

Main Directions of Improving Managerial Accounting in Religious Organizations

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Abstract—This article reveals formation features of the accounting process in religious organizations. Particular attention is drawn to the development of management accounting, since this area is poorly understood in the nonprofit sphere. The authors suggest the main directions of development of management accounting in religious organizations.

Keywords—management accounting, religious organization, social efficiency.

I. INTRODUCTION

Interest in religious organizations is regularly manifested in the society, both from an economic and philosophical point of view. If in the 19th century religious organizations developed more quickly by using an intensive approach, nowadays they are developing extensive. This is evidenced by the number of religious organizations growing annually (for example, at the beginning of 2017, the number of religious organizations was 30193, as of January 1, 2015 – their number was 27496, while at the beginning of 2013 – their number was 23848, according to the Russian Rosstat (State Statistical Service) [1]).

The current accounting system in the nonprofit sphere cannot fully satisfy the necessary information needs of both external and internal users.

II. RESULTS

A. Theoretical approaches to the concept of management accounting

The current system of financial accounting does not meet modern requirements for accounting in religious organizations, since there is no regulated methodology for the accounting and analytical process as a whole for nonprofit organizations. It is not possible to adapt existing accounting regulations: in some cases, the features of nonprofit organizations are not taken into account [2-4]. Therefore, it is advisable to focus on the creation of an internal accounting system that takes into account the specifics of religious organizations. Such a system is a management accounting system.

It is important to clarify the concepts used, since the theoretical approaches to the definition of “management accounting” are very different: management accounting is considered as production accounting, as a system of indicators for making management decisions and as a system that combines elements of planning, management, analysis [5-6]. These approaches are generalized.

The latter two approaches in religious organizations are possible. Production accounting is excluded due to lack of production. Accordingly, costing methods will not be applied. But management decisions are made, including by the board of trustees and parish councils, and the audit commission.

Thus, the management accounting system should be considered primarily as an information system for providing information to primary interested users. In non-profit organizations, it is impractical, according to the authors, to single out users with direct and indirect financial interest, due to the lack of the very concept of “financial interest”.

Therefore, management accounting should be considered as a system of interconnected financial, analytical indicators in conjunction with non-financial indicators, which should reflect the effectiveness of the social and spiritual aspects of the activities of a religious organization.

B. Areas for improving managerial accounting in religious organizations

The main directions of management accounting development in religious organizations identified by the authors on the basis of the research:

- formation of a system of integrated indicators based not only on financial, but also nonfinancial indicators;
- creation of a planning system based on the analysis of data from previous years and external factors, as well as internal reserves;
- analysis of organization’s effectiveness.

These directions should be perceived as a single system, since one direction follows from another and serves as the basis for the next direction. Therefore, when creating a management accounting system, it is necessary keep in mind that the effectiveness of any commercial organization is determined by indicators such as profitability and ability to bring economic benefits (profit), but in the nonprofit sector their use is impossible. The production efficiency of a non-profit product can be considered from the standpoint of economic or social efficiency.

A system of integrated indicators should include financial and nonfinancial indicators that are applicable to religious organizations. On this system in the future, an analysis of organization’s effectiveness will be performed.

The appraisal and analytical approach is applicable to religious organizations in terms of the socio-spiritual orientation of the implementation of their main task.

Therefore, financial indicators in religious organizations are important from the standpoint of “survival” or sufficiency of proceeds from their activities. In theoretical studies, you can find about 100 indicators characterizing the financial condition of the organization [7]; a number of them cannot be applied in the nonprofit sector, since they use the concepts of “profit”, revenue, etc. In a religious organization, you can take a system of liquidity indicators (current and absolute), financial independence, etc. (Table I)

TABLE I. FINANCIAL ANALYSIS INDICATORS

Financial ratios	Recommended value	Calculation formula	
		Numerator	Denominator
Absolute liquid ratio	≥ 0.2	Cash and equivalents	Short-term liabilities
Quick liquid ratio (simplified version)	≥ 1.0	Cash and equivalents + Other short-term investments + Receivables	Short-term liabilities
Current ratio	≥ 0.2	Circulating assets	Short-term liabilities
Financial independence ratio	≥ 0.5	Equity	Balance currency

In nonprofit organizations, economic efficiency can be calculated (1), which reflects expenditures of the number of revenues, at the same time, this indicator is more applicable to project activities [8].

$$E_e = Inc / C, \quad (1)$$

where E_e is the economic efficiency of a nonprofit organization; Inc is the amount of income to a nonprofit organization; C is the project’s (finance plan) costs.

This ratio is relative and shows whether expenses are covered by the organization’s income.

Nonfinancial ratios are built to reflect the implementation of socially significant tasks in society – the social efficiency. Such indicators include the publicness index proposed by Weissbrod and the social profitability ratio. When implementing specific socially-oriented projects, one can use NPSV (Net Present Social Value) indicators and Social Profitability Index.

At the same time, social efficiency can be analyzed on the basis of the social index PI (Publicness Index) (2), the social profitability ratio.

$$PI = \frac{\text{Revenues from public goods}}{\text{Revenues from private goods}} \quad (2)$$

In most religious organizations, this ratio will tend to ∞ (infinity), since they do not have income from private goods (income-generating activities). This means that the activities of religious organizations are aimed at achieving a socio-spiritual effect. At the same time, a value close to infinity indicates the absence of self-financing of religious organizations, i.e. their activities are fully funded by income from parishioners.

The Social Return Rate (SR) reflects social efficiency from the perspective of the ratio of social effect and expenses (3). In this case, it is possible to calculate the costs of a religious organization, but it is not possible to reflect the social effect in monetary terms. The social effect of the

realization of spiritual blessings can affect the decrease in crime, the number of abortions or the number of abandoned children, and the social effect can be manifested in compassion for one’s neighbor. This increases the moral education of the population (parishioners).

$$SR = \frac{\text{Social effect}}{\text{Expenses}} \quad (3)$$

It should be noted that the main principle by which receipts are formed in Orthodox religious organizations is a feasible donation, therefore, in the existing conditions, it is necessary to apply a costly approach and optimize expenses according to the budget estimates.

The next direction in the development of management accounting is the creation of a planning system that has not been developed to date. This system should be based on data from previous years, changing economic conditions and the goals of religious organizations themselves. Despite the conservatism of the structure of religious organizations, they need to adapt to economic conditions and apply new approaches to management and business processes. Therefore, in this case, we need to focus on systems such as SWOT analysis and the SMART pyramid, which allow us to evaluate all aspects of the business process, external “threats” and see in more detail the needs of members of a religious organization.

The planning system must be built taking into account possible risks and reserves. For example, in the absence of funds, religious organizations can take advantage of additional fundraising funds, which are understood as the process of attracting external resources necessary for the implementation of a project or the implementation of any activity [9].

The analysis of the effectiveness of the activities of a religious organization is based on two previous directions of development of accounting: integrated indicators, including financial and nonfinancial indicators, and a planning system. Subsequent analysis will allow carrying out the control function and adjusting the results of the organization’s activities based on the analysis of the organization’s activities in the current period and comparing the results of operations for individual reporting periods. This will allow you to make informed management decisions and create new approaches in financing religious organizations (such as endowment) [10].

III. CONCLUSION

The proposed system of managerial accounting indicators will allow to obtain holistic information on various areas of activity of a religious organization, analyze the existing management system and implement a comprehensive modern approach to the formation of indicators with a view to further strategic development of the organization.

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