Other Receivables	379	**Deferred Income and Expenses Following Years**	**156,000**
Inventories	**3,404,420**	Long Term Deferred Income	156,000
Trade Goods	870,360	**EQUITIES**	**4,075,083,800**
Other Inventories	335	**Share Capital**	**377,938,190**
Advances Given to Suppliers	2,530,720	Share Capital	377,938,190
Prepaid Expenses and Income Accounts Following Months	20,218,560	**Share Capital Reserves**	**49,433,900**
Income Accruals	20,218,560	Reval. Fund of Tangible Fixed Assets	49,433,900
Other Current Assets	3,889,720	Profit Reserves	842,843,650
Work Advance	31,110	Special Funds	842,843,650

Advance Given To Personnel	595,300	**Previous Year's Profits**	**1,582,843,330**
Other Current Assets	3,263,310	Previous Year's Profits	1,582,843,330
FIX ASSETS	**2,806,503,270**	**Net Profit For The Period**	**1,222,024,730**
Trade Receivables	**86,690**	Net Profit For The Period	1,222,024,730
Deposits and Guarantees Given	86,690		
Financial Fix Assets	**822,460**		
Long Term Securities	72,460		
Subsidiaries	750,000		
Tangible Fixed Assets	**2,453,885,260**		
Land	448,217,320		
Buildings	1,925,019,350		
Motor Vehicles	6,515,450		
Furniture and Fixtures	84,244,390		
Accumulated Amortization (-)	(20,460,080)		
Construction in Progress	10,528,830		
Intangible Fix Assets	**325,730**		
Rights	3,079,320		
Accumulated Amortization (-)	(2,753,590)		
Prepaid Expenses and Income Accounts Following Years	**6,093,930**		
Prepaid Expenses for the Following Years	6,093,930		
Other Fixed Assets	**345,289,200**		
Assets and Inventories Held for Sale	345,289,200		
TOTAL ASSETS	**4,284,696,390**	**TOTAL LIABILITIES**	**4,284,696,390**

Source: Darüşşafaka Cemiyeti Integrated Report, 2022

A comparison of Table 1 and Table 2 shows that there are significant differences in presentation between them, which is not unexpected given their different organizational purposes. More specifically, regarding equity, the MSUGT balance sheet includes the capital account, whereas the IFRS financial statement does not. A significant proportion of the financial assets recorded as non-current in the IFRS financial statement are recorded as current in the balance sheet under securities. Inventories are shown in Table 2 but not in Table 1. Deferred income amounting to TL 298,776,682 is shown in the IFRS financial statement, while deferred income is not included in long-term liabilities in the balance sheet. An analysis of the footnotes to the auditor's report shows that this amount relates to conditional donations. It is explained that the differences with the other reported amounts result from the restatement of the balance sheet and income statement prepared in accordance with IFRS on the basis of the balance sheet and the income statement prepared in accordance with the Act on the basis of the records in the legal books. It is explained in the Integrated Report that the adjustments are additional depreciation records of tangible fixed assets calculated in accordance with the relevant standards, records of provisions for intensive real estate, provisions for severance pay, provisions for litigation provisions, provisions for unused annual leave, additional provisions for receivables, actuarial losses and gains, and financial assets and liabilities discounted at the balance sheet date (Darüşşafaka Cemiyeti Entegre Raporu, 2022: 179).

One of the most important elements of equity, which is the difference between a company's assets and liabilities, is capital. Capital expresses the rights of shareholders in the company. For NPOs, however, the most important sources of funding are donors, who do not have profit expectations—unlike business partners. Hence, it would be more appropriate in the financial reports of NPOs to use fund accounts rather than the capital account to express the funds provided by donors. Given the conditional donations identified in the auditor's report, it is appropriate to distinguish whether the funds are unrestricted, permanently restricted, or temporarily restricted.

Tables 3 and 4 present Darüşşafaka Cemiyeti's financial results for 2022. Table 3 shows the comprehensive consolidated statement of activities and Table 4 shows the income statement for 2022.

Table 3. Consolidated Statement of Operations for Darüşşafaka Cemiyeti and its Subsidiaries 01.01.2022-31.12.2022 (TL)

Income from donations and operations	1,202,780,685
Operating expenses (-)	(329,487,310)
Net income from operations	**873,293,375**
Other incomes	52,987,250
Other expenses (-)	(4,739,214)
Income from investment activities	37,714,317
Net income before financial income and expenses	**959,255,728**
Financial income	213,139,240
Financial expenses (-)	(5,784,972)
Income before tax	**1,166,609,996**
Deferred tax expenses (-)	(408,913)
Net operating result	**1.16.201.083**

Other comprehensive income/expenses	
Increase in evaluation of property, plant, and equipment	108,814,906
Defined benefit plans compensation losses	(9,905,763)
Net comprehensive operating result	**1,265,920,226**

Source: Darüşşafaka Cemiyeti Independent Auditor Report, 2022

Table 4. Darüşşafaka Cemiyeti Income Table for 01.01.2022-31.12.2022 (TL)

GROSS SALES	**539,065,520**
1. Domestic Sales	*237,417,320*
3.Other Incomes	*301,648,200*
SALES DISCOUNTS (-)	**0**
NET SALES	**538,065,520**
COST OF SALES (-)	**242,819,040**
- Cost of Services Sold (-)	*242,819,040*
GROSS SALES PROFIT	**296,246,490**
OPERATIONAL EXPENSES	**52,739,350**
- General Administrative Expenses (-)	*52,739,350*
OPERATIONAL PROFIT	**243,507,140**
OTHER OPERATIONS INCOME AND PROFITS	**1,076,025,760**
- Dividend Income from Participations	*3,090*
- Interesting Income	*12,566,380*
- Provisions No Longer Required	*311,910*
- Gains on Marketable Securities' Sales	*4,890,690*
- Foreign Exchange Gain	*163,692,640*
- Rediscount on Interest Gain	*1,498,930*
- Other Income and Profit from Operations	*893,062,130*
OTHER OPERATIONS EXPENSES AND LOSSES	**94,952,860**
- Provision Expenses (-)	*757,890*
- Losses on Marketable Securities' Sales (-)	*477,740*
- Foreign Exchange Losses (-)	*86,009,160*
- Interesting Expenses on Discounted Notes (-)	*1,540,990*
- Other Expenses and Losses (-)	*6,167,070*
FINANCIAL EXPENSES	**5,737,180**
- Short-Term Borrowing Expenses (-)	*5,737,180*
ORDINARY PROFIT	**1,218,842,860**
EXTRAORDINARY INCOME AND PROFITS	**3,658,470**
- Income and Profit Relating to Previous Periods	*577,710*
- Other Extraordinary Income and Profits	*3,080,760*
EXTRAORDINARY EXPENSE AND LOSSES	**476,590**
- Previous Period Expenses and Losses (-)	*175,890*
- Other Extraordinary Expense and Losses (-)	*300,610*
PROFIT FOR THE PERIOD	**1,222,024,730**
PROVISION FOR INCOME TAXES AND OTHERLEGAL LIABILITIES	**0**
NET PROFIT FOR THE PERIOD	**1,222,024,730**

Source: Darüşşafaka Cemiyeti Integrated Report, 2022

Whereas Table 3 includes income from donations under operating income, Table 4 provides no explanation for income from donations, although the table includes a significant part of the donations in other operating income and profit. In the financial statement prepared in accordance with IFRS, the income from the main activities is presented as TL 873,293,375, while in the financial statement prepared in accordance with MSGUT it is presented as TL 243,507,140. Considering that Darüşşafaka Cemiyeti's main income source is donations, it would be appropriate to disclose this income under the name of donations and report it under the main activities. This suggests that the financial statements prepared under the MSGUT do not provide a fair presentation. It is also noteworthy that the accounts "Domestic sales" and "Cost of sales" are included in the financial statements of the same entity prepared under two different regulations, while these accounts are not included in the financial statements prepared under IFRS. As the basis of organization is different, other differences can be expected. Although the operating results are close to each other, the operating result is presented as "Net comprehensive operating result" in Table 3 and "Net profit for the period" in Table 4. However, from the perspective that the surplus income at the end of the period was obtained in accordance with the objectives of the company and that NPOs do not distribute profit and do not aim to make profit, it is not appropriate to express the result as profit or loss.

CONCLUSIONS and RECOMMENDATIONS

Taking into account the characteristics of NPO accounting, this study compared the following four issues with the financial statements of a Turkish NPO, Darüşşafaka Cemiyeti.

1) Cash and accrual accounting: Analysis of Darüşşafaka Cemiyeti's financial statements revealed that it uses accrual-based accounting, which is appropriate given its legal structure and volume of operations.

As explained earlier, the main reason for using cash accounting is its simplicity. In addition, it is costly for small organizations to use accrual accounting and meet international reporting standards. In Turkey, there are many small organizations. Therefore, when there is no significant difference between the use of cash and accrual basis for small NPOs, cash-based accounting can be considered appropriate. NPOs with a small volume of operations can choose freely between a cash or accrual basis. Management can make this choice by evaluating the characteristics of the organization.

2) Fund accounting and fund transfers: The analysis showed that Darüşşafaka Cemiyeti did not used fund accounting for either IFRS or MSGUT regulation. Consequently, although the organization received conditional donations, no corresponding account was included in the net assets. Thus, it would be appropriate in this case to maintain separate fund accounting for funds with different characteristics and provided in return for a specific purpose, and to provide an explanatory note when transfers are made between them. The structure of the single chart of accounts used for reporting under the MSGUT is not suitable for this purpose. It is therefore recommended that a new chart of accounts be prepared for NPOs.

3) Accounting and depreciation of fixed assets: The analysis showed that Darüşşafaka Cemiyeti classifies its fixed assets as tangible fixed assets and investment property in its statement of financial position prepared in accordance with international accounting standards. In the balance sheet, it reports in accordance with the uniform chart of accounts. Given that the organization's funders want to know the real situation, it is important to determine the initial value of fixed assets acquired through donations. Darüşşafaka Cemiyeti's audit report states that the value of these assets is determined by experts and that changes in the value of fixed assets over the years are determined by the experts. Institutions that acquire fixed assets free of charge in this way should have the value of these assets determined by experts in the field, which will provide assurance to the financial statements. The timing of the acquisition of donated assets should also be carefully considered. Under MSGUT, however, it is not possible to determine the year-end value of assets at fair value or market value.

4) Donations, restrictions, and gifts in kind: The analysis revealed that donations, despite being one of Darüşşafaka Cemiyeti's most important sources of income, are not included in the income statement prepared under MSGUT. Instead, a significant part of the donations is included in other operating income and expenses and is not included in operating income. On the other hand, they are reported in the consolidated statement of comprehensive income under IFRS. It is important to report donations according to the type of donation. In addition, a provision should be recognized for conditional donations to be received in the next period and for uncollectible donations. All donations in kind should be valued and recorded at the value determined using the most appropriate method. The motivation of donors depends on the continuity of Darüşşafaka Cemiyeti. In the case of conditional donations made in return for lifelong service, the provisions to be made for such donations are important in the assessment of perpetuity. However, the NPO has not made any such provision.

The analysis and evaluation presented in this paper indicates the urgent need to establish a new accounting framework and chart of accounts for NPOs that takes into account their specific characteristics. In particular, our analysis demonstrated that the reporting under IFRS and MSGUT is not appropriate for the functioning of the accounts of NPOs and effective accounting of their activities. It would therefore be extremely beneficial for both the organizations concerned and their stakeholders if Turkey's regulators were to issue more appropriate accounting standards for NPOs as soon as possible.

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