

THE CONSTITUTION, ORGANIZATION AND OPERATION OF NON-PROFIT ORGANIZATIONS

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Abstract:

Non-profit organizations are associations, foundations or federations which use their own assets and revenues in order to pursue activities of general, community or non-patrimonial purpose. According to these legal regulations, associations and foundations can be constituted by natural or legal persons with the purpose of undertaking such activities of general, community or non-patrimonial (non-profit) purpose. The organization and operation of non-profit organizations presents a series of particularities in the case of associations as opposed to foundations, but there are also common elements.

Keywords: non-profit, associations, community, elements, foundations, financial.

An **association** is a subject of law constituted by three or more persons who, on the basis of an agreement, pool together, without the right to a refund, financial, knowledge or in kind contributions in order to carry out activities of general, community or personal non-patrimonial purpose.

In order to obtain the status of legal person, associations sign an article of association and the statute of the association.

The article of association must include the following:

- identification data of the association: name and place of abode or registered office;
- expressing the will of association and the intended purpose;
- name of association;
- registered office of the association;
- the duration of the association – fixed-term, with the term being clearly stated, or non-fixed-term;

- initial patrimony of the association; the active patrimony, worth at least double the minimum gross salary per economy, at the time when the association is constituted, consists of contributions in kind and/or cash of the associates;
- the nominal composition of the first governing, administration and oversight bodies of the association;
- the person or persons authorised to carry out the procedure of obtaining the legal person status;
- the signatures of the associates;

The Statute includes, in addition to the article of association, the following elements:

- details regarding the purpose and objectives of the association;
- the means of obtaining and losing the status of associate;
- the rights and obligations of associates;
- the categories of the association's patrimonial resources;
- the duties of the governing, administration and oversight bodies of the association;
- the destination of goods, in the case dissolution of the association, adhering to the provisions of Article 60 from O.G. nr. 26/2000.

The association becomes a legal entity by being incorporated into the Register of Associations and Foundations. In order for this to happen one of the associates (authorised by his mandate) submits an application for registration which will be accompanied by the following documents: the article of association, the statute of the association, documents in support of the registered office and initial patrimony.

The association can set up branches, as territorial structures, with a minimum of 3 members, own governing bodies and a separate patrimony from that of the association.

The *branches* are entities with legal persona and can, in their own name, perform legal acts of management and conservation, within the framework set out in the article of association of the branch. The branch is set up through the decision of the general assembly of the association. The legal entity status is obtained at the time of the incorpora-

tion of the branch into the Register of Associations and Foundations.

A foundation is a subject of law constituted by one or more persons who, based on a legal act between living or for the cause of death, establish a patrimony which is reserved permanently and irrevocably for a general or community purpose.

The initial patrimonial act of the foundation must include assets in kind or cash which must total at least one hundred times the value of the minimum gross salary per economy, at the time when the foundation is constituted. Exceptions from this requirement are those foundations whose sole purpose is raising funds for other associations or foundations. In the case of these foundations the initial patrimony must only total 20 times the minimum gross salary per economy.

In order to obtain the status of legal person, the founder or founders must sign an article of association and the statute of the foundation. The content of these documents is the same as in the case of the establishment of an association. The legal person status is obtained after the incorporation into the Register of Associations and Foundations. The application for registration must be accompanied by the article of association, the statute of the foundation and documents which are evidence of the registered office of the foundation and initial patrimony.

After the incorporation of the foundation into the Register of Associations and Foundations, the founders or their beneficiaries cannot revoke the article of association. In addition, after incorporation, the article of association cannot be attacked by the personal creditors of the founders.

The foundation can set up branches, as territorial structures, through the decision of the board of directors, who allocate each branch a patrimony. The branches have to be run by own boards of directors, made up of at least 3 members.

THE ORGANIZATION AND OPERATION OF ASSOCIATIONS.

The governing bodies of the association are: the general assembly, the board of directors and the auditor or, where appropriate, internal audit committee.

The general assembly is the governing body constituted by all the associates and has

the following competencies:

- establishing the general strategy and objectives of the association;
- approving the income and expenditure budget and the balance sheet;
- electing and recalling members of the board of directors;
- electing and recalling the auditor or, where appropriate, members of the internal audit committee;
- setting up branches;
- making modifications to the article of association and the statute;
- dissolution and liquidation of the association and the destination of assets remaining after liquidation;
- other competencies defined through law or the statute;

The general assembly meets at least once a year and has permanent control over the board of directors and the auditor or, where appropriate, the internal audit committee.

The decisions of the general assembly, within the limit of the law, the article of association and/or the statute respectively, are binding even for the associates who were not present at the general assembly or voted against the decision.

The board of directors ensures the enforcement of the decisions made by the general assembly and is therefore an executive body. As many as a quarter of its members can be people from outside the association.

The general rules regarding the organization and running of the board of directors are established through the statute. The board of directors can also have internal rules of procedure.

In order to carry out its tasks, the board of directors has the following competencies:

- a) present a report on its activity in the previous period, the execution of the income and expenditure budget, the balance sheet, the project for the income and expenditure budget and a project for the association's programmes to the general assembly;
- b) enter into legal acts in the name of the association;

c) approve the organizational and personnel policy of the association, if not otherwise provided by statute;

d) perform any other duties outlined in the statute or provided by the general assembly;

Members of the board of directors can not have any other positions of leaderships in a public institution if the association has the purpose of supporting the activity of said public institution.

The auditor or internal audit committee is the body that provides internal financial control of the association. For associations with more than 100 members enrolled before the last general assembly meeting, internal financial control is exercised by an internal audit committee, of which at least one member shall be an authorised auditor or accountant. It is composed of an odd number of members, most of which are associates. Board members can not be auditors.

The general rules for the organization and functioning of the audit committee are approved by the general assembly. The audit committee can also have internal rules of procedure.

In order to exercise its duties, the auditor (internal audit committee) has the following competencies:

- monitor the administration of the patrimony belonging to the association;
- prepare reports and submit them to the general assembly;
- can participate in the board of director meeting without voting;
- perform such other duties stipulated in statute or established by the general assembly.

COMMON ELEMENTS IN THE ORGANIZATION AND RUNNING OF ASSOCIATIONS AND FOUNDATIONS

Two or more associations or foundations can organize in a federation. Federations obtain their own legal persona and function within the limits set out by law for associations with non-patrimonial purpose.

A federation becomes a legal person when it is incorporated into the Register of Federations. The associations or foundations which make up the federation keep their own

legal persona and own patrimony. In the case of dissolution of the federation, if the statute does not state otherwise, the goods remaining are divided equally between the legal persons who make up the federation.

Associations and foundations can be declared by the Romanian Government as being of public utility in the following circumstances:

- a) their activity is of general or community purpose;
- b) have been running for at least 3 years and have carried out at least part of their objectives;
- c) present a report which shows previous significant activity through the running of programmes or projects specific to their purpose along with balance sheets and revenue and expenditure budgets from the previous 3 years;
- d) the value of the active annual patrimony is equal to at least the value of the initial patrimony.

The recognition of having public utility gives the association or foundation the following rights:

- a) to lease public services with non-commercial character, according to the law;
- b) preferential access to resources from the national and local budgets;
- c) to mention that the association or foundation is of public interest in all documents it drafts.

At the same time, the recognition of an association or foundation as being of public interest creates the following obligations:

- a) to maintain at least the level of activity and performance that led to the recognition;
- b) to notify the competent administrative authority of any changes to the article of association or statute, as well as activity reports and annual balance sheets, the administrative authority being responsible of making these documents available to any interested party;
- c) to publish excerpts of activity reports and annual balance sheets in the Official Journal of Romania part IV as well as in the National register of legal persons without patri-

monial purpose.

Recognition of public utility is of unlimited duration. If the association or foundation no longer meets one or more of the conditions which led to the recognition of public utility, the Government, at the proposal of the competent administrative authority or the Ministry of Justice, will withdraw the act of recognition.

Revenue of associations or federations originates from the following sources: membership fees, interest and dividends arising from the investment of amounts available under law, dividends from companies set up by the associations or federations, income from direct economic activities, donations, sponsorships or related, resources obtained from the state budget and / or local budgets, other revenues provided by law. Foundations revenues do not include their membership fees.

Associations and foundations may establish companies. Dividends from the activities of such companies, if not reinvested in the same company, must be used to achieve the purpose of the association or foundation.

Dissolution of associations and federations can be achieved in the following ways: de jure; by court decision or, if necessary, by decision of the general assembly.

Foundations are dissolved by the following forms: de jure and by court order.

In the case of dissolution of associations or foundations, assets remaining after liquidation can not be transmitted to individuals. These goods may be transmitted to private legal persons or public legal persons with similar purposes through a procedure established in the statute of the association or foundation.

For records of legal persons without patrimonial purpose the National register of legal persons without patrimonial purpose - associations, foundations and federations was set up. This register is kept by the Ministry of Justice through its specialized directorate and is public. The Ministry of Justice is obliged to issue at the expense of the person requesting certified copies of records made in the National Register and on written evidence.

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4. Legea contabilității nr. 82/1991, republicată în MO nr. 48/2005, modificată prin Legea nr. 259/2007 – MO nr. 506/2007.

LEGAL REGULATIONS REGARDING THE ORGANIZATION OF ACCOUNTANCY BY LEGAL PERSONS WITHOUT PATRIMONIAL PURPOSES

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Abstract:

Legal persons without patrimonial purpose host and direct accounts, typically in separate compartments, led by a chief financial officer, accounting officer or other person empowered to perform this function, who must have higher economic studies.

Accounting can also be organized through service contracts with legal entities or individuals authorized to have the capacity of auditor or accountant, members of the Body of Expert and Licensed Accountants of Romania.

Keywords: financial, system, methodological, persons, management.

Accounting organization by legal persons without patrimonial purpose is based on two systems, namely single and double game. These two accounting systems were regulated by two separate laws, namely:

- *accounting simple game* was covered by the Order of the Ministry of Public Finances 2.329/2001 for approving the methodological norms for the organization and management of accounting in a simple game by non-profit legal persons, published in the Official Journal of Romania, Part I, no. 20 of January 15, 2002

- *double entry bookkeeping* was regulated by Ministry of Public Finance Order no. 1.829/2003 approving Accounting Regulations for legal non-profit persons, published in the Official Journal of Romania, Part I, no. 66 and 66 bis of January 27, 2004, with subsequent amendments and completions.

As of January 1, 2008 these two accounting systems are covered under a single act, the Order of the Ministry of Economy and Finance no. 1969 of November 9, 2007, published in the Official Journal of Romania, Part I, no. 846 of December 10, 2007, which repealed the two orders of the Ministry of Public Finance above.

Legal persons without patrimonial purpose that can organize and lead accounts in simple game are religious establishments and owners associations. Regulations on organization and management accounting in a simple game by such legal persons without patrimonial purpose are included in Appendix III. 2 to the Order of the Ministry of Economy and Finance no. 1969/2007, published in the Official Journal of Romania no. 846 bis of 10.12.2007.

Legal persons without patrimonial purpose who are required to organize and lead accounts in the double are associations, foundations or other such organizations, political parties, employers, trade unions, religious denominations, and other legal entities established under special law, carrying out non-profit activities, which are required, by law, to lead double accounting and prepare financial statements. These regulations apply both to activities without patrimonial purpose, including special purpose activities undertaken by legal persons without patrimonial purpose as well as the economic activities conducted by these legal entities. For economic activities undertaken according to the law by legal persons without patrimonial purpose, these regulations shall be completed, where appropriate, in accordance with accounting regulations of the Fourth Directive of the European Economic Community, in the Annex to the Order of the Ministry of Public Finances. 1.752/2005, with amendments and completions.

According to Accounting Law No. 82/1991 republished¹, responsible for organizing and keeping the accounts is the manager, officer or other person who must manage the unit. Liable for the incorrect application of accounting rules is the chief financial officer, accounting officer or other person empowered to perform this function, together with his staff. If the accounting is run under a service contract, done with natural or legal

1. Official Journal of Romania, Part I, nr. 454/18.06.2008.

persons authorized under the law, it is their responsibility to keep the accounts, according to the law and contractual provisions.

Persons responsible for organizing and keeping the accounts are required to ensure the conditions necessary to perform the following activities:

- preparation of documents substantiating economic and financial operations;
- accurate and updated accounting;
- organization and inventory of assets and liability, as well as recovery results;
- following the rules for drawing up annual financial statements, submitting them to the competent bodies within the law and ensuring their publication;
- keeping documents, accounting records and annual financial statements;
- organizing management accounting adapted to the specific legal entity without patrimonial purpose (if any).

Legal persons without patrimonial purpose are required to perform the organization and management of financial accounting. If they also carry out economic activities they are required to organize and lead the analytical accounts separate for:

- activities without patrimonial purpose;
- special purpose activities;
- economic activities.

Accounting management is organized according to the specific needs of individual legal persons without patrimonial purposes, with the following objectives:

- establishing costs, revenues and results;
- calculation of profitability of products, works performed and services provided;
- preparation of revenue and expenditure budgets for specific types of activities;
- monitoring and control of budget execution in order to provide intelligence information to decision-makers.

Accounting records required for legal persons without patrimonial purpose include the following three categories: documentary evidence, accounting records, annual financial statements.

Documentary evidence is written documents showing the economic and financial transactions recorded by the unit. They are common to both legal persons without patrimonial purpose and those with lucrative purpose.

Preparation and use of documentary evidence is governed by the following acts:

- G.D. no. 831/1997 for approval of special forms, common for the economy, modified through OMFP no. 693/2005 and OMFP 2226/2006
- MF Order no. 1850/2005 approving forms without special arrangements, common for the economy.

Supporting documents comprise the primary evidence and are the basis on which accounting records are carried out. They undertake the responsibility of those who have prepared, endorsed and approved them, and those who have registered them in the accounts, as appropriate. According to the accounting act, mandatory accounting books are: the Journal register, the general ledger, the inventory ledger.

The Journal register is the accounting document that records, in chronological order, all the economic and financial transactions referred to in the supporting documents.

The general ledger organizes records made in the journal register log on accounts. Thus, this register shall be established for each account open in the current accounts of the unit.

The inventory ledger shall be made at the end of the financial year and contains the synthesized and grouped assets and liabilities resulting from inventory. The information in this record underpins the balance sheet.

In order to verify the correct recording in the accounting documents of transactions, the trial balance is prepared at least annually, at each financial year end, or at the time when the accounting reports are compiled as prescribed by law.

The structure of these books, the methods used to fill them in and to establish monthly turnover is the same as for companies. The books are used in strict accordance with their intended purpose and should be presented in an orderly and complete fashion

so as to allow, at any time, the identification and examination of accounting operations performed.

In accordance with Article 25 of the republished Accounting Law, mandatory accounting records and supporting documents underlying the financial accounting records are kept in the archive of the unit for 10 years, starting from the end of the financial year in which they were completed, except payroll records which are kept for 50 years. Exception from these provisions may be established, justifiably, by order of the Ministry of Economy and Finance, with the books and documents being kept for 5 years.

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ACCOUNTING IN SIMPLE PARTY FOR LEGAL PERSONS WITHOUT PATRIMONIAL PURPOSE

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Abstract:

Simple bookkeeping, as provided for by these regulations, means all records and accounting documents, legally regulated, used to record necessarily accounting chronologically and systematically, as well as economic transactions recorded in supporting documents.

The categories of legal persons without patrimonial purpose that can organize and lead accounts in a simple game are: religious establishments and owners associations.

Keywords: registers, rules, models, activity, persons, patrimonial.

A list of the main registers and forms, common for the economy, concerning financial and accounting activities, as well as models of accounting registers, specific accounting form models and rules for their preparation and use for organization and management of accounting in a simple game by legal persons without patrimonial purpose, are provided in the Annex to these regulations. Legal persons without patrimonial purpose can use all forms provided in the Annex to these regulations, or part of them, depending on the specific nature of work carried out. Where necessary, legal persons without patrimonial purpose may use other forms common in the economy for financial and accounting activity, developed by the Ministry of Economy and Finance.

Models for forms common for the economy can be tailored to the specific needs of legal persons without patrimonial purpose, provided that the minimum of information is kept and procedures for preparation and use are respected.

Legal persons without patrimonial purpose will also use other forms provided through explicit laws regulating specific economic activities.

With the use of financial and accounting computing systems, it is necessary to comply with minimum criteria for software used in the financial – accounting field, provided through norms for preparation and use of registers and common forms of business accounting and financial economics, developed by the Ministry Economy and Finance. Legal persons without patrimonial purpose leading accounting simple game do not file annual financial statements.

To verify the correct recording of accounting transactions, a monthly “State of balances of assets and liabilities” is drafted, based on data entered and aggregated in the accounting records and logs.

General rules for supporting and financial-accounting documents and accounting records. Any economic and financial operations carried out are recorded immediately in a document which underpins the accounting records, acquiring the quality of supporting document.

Under the provisions of art. 6. (2) of the Accounting Law no. 82/1991, republished, with amendments and additions, documents underlying accounting records are binding on the persons who have prepared, endorsed and approved them, as well as those who have registered them in the accounts, as appropriate.

Supporting documents must include the following main elements:

- name of the document;
- name and, where appropriate, registered office of the unit that prepared the document;
- the document number and date of drafting;
- tax code (where appropriate);
- mention of parties involved in the economic and financial operation (when applicable);
- the content of the economic and financial operation and, when necessary, its legal basis;
- quantity and value data related to the economic and financial transaction;
- the full name and signatures of the people who have prepared, endorsed and approved the document, where appropriate;
- other elements to ensure complete record of transactions.

The documents underlying accounting records may become supporting documents if they provide all the information required under the legal rules in place.

Data is documented in ink, pen, or by using automatic data processing systems, as appropriate. Supporting and accounting documents should not feature erasing, modifications or other such practices, empty spaces between transactions entered or missing files.

Errors are corrected by crossing the text or figure with a line, so it is still legible, and the correct text or figure written above.

Corrections are made in all copies of supporting documents and confirmed with the signature of the person who drafted / corrected the documents, mentioning the date of the correction.

If the documents are not allowed corrections, as is the case with those from which cash is received, warranted or issued, or other documents for which the rules of use require such restrictions, the document prepared incorrectly is cancelled and remains in that book (is not detached) unless it is a travel order (for a business trip), based on which the difference between actual travel expenses and the advance granted is received or refunded.

In order to be recorded in accounting, financial and economic operations of legal persons without patrimonial purpose must be supported by original documents, prepared or reconstituted according to legal provisions.

In case of loss, theft or destruction of supporting or accounting documents, legal persons without patrimonial purpose will take measures to reconstitute them within maximum 30 days of the discovery, according to regulations issued for this purpose.

Archiving and record keeping of supporting documents and accounts as well as replacing lost, stolen or destroyed documents and accounting shall be in accordance with norms for preparation and use of registers and common forms of business accounting and financial economics, developed and issued by the Ministry of Economy and Finance.

Accounting for capital transactions, property, except for tangible fixed assets, third parties and for the treasury is carried out with the Statement for various operations. Accounting for assets of tangible fixed nature is carried out with the fixed asset statement. Accounting for stocks is carried out with the statement for material values. Accounting of costs depends on the nature of the expenditure, divided between different

kinds of activities, in effect activities without patrimonial purpose, special purpose activities according to law and economic activities.

For each kind of expenditure a statement for various operations will be drawn up, which will record all documents chronologically.

Accounting for revenue depends on the kinds of income, by nature, classified based on kinds of activities, with activities without patrimonial purpose, special purpose activities according to the law and economic activities.

For each kind of income a statement for various operations will be drawn up, which will record all documents chronologically.

The classification of revenue and expenses of legal persons without patrimonial purpose is provided in the Accounting rules for legal persons without patrimonial purposes, included in Annex. 1, and is the basis for their revenue and expenditure budget.

Accounting for revenue and expenditure, by nature, can develop analytically, according to the needs imposed by certain rules or according to the needs of the legal entity without patrimonial purpose. In the case of a change over from double entry book-keeping to accounting in a simple game, trial balances from the previous year will be taken as opening balances in the statement for various transactions for the current year.

With the change over from accounting in a simple game to double accounting, balances sheets for various operations in the year ending December 31st will be the opening trial balances for the current year.

Accounting records

In simple game accounting for legal persons without patrimonial purpose the following accounting records are mandatory: Register – Log journal and Register – inventory.

Accounting records are to be used in strict accordance with their intended purpose, presented in an orderly manner and drafted so that, at any time, identifying and controlling accounting operations performed is possible.

The log journal records of all operations undertaken, based on documentary evidence. Transactions recorded in the journal are totalled both monthly and annually.

The inventory serves to record all assets and liabilities, grouped according to their nature, inventoried according to legal norms.

Legal persons without patrimonial purpose are required to conduct general inventory of assets and liabilities, in cases provided by law, in compliance with applicable accounting regulations and rules issued in this regard the Ministry of Economy and Finance.

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FINANCIAL STATEMENTS FOR LEGAL PERSONS WITHOUT PATRIMONIAL PURPOSE

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Abstract:

Annual financial statements and annual financial statements that are simplified represent a whole. According to the law of accounting, annual financial statements must be accompanied by a written declaration of assumption of responsibility by the leadership of the legal person for annual financial statements in accordance with Accounting rules for legal persons without patrimonial purpose. Annual financial statements are prepared in a clear manner and should be consistent with the provisions of these regulations.

Keywords: annual, patrimonial, financial, profit, element, organizations.

Legal persons without patrimonial purpose draw up annual financial statements which include:

- balance sheet;
- profit and loss account;
- notes to annual financial statements.

Employers' organizations and unions, as well as other organizations without patrimonial purpose, which do not engage in economic activity, prepare simplified annual financial statements comprising:

- shorthand balance sheet;
- shorthand account of the income year;
- notes to annual financial statements simplified.

Annual financial statements give a true and fair view of assets, liabilities, financial position, surplus or deficit on activities without patrimonial purpose and special purpose activities.

Unincorporated subunits, which are legal persons without patrimonial purpose resident in Romania to organize and lead their own accounts to trial balance level, but do not prepare annual financial statements.

The work undertaken abroad by unincorporated subunits, owned by legal persons without patrimonial purpose established in Romania, is included in the financial statements of the Romanian legal entity and reported in Romania, according to these regulations.

The exchange rate used for conversion into national currency of balance sheets drawn in another currency is the exchange rate by the National Bank of Romania, valid for the balance sheet date. This course is specified in the notes.

The regulators may require additional information to be included in the annual financial statements in addition to those to be presented in accordance with these regulations.

The format of the profit and loss account and balance sheet, particularly regarding the form adopted for their presentation, can not be changed from one year to another. In exceptional cases, deviations from this principle are allowed. Any such deviation must be disclosed in the notes, together with an explanation of the reasons which have led to them.

The format, sequence and terminology of the elements in the balance sheet and profit and loss account that are preceded by Arabic numerals must be adapted, if the specific nature of a legal entity without patrimonial purpose requires it. Such adjustments should be made when required by special regulations issued by Regulatory authorities.

To every element of the balance sheet or the profit and loss account, the corresponding value of the element in the previous year must be associated. An element of the balance sheet or the profit and loss account for which no value exists should not be given unless there is a corresponding item from the previous financial year.

The balance sheet is the summary document which sets out the assets, liabilities and capital of the legal entity without patrimonial purpose at the end of the financial year and in other cases provided by law.

In the balance sheet, assets and liabilities are grouped by nature and liquidity or nature and chargeability, respectively.

If an asset or a liability is related to more than one item in the balance sheet format, its relationship with other elements is to be presented in the notes, if such a presentation is essential for understanding the annual financial statements.

Shares in affiliated entities should be presented only in the elements provided for this purpose.

All commitments in the form of guarantees of any kind must, if there is no obligation to present them as liabilities, should be clearly presented in the notes, and a distinction should be made between different types of guarantees recognized by national law. A separate presentation should also be made the value of any collateral that was provided.

Commitments of this kind that exists in relationship with affiliated entities should be presented separately.

Presentation of assets as fixed assets or current assets depends on the purpose for which they are intended.

Fixed assets comprise those assets for use on a continuing basis, for the purposes of the legal person's activities without patrimonial purpose.

Movements in the various elements of property are presented in the notes. For this purpose they are presented distinctly, starting with the acquisition or production cost for each fixed element, on the one hand, growth, sales and transfers during the financial year, on the other hand, and the adjustments to the cumulative value at the beginning of the financial year and the balance sheet date as well as adjustments made during the financial year to the value adjustments in previous financial years. Value adjustments are shown in the balance sheet as clear deductions from relevant elements.

If, when annual accounts are prepared under these rules for the first time, the purchase price or production cost of a property can not be determined without unreasonable expense or delay, the residual value at the beginning of the financial year may be treated as the purchase price or production cost. Any application of this provision should be documented in the notes.

Rights of property and similar rights, as defined by national law, should be presented in "Land and buildings".

For the purpose of these rules, by participating interests we mean rights to the capital of other entities, whether or not through certificates, which, by creating a durable link with those entities, are intended to contribute to the activities of the entity. Holding parts of the capital of other entities is presumed to represent a participating interest when exceeding a percentage of 20%.

Costs incurred during the financial year, but are related to a subsequent financial year shall be presented under the heading of "expenses in advance".

Income which, although concerning the current financial year, shall not be received until its expiry, should be submitted under "Claims". If such revenues are significant, they should also be presented in the notes.

Value adjustments include all adjustments which take account of reductions in values of individual assets established at the balance sheet date whether that reduction is final or not. Value adjustments can be: permanent adjustments, referred to as depreciation, and / or temporary adjustments, referred to as adjustments for impairment or loss of value, depending on the permanent or temporary nature of adjustment of asset values.

Provisions are intended to cover debts whose nature is clearly defined and which on balance are likely to be, or it is certain that there will be, but there is uncertainty regarding their value or the date at which they will appear.

Provisions may not be used to adjust asset values.

Income receivable before the balance sheet date but relating to a subsequent financial year shall be presented under the heading of "Revenue in advance."

Expenses which, although concerning that financial year, will be paid only in the subsequent financial year shall be presented as "Debt". If such costs are significant, they should be presented in the notes.

GENERAL ACCOUNTING PRINCIPLES

Evidence presented in annual financial statements is evaluated in accordance with general accounting principles provided in this section, under accrual accounting. Thus, the effects of transactions and other events are recognized when transactions and events occur (and not as the treasury or its equivalent is received or paid) and recorded in the accounts and reported in the financial statements of the periods involved.

The principle of going concern. It must be presumed that a legal person without patrimonial purpose operates on the principle of going concern.

This principle requires that the entity continues its normal operation without going into liquidation status or significant reduction in activity. If the managers of an entity are aware of some elements of uncertainty related to certain events that may lead to inability

to continue work, these elements must be presented in the notes. If the annual financial statements are not prepared on the basis of continuity, this information should be presented, together with explanations on how they are drawn and reasons for the decision that the entity no longer able to continue working.

The principle of consistency. Assessment methods must be applied consistently from one year to another.

The principle of prudence. Assessment must be made on a prudent basis and, in particular:

- a) only the surplus / profits made at the time of the balance sheet can be included;
- b) must take into account all debts incurred during the current financial year or a previous year, even if they become apparent only between the balance sheet date and the date it is drawn up;
- c) must take into account all foreseeable liabilities and deficit / potential losses arising in the current financial year or a previous year, even if they become apparent only between the balance sheet date and the date it is drawn up;
- d) must taken into account all depreciation, whether the result of the financial year is lack / loss or surplus / profit.

The principle of independence of exercise. You must take into account the income and expenditure for the financial year, regardless of the date of receipt or payment of such income and expenditure.

The principle of separate assessment of assets and liabilities. Under this principle, the components of the assets or liabilities must be valued separately.

The principle of inviolability. The opening balance for each financial year must correspond with the closing balance of previous financial year.

The netting principle. Any offset between assets and liabilities or between income and expense items is prohibited. Any compensation between claims and liabilities of the legal person without patrimonial purpose to the same entity can be made,

respecting the law, but after recording accounting revenue and expenditure at full value.

Deviations from the general accounting principles in this section may be made in exceptional cases. Any such deviations must be listed in the notes and the reasons which have led to them, together with an assessment of their effect on the assets, liabilities, and surplus / profit or deficit / loss.

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