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CONCEPTUAL FRAMEWORK FOR PROJECT BUDGETING IN FOUNDATIONS KEEPING SIMPLIFIED RECORDS OF REVENUES AND COSTS

The changes, which were implemented in recent years in the scope of keeping records of the business activity conducted by foundations and the related reporting, have resulted in partial harmonization of the widely understood obligatory reporting. However, the implementation of facilitations in this scope, above all in the form of simplified records of revenues and costs, results in ambivalent attitudes. On the one hand, they are an opportunity for the smallest foundations and those starting their business activity. On the other hand, however, they are largely based on tax law and their construction, compared to accounting books, significantly limits the possibility to generate useful information for management purposes. The presented in the article framework of project budgeting, which takes into account the aspects of keeping the said records, is a solution supporting management of foundations in a project (task) perspective. In particular, this issue is important for foundations starting their activity, for those with limited resources as well as those, which face difficulties in obtaining external financing. Therefore, the aim of the article is to present general concepts for budgeting projects for foundations keeping simplified records of revenues and costs. In the study, the author used the methods of induction, deduction and analysis. Importantly, simplified records may foster or hinder the foundations' development. The article provides a contribution to further work on the presented concept. Project budgeting is a tool of managerial accounting and its attributes are compatible with statutory and task-oriented character of activities of all foundations.

Keywords: project budgeting, NGO, foundation, simplified records of revenues and costs

1. INTRODUCTION

The changes, which were implemented in recent years in the scope of keeping records of the business activity conducted by foundations and the related reporting, have resulted in partial harmonization of the widely understood obligatory reporting. However, the implementation of facilitations in this scope, above all in the form of simplified records of revenues and costs, results in ambivalent attitudes. On the one hand, they are an opportunity for the smallest foundations and those starting their business activity. On the other hand, however, they are largely based on tax law and their construction, compared to accounting

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books, significantly limits the possibility to generate useful information for management purposes. In this context, the aim of the article is to present general assumptions of project budgeting for foundations keeping simplified records of revenues and costs. In the study, the author used the methods of induction, deduction and analysis.

2. THE RULES OF KEEPING SIMPLIFIED RECORDS OF REVENUES AND COSTS BY FOUNDATIONS

Foundations, as legal persons, have the obligation imposed by the rules of the Accounting Act² to maintain their books of account. What is more, in 2017 the said units were obliged to prepare financial statements for 2016 in accordance with Appendix 1 to the abovementioned Act (in the case of the units keeping accounting books without simplifications), Appendix 4 (in the case of micro-units) or with Appendix 5 (in the case of small units). However, in 2018, foundations keeping their accounting books in 2017 can follow Appendix 6, dedicated to non-governmental organizations. It should be underlined that these obligations can be a considerable burden for small foundations due to the lack of sufficient human and financial resources. This argument was partially taken into account by the legislator in 2015, which resulted in the introduction to the Accounting Act of article 2 item 5, providing the opportunity to keep simplified records of revenues and costs (hereinafter referred to as simplified records) by the units indicated in article 10a item 1 of the Act of 24 April 2003 on public benefit and volunteer work³. They are, in particular, non-governmental organizations, excluding share-holding companies, and associations of local government units meeting the following conditions:

- operate in the area of public tasks (specified in article 4 item 1 of this act),
- do not conduct business activity within the meaning of the Act on freedom of economic activity,
- do not have the status of a public benefit organization,
- generate revenues only from: non-profit-making public benefit activities from membership contributions, donations, bequests, inheritances, grants, subsidies, revenues from public donations; paid public benefit activity from sales of goods and services; sales; hiring or leasing assets; interest earned on bank accounts or accounts in credit unions maintained in relation to the conducted activity, including interest earned on term deposits and other forms of saving, safekeeping or investing on these accounts,
- in the year preceding the year of the choice of keeping simplified records of revenues and costs generated revenues only from the sources specified in point 4, in the amount not exceeding 100 000 PLN.

Importantly, the decision on keeping simplified records is made by the approving authority within the meaning of the Act on accounting – as a rule the Foundation Council. The manner and conditions of keeping simplified records are indicated in the Regulation of the Minister of Finance from 18 December 2015 on keeping simplified records of revenues and

² The Act of 29 September 1994 on Accounting (Journal of Laws 2018 item 395).

³ The Act of 24 April 2003 on public benefit and volunteer work (Journal of Laws 2016 no.0 item 1817 as amended).

costs by some non-governmental organizations and associations of local government units⁴. The regulation took the form of a synthetic document consisting of 10 pages, where first 6 pages include implementing rules, whereas 4 last pages – annexes with explanatory notes.

Pursuant to paragraph 2 of the discussed regulation, simplified records include sets of provisions and their sums within the framework of the four basic elements including:

- a summary of revenues and costs specified in annex 1, which shall list generated revenues including: non-profit-making and paid public benefit activity and other activities as well as tax deductible costs and non-deductible costs;
- a summary of cash flows specified in annex 2, which shall present tax-exempt income (revenue) broken down by spent and unspent,
- employees' payroll sheets – kept individually for each employee, who are paid by the taxpayer under employment relationships;
- a list of tangible and intangible assets related to the conducted activity.

Moreover, general provisions included in the regulation indicate that simplified records should be kept in Polish language and currency (also in the computerized system), fairly, accurately, legibly and indelibly on the basis of true and fair evidence. Paper version should be prepared in booklets and its cards should be numbered. In addition, it is obligatory to present: a tax year, characteristics of the data processing system and the system of protecting data and their sets, including accounting documents. However, foundations that maintain this form of records are exempted from the obligation to prepare accounting policy and annual financial statement. In conclusion, it can be indicated that there is a high degree of similarity between the provisions of the discussed regulation (under discussion) and the provisions of the Regulation of the Minister of Finance from 26 August 2003 concerning keeping a tax book of revenue and expenditure⁵. Both legal acts are anchored mainly in the tax law system and not in the balance sheet law.

Due to a short time that elapsed from the introduction of simplified records to practice, it is currently difficult to state reliably how many entities of the third sector made use of the possibility to use this form. It is also worth considering whether the discussed form of records is for the foundation a determinant that fosters or hinders realization of social objectives. Therefore, the author made the SWOT analysis of keeping simplified records by foundations:

1. Strengths – optionality of the choice, simplicity of records, reduction of costs of keeping the records, time saving, no obligation to keep books of account (including the preparation of accounting policy and annual financial statements), the possibility of using the available resources for other purposes.
2. Weaknesses – being anchored in the provisions of tax law (there are discrepancies from the balance sheet law), potential costs of changes, limited information usefulness of the records for managers, lack of adjustment of simplified records to the task-oriented activities of the foundation.

⁴ Regulation of the Minister of Finance from 18 December 2015 on keeping simplified records of revenues and costs by some non-governmental organizations and associations of local government units (Journal of Laws 2015, item 2178 as amended).

⁵ Regulation of the Minister of Finance from 26 August 2003 r. concerning keeping a tax book of revenue and (Journal of Laws 2017, item 728).

3. Opportunities – development of the NGO sector, elimination of the basic barriers preventing from opening or functioning of smaller foundations, savings, boosting competitiveness in the third sector.
4. Threats – reduced transparency of economic and financial standing of the foundation, reduction of information usefulness for external environment, weakening of trust and relationships, risk of fraud, limitation of access to external financing.

In conclusion, simplified records may be a determinant that fosters or hinders carrying out activities by the foundation. The decision to keep this type of records is of a strategic character and should be made on the basis of the useful information about the mission, vision and the assumed objectives. It is likely to bring benefits to small foundations and those starting up activities, whereas for bigger foundations, raising external funds and where the emphasis is placed on transparency as well as true and fair view, it may constitute a significant barrier.

3. ASPECTS OF PROJECT BUDGETING IN FOUNDATIONS KEEPING SIMPLIFIED RECORDS

Taking into account the aim of the article, further considerations will relate to the foundations keeping solely simplified records. Such formulated objective results from the supporting argument that the adopted form of records significantly determines the possibilities of using management accounting. Books of account, as the most multidimensional and informationally useful⁶ system, provide a better basis to implement its tools, whereas simplified records may be a significant barrier on account of a range of limitations and solutions adopted from the tax system. Therefore, there is a need to present a tool, which corresponds to the character of activities realized by foundations. Project budgeting allows for comprehensive management of the activities both *ex ante* (planning) and *ex post* (control and settlement). Theoretical considerations were omitted in the article due to its applicational character⁷.

Moreover, the discussed tool may significantly reduce the phenomenon of information asymmetry, which manifests itself in the form of different usefulness of the information for its various recipients in the foundation's environment. In the internal aspect, it refers mainly to the managers of foundations, who will benefit from the solutions enabling them to obtain useful information on individual projects as they will help them increase the level of their managerial consciousness and, as a result, manage more effectively. In the external aspect, however, it refers mainly to the entities providing financing both at the stage of application

⁶ Cf.: B. Sadowska, *Activity-based budget in self-governmental practice*, Accountancy, No. 9, p. 7–10, The Accountants Association in Poland, Warsaw 2015; B. Sadowska, *Tools of financial accounting of the State Forests in the scope of satisfying information needs of the users of public, private and non-governmental sector in the concept of sustainable development of forest management.*, Acta Scientiarum Polonorum. Silvarum Colendarum Ratio et Industria Lignaria, Vol. 14, No. 2, Publishing house of the Faculty of Forestry of the University of Life Sciences in Poznań 2015.

⁷ More about project management in: F. Harrison, D. Lock, *Advanced Project Management: A Structured Approach*, fourth edition, Gower 2004; H. Kerzner, *Project Management: A Systems Approach to Planning, Scheduling and Controlling*, twelfth edition, Wiley 2017. More about the role of project budgeting in the system of project management in: M. Łada, A. Kozarkiewicz, *Management accounting and project controlling*, Warsaw 2007; M. Klinowski, *Projects-oriented management accounting*, CeDeWu, Warsaw 2010.

for funds and at the stage of their settlement. Increasing the level of realizing external information function when using project budgeting with the limited information usefulness of simplified records should result in building long-lasting and mature relationship ensuring further forms of financing in the future. Moreover, it may reduce the risk of a number of mistakes in the submitted applications which, as a rule, should specify the completion date for the task, its costs, people engaged, set objectives etc. Discrepancies between the declared plan and its implementation may result in the necessity to reimburse the funds and, in addition, to pay the penalties for late payment. Such a situation undoubtedly weakens already developed relationships, reducing the chance to receive financing again in the future for further tasks.

In order to synthetically present the application aspects of projects budgeting in the foundations keeping simplified records, the author made the SWOT analysis (similarly as in the previous part of the article):

1. Strengths – increasing usefulness of generated information, the foundation of increasing managerial consciousness and more effective management, reduction of the phenomenon of information asymmetry, basis for more transparent reporting, reduction of a number of dysfunctions (e.g. misunderstanding of the project, negligence of the priority parameter of a given project, erroneous planning etc.).
2. Weaknesses – restricted information usefulness of simplified records, time- and money-consuming implementation and use, disregard for the need for change, personal goals, obsessions and excuses, level of aspiration, aversion to budgeting, the lack of delegated powers and responsibility, non-adapted motivation system, the lack of support and training.
3. Opportunities – increased usefulness of information for external environment, increased trust and developing relationships, reduction of fraud, ensuring fixed external forms of financing, increased social awareness and interest concerning the third sector.
4. Threats – rapidly changing rules of law, including balance sheet and tax law, activity and position of large foundations and other non-governmental organizations, unfavorable political decisions concerning NGOs.

In conclusion, the analyzed strengths and opportunities considerably outweigh weaknesses and threats resulting from the use of project budgeting in the discussed entity. A significant determinant in this area is the level of managerial consciousness of the foundations' managers resulting from the recognized need to possess adequate useful information for internal and external environment. On account of the fact that simplified records provide information only about two types of revenue (from non-profit-making and paid public benefit activities) and two types of costs (tax deductible costs and non-deductible costs), the synthetic presentation of general assumptions of the project budgeting concept, taking into account the identified determinants, seems to be a reasonable action described in the objectives of the article.

4. FRAMEWORK OF PROJECT BUDGETING FOR FOUNDATIONS KEEPING SIMPLIFIED RECORDS

One of the fundamental challenges of a financial nature for the foundations' managers is to make a clear distinction between revenues from non-profit-making public benefit activities, paid public benefit activities and business activity. The most significant threats include the lack of awareness of conducting business activity and failure to inform relevant bodies (in particular the National Court Register). The author will not discuss them on account of the fact that simplified records is dedicated to foundations, which do not conduct business activity. However, in accordance with the rules of law, revenues from paid public benefit activity for a particular task (project) should be balanced with the costs of their realization, e.g. finished goods should not be sold at the price exceeding the production cost. In the case of realized tasks (projects) it is a difficult undertaking due to the fact that the actual costs, documented usually with external evidence, may be higher or lower which, in the second case, results in generating profit from the given task (project).

Formulation of framework for the concept being the subject of the article should be preceded by the identification of conditions of exogenous and endogenous nature. On account of the limited size of the article, the indicated issue will be discussed in another elaboration. At the same time, it is desirable to indicate the basic assumptions of the concept:

- it is developed for the foundations keeping (and complying with the conditions of) simplified records,
- it is created for the project in the area of the paid public benefit activity,
- it should take into consideration cost structure included in simplified records, i.e. tax deductible and non-deductible costs,
- it is based on the relationship between costs and the object (project),
- it is based on the traditional approach do project management.

The first assumption results from the set objective, whereas the second and the third ones are related to the earlier identified need to settle revenues “to zero” with tax deductible costs within the framework of a given task (project). The fourth assumption postulates identification of direct costs of a project – those that can be directly attributed to the project, and indirect costs, which are settled for all projects realized by the foundation. They result from the resources involved not only in the given project of the paid public benefit activity, but also in the remaining activity of the foundation. There is also a possibility to optionally identify variable costs of the project – those, which would not be generated if the project was not realized as well as fixed costs incurred by irrespective of whether the project is or is not implemented. However, such a presentation of costs requires additional preparatory work and should be realized above all by foundations, which had already used the elements of management accounting. The structure of the created concept is presented in figure 1.

A synthetic description of the elements of the structure presented in figure 1:

1. Work breakdown structure or scheduling allow the planning of project scope consisting, above all, in specifying activities necessary for the realization of the set objective and the structure of activities.
2. Network diagram / Gantt chart / Milestones allow planning of the course of a project in a given time, in particular: in natural units of time (weeks, quarters), setting time limits expressed in calendar days, specification of the start-up date for the project and date of its completion – estimating the project duration.

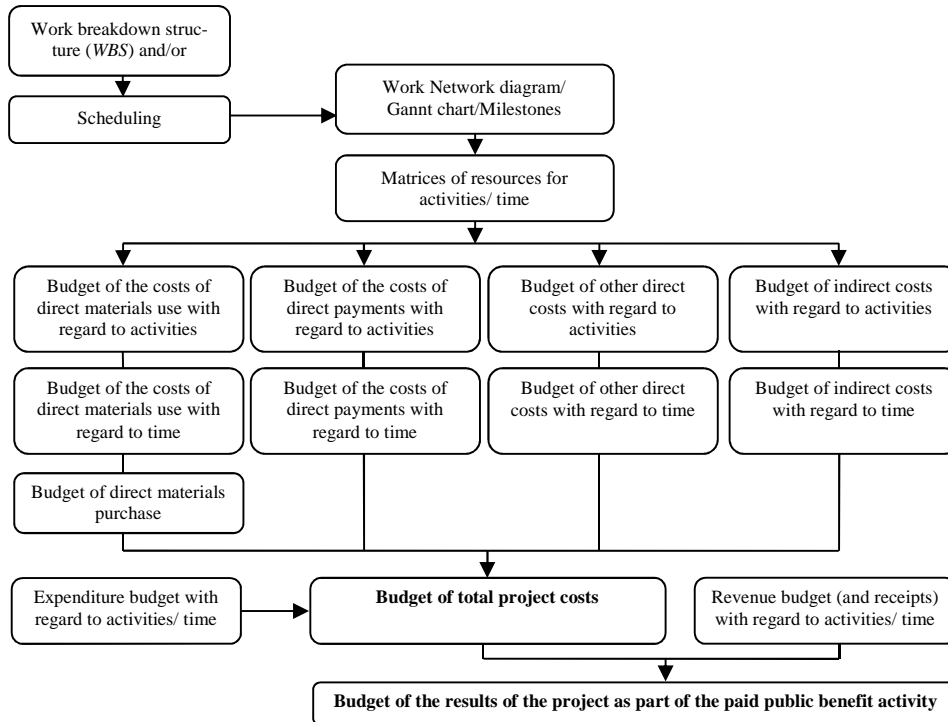


Figure 1. Structure of project budgeting concept in foundations

Source: author's own elaboration.

3. Matrices of resources for activities / time matrices constitute the effect of quantitative planning of resources required to implement specific activities and their minimum amount in terms of activities and time. They are two-dimensional tables including data concerning the planned amount of resources presented with regard to: defined activities and specified time. On account of the proposed structure of the cost budget, it is postulated to identify the following groups of resources: materials, work, fixed assets and external services.
4. Budget of the costs of direct materials use with regard to activities / time. It is used to present costs of the materials, which can be attributed only to a given project. It is postulated to identify basic groups of materials with the indication of their costs and prices.
5. Budget of direct materials purchase. It complements the budget of the costs of direct materials use and allows planning of the need for basic groups of materials. It is postulated to include the following: initial and final stocks, the planned consumption and volume of purchase.
6. Budget of the costs of direct payments with regard to activities / time. It presents planned costs of remunerations, which can be directly assigned to a given project. It

is postulated to identify principal people or groups of people taking into consideration their workload and rates.

7. Budget of other direct costs with regard to activities / time. It is used in the case of identifying resources generating direct costs being not part of the catalogue of the costs of direct materials use and the costs of direct payments. The system is the same.
8. Budget of indirect costs with regard to activities / time. It presents planned indirect costs of the project. It is used for resources distributed among different projects. The example can be a fixed asset / equipment, regular external services and salaries.
9. Budget of total project costs. It collects synthetic data from all budgets of direct costs and the budget of indirect costs. It helps to determine total direct and indirect costs affecting finally the total costs of the project.
10. Expenditure budget with regard to activities / time. It presents cash data and is used in the case of considerable time lag between the time of cost generation and incurred expenditure. It is postulated in the case of creating revenue budget and when there are considerable unspent costs and expenses not entailing costs.
11. Revenue budget. It presents information about planned revenue from paid public benefit activities within the framework of the realized project. There is also a possibility to optionally present them in cash data (revenue budget).
12. Budget of the results of the project as part of the paid public benefit activity. It collects information from the budgets discussed above, generating information about the possibility to balance indirect and direct costs with the revenue from the paid public benefit activity.

It is postulated that the discussed budgets should be built both in relation to the activities specified in the scope of the project, and to the planned time. Such an approach allows more effective management of all key parameters of the project. Moreover, on account of the format of the costs in simplified records, it seems reasonable at least to arrange the sums of the given costs according to tax deductible costs and non-deductible costs.

5. CONCLUSION

The outlined assumptions of the project budgeting concept, which takes into consideration the aspects of keeping simplified records, present a solution allowing more complex approach to effective management of foundations in a project (task) perspective. In particular, this issue is important for foundations starting their activity, for those with limited resources as well as those, which face difficulties in obtaining external financing. Importantly, simplified records may foster or hinder the foundations' development. The aim of the article was to present the framework of project budgeting for foundations keeping the said records. The set objective was realized with the use of methods indicated in the introduction. The article provides a contribution to further work on the presented concept. Project budgeting is a tool of managerial accounting and its attributes are compatible with statutory and task-oriented character of activities of all foundations.

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**ZAŁOŻENIA KONCEPCYJNE BUDŻETOWANIA PROJEKTÓW
W FUNDACJACH PROWADZĄCYCH UPROSZCZONĄ
EWIDENCJĘ PRZYCHODÓW I KOSZTÓW**

Zmiany, które przez ostatnie lata zostały wprowadzone w zakresie obowiązków ewidencjonowania działalności realizowanej przez fundacje oraz związanej z tym sprawozdawczości skutkują częściową harmonizacją szeroko pojętego obligatoryjnego raportowania. Wdrożenie ułatwień w tym obszarze, przede wszystkim w postaci uproszczonej ewidencji przychodów i kosztów, powoduje natomiast ambiwalentne odczucia. Z jednej bowiem strony stanowią szansę dla najmniejszych fundacji oraz tych rozpoczynających działalność, z drugiej zaś strony oparte są w dużej części na prawie podatkowym, a ich konstrukcja, w porównaniu do ksiąg rachunkowych, istotnie ogranicza możliwość generowania użytecznej informacji na potrzeby zarządcze. Przedstawione w artykule ramy koncepcji budżetowania projektów uwzględniającej aspekty prowadzenia wskazanej ewidencji to rozwiązanie wspierające zarządzanie fundacjami w perspektywie projektowej (zadaniowej). W szczególności zagadnienie to jest istotne dla fundacji rozpoczynających działalność, o ograniczonych zasobach oraz tych, które borykają się z trudnościami w pozyskaniu zewnętrznego finansowania. Celem artykułu jest więc zaprezentowanie ogólnych założeń koncepcji budżetowania projektów dla fundacji w warunkach stosowania omawianej ewidencji z uwzględnieniem tezy, iż realizowana forma

ewidencji działalności w istotnym stopniu determinuje możliwości stosowania rachunkowości zarządczej. W pracy wykorzystano metody: indukcji, dedukcji oraz analizy. Artykuł stanowi przyczynek do dalszych prac na przedstawioną koncepcją. Budżetowanie projektów stanowi bowiem narzędzie rachunkowości zarządczej, którego atrybuty są zbieżne z ustawowym – zadaniowym charakterem działalności wszystkich fundacji.

Słowa kluczowe: budżetowanie projektów, NGO, fundacja, uproszczona ewidencja przychodów i kosztów.

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