

Original Article

Analysis of selected aspects of accounting in Polish sports clubs with a public benefit organization status

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Abstract:

A characteristic feature of sports clubs with the public benefit organization status, which distinguishes them from other clubs, is their non-profit activity. Contrary to business entities, sports clubs with the public benefit organization status are focused on meeting the needs of society in terms of supporting and disseminating physical culture. This activity is referred to as 'statutory activity'. Public benefit organizations are required to distinguish between paid and unpaid public benefit activities, as well as economic activities, if any. As a result, it becomes possible to identify revenues, costs and results for each of these activities. When keeping the accounts of public benefit organizations, one should take into account the different understanding of revenues and costs when comparing with other entities conducting economic activity. This is so because, unlike economic entities operating for profit, their activities must be implemented in such a way as to encourage potential donors to donate funds for their implementation. As a result of the statutory obligations resulting from having the status of a public benefit organization, such sports clubs are obliged to prepare and publish an annual financial statement and a substantive report on their activities. These documents contain a wide range of information, mainly concerning elements related to the accounting of public benefit organizations. The subject of the research is the accounting of sports clubs with the public benefit organization status in 2019. The aim is to analyse them in terms of selected accounting aspects. For the purposes of this paper, the following two research hypothesis were formulated: 1. Most sports clubs with the public benefit organization status prepare a basic substantive report. 2. Revenues derived from public sources are the main source of revenues for sports clubs with the public benefit organization status. This paper fills a research gap in the field of accounting – it focuses on the quality of financial reporting of sports clubs with the status of public benefit organizations.

Keywords: sports clubs, public benefit organizations, accounting, financial statements, factual reports

Introduction

Sports clubs with the public benefit organization status are members of non-governmental organizations, which are obliged, pursuant to the Accounting Act (Accounting Act, 1994), to keep accounting books. According to Hołda and Steszal (2019), in terms of accounting, one of the most important elements is the accounting policy. It presents solutions in the field of accounting, selected, applied and adapted to the business, which are permitted by the act, including the International Accounting Standards. They are to ensure the required quality of the financial statement, which is to be reliable, useful and understandable in terms of the information presented in it, in order to fairly present the financial situation of the company or upcoming financial problems, which was also indicated by Perechuda (2020). When applying the accounting policy, it is assumed that the organization will continue its activities in a substantially unchanged scope for the foreseeable future. According to Kalwasińska (2016), this means that the organization will not be put into liquidation or bankruptcy, if it is inconsistent with the factual or legal status. It is permissible to use simplifications under the adopted accounting principles if they do not adversely affect the image of the entity.

The Act obliges organizations to separate their paid and unpaid public benefit activities as well as possible economic activities, and the diversification of activities has a positive effect on the financial stability Carrol and Stater (2008). As a result of introducing this distinction, it is to be possible to determine revenues, costs and results for each of the forms. The necessary condition for the non-governmental organizations to obtain the income needed to conduct their business is to gain donors' trust in the proper use of the funds received. Therefore, as Nawrocki (2016) states, the goals of spending funds must be certified by appropriate documents. For example, as part of a subsidy, which, as shown by Oczki and Pleskot (2020), may even be the second largest source of financing, it is a contract, and in the case of income from paid or business activity, it is an invoice. In his research, Kościółek (2017) indicated a strong diversification of revenues in sports clubs, while Wszyński (2015) showed in his research a strong dependence of sports clubs on public funds. As a result of the amendment to the Accounting Act of December 15, 2016, significant changes in the reporting of non-governmental

organizations took place (Accounting Act, 1994). A new Annex 6 to the Act was introduced, and addressed also public benefit organizations.

Non-governmental organizations, apart from presenting the financial results of their activities, are also obliged to meet reporting requirements oriented to the way in which these entities perform statutory tasks. The provisions of the Act on Public Benefit and Volunteer Work require public benefit organizations to prepare annual substantive reports on their activities. The Act on Public Benefit and Volunteer Work allows the preparation of a substantive report on the activity in a simplified form. However, in order for a public benefit organization to take advantage of this simplification, the income generated by the entity must not exceed PLN 100,000 in the year covered by this report (Regulation of the Minister of Finance, 2018).

Material and methods

The following research methods were used in the paper: method of critical analysis of literature, method of analysis and synthesis of selected elements of accounting, statistical methods. The subject of the research were the annual financial reports of Polish sports clubs with the public benefit organization status for 2019. The annual report is composed of a financial report with additional information and a substantive report. The study is based on current reports for the last completed financial year of sports clubs with the public benefit organization status that have been operating for at least five years. The source of the reports was a generally available database of reports of public benefit organizations. The database is run by the National Institute of Freedom - Centre for the Development of Civil Society. Due to the COVID-19 pandemic, the Polish legislator has extended the deadline of submitting approved reports by three months (*i.e.*, until September 10, 2020). Therefore, in the period July-August 2020, financial reports of 188 sports clubs with the public benefit organization status were analysed.

The main objective of the study was to analyse and synthesise sports clubs with the public benefit organization status in terms of selected accounting aspects, which concerned in particular:

- the type of prepared financial statements,
- forms of compiling a substantive report,
- sources of generated revenues.

Additionally, it covered obtaining information on:

- the type of financial result depending on the activity conducted.

In connection with the above, two research theses were formulated:

1. Most sports clubs with the public benefit organization status prepare a basic substantive report.
2. Revenues derived from public sources are the main source of revenues for sports clubs with the public benefit organization status.

As part of the statistical methods, the most important measure of dispersion was used –the standard deviation, which was determined if all units of the studied population differ on average from the arithmetic mean of the studied variable. Additionally, the coefficient of variation was used, expressing the ratio of the standard deviation to the arithmetic mean. When analysing the issues related to the economic and social sphere, it is assumed that if the value of the coefficient of variation is below 35%, the statistical population is homogeneous in terms of the examined feature. However, if this indicator reaches values above 65%, the studied population can be considered as highly differentiated from the point of view of the examined feature. If the value of the coefficient was within the range defined by the above numbers, it would indicate an average differentiation of statistical units.

Results

Each sports club with the public benefit organization status is required to prepare financial statements. Organizations can choose according to which template they draw up their report. Only eight sports clubs used the model included in Annex 1 to the Accounting Act. The remaining 180 prepared their reports based on Annex 6 dedicated to non-governmental organizations. No audited sports club prepares financial statements in accordance with Annex 4 or 5 to the Accounting Act. This is because they do not belong to the category of organizations authorised by law to use these templates.

Public benefit organizations are also obliged to prepare substantive reports. The form in which a given report should be prepared is determined by the total value of the revenues earned. In the basic version, 60% of reports were prepared. It means that 112 surveyed sports clubs achieved total revenues in the analysed reporting period in excess of PLN 100,000. In turn, the remaining 76 organizations did not exceed this amount. There is no clear relationship between the organizations that generate revenues that qualify them to prepare a simplified technical report. The range of their operation is not limited only to smaller areas such as, for example, a commune, but some of them operate even throughout the country, and even beyond its borders. Moreover, 33% of these organizations conduct, apart from unpaid public benefit activities, also paid activities. One of them also conducts business activity.

Public benefit organizations may conduct their activities as unpaid or paid activities. It is also permissible, under certain conditions, to run a business. Units can carry out even all three activities simultaneously. Nearly 100% (184) of the analysed sports clubs conduct unpaid public benefit activities, almost a half (46) of the surveyed

entities conduct paid public benefit activities, and only 6.4% (12) of sports clubs decided to additionally conduct business activity.

The analysis of substantive reports of sports clubs with the public benefit organization status allowed the identification of sources of income. Due to the two models of the substantive reports, *i.e.*, the basic substantive report and the simplified content report, the analysis was divided into two parts. Table 1 presents the main sources of income for sports clubs with the public benefit organization status which prepare a basic substantive report, which is more extensive than the simplified one. Only the types of sources that appeared as the main sources among the analyzed organizations were included in the table.

Table 1. Sources of revenues for sports clubs with the public benefit organization status that prepare a basic substantive report

Type of source	Number	%
From public sources	62	55.36
Revenues from the budget of local government units	26	23.21
Revenues from European funds within the meaning of the Public Finance Act	16	14.29
Revenues from state earmarked funds	12	10.71
Income from the state budget	8	7.14
From private sources	42	37.50
Income from donations from legal entities	12	10.71
Paid statutory activity	10	8.93
Revenue from donations from natural persons	8	7.14
Income from membership fees	6	5.36
Other	4	3.57
Income from business activities	2	1.79
Revenue from 1% of the personal income tax that can be spent to support public benefit organisations	8	7.14
Total	112	100

Source: own elaboration based on financial statements.

Sports clubs that prepare the substantive report in a simplified form are not required to provide information about their sources of income. Instead, they provide general information about the revenues earned. This information should also include the total amount of grants from public sources and the total amount of donations received. A separate part of the document is provided for information on revenues obtained from 1% of the personal income tax.

Table 2. presents the revenues of sports clubs with the public benefit organization status which prepare a simplified substantive report.

Table 2. Sources of revenues for sports clubs with the public benefit organization status that prepare a simplified substantive report

Type of source	Number	%
Grants from public sources	26	34.21
Revenue from 1% of personal income tax	18	23.68
Total revenues from donations from natural and legal persons	16	21.05
Other	10	13.16
Paid statutory activity	6	7.89
Total	76	100

Source: own elaboration based on financial statements.

In the case of about one-third of sports clubs, the total revenue of which does not exceed PLN 100,000, the main source of revenue are subsidies from public sources. This situation is similar to that of organizations preparing the basic version of the substantive report. However, there are many more organizations for which the main source of income is derived from donations from 1% of the personal income tax that can be spent to support public benefit organisations.

Public benefit organizations are required to include information on the financial result in their substantive reports. Entities preparing this report in its basic version determine the financial result on each activity. In turn, the organizations drawing up simplified financial statements determine only the result on all activities in the reporting period. Therefore, in order to check the financial results achieved on the activities carried out by these organizations, it was necessary to use the published profit and loss accounts.

Table 3. Financial results of sports clubs with the public benefit organization status

Type of financial result	Number	%
Unpaid public benefit activity	184	100
Profit	124	67.39
Loss	44	23.91
Financial result = 0	16	8.70
Public benefit activity against payment	72	100
Profit	32	34.78
Loss	46	50.00
Financial result = 0	14	15.22
Economic activity	12	100
Profit	8	66.67
Loss	4	33.33

Source: own elaboration based on financial statements.

Among the organizations analysed, 172 conduct more than one type of activity. According to the information contained in Table 3, a significant part of organizations conducting free public benefit activity achieve a positive financial result on this activity. In turn, about 9% of these organizations achieved a zero financial result. The situation is different in the case of paid public benefit activity. Half of them make a loss. There are also relatively more organizations with a zero financial result. The analysis shows that not all entities that conducted business activity generated a profit. Out of all 188 analysed organizations, 184 stated in their substantive reports that they conduct unpaid public benefit activities. However, only 176 of them generated income from carrying out this type of activity. The value of revenues from unpaid activities constituted on average 79.03% of the total value of revenues. The standard deviation calculated for this group of organizations is 30.20%, which means that the ratio of revenues from unpaid activity to total revenues differs by this value from the average value. The value of the coefficient of variation is at the level of 38.21%, which indicates the average differentiation of units from the point of view of the considered parameter. The situation is different for organizations that conduct only free public benefit activities. This activity was carried out by 100 organizations. The value of the variation index of 21.49% means that the studied population is quite homogeneous from the point of view of the examined value. For 62 out of 100 organizations, revenues from unpaid activity constituted 100% of all revenues. However, in the case of six units, the revenues from this activity do not exceed 40% of the value of all revenues. According to the information contained in the profit and loss accounts of these organizations, the highest revenues were generated from other statutory activities. The results of the calculations concerning the units conducting free activity are presented in Table 4.

Table 4. The standard deviation and coefficient of variation for sports clubs with the public benefit organization status carrying out unpaid public benefit activities

Sports clubs that also generate income from unpaid public benefit activities	176
Average	79.03%
Standard deviation	30.20%
Coefficient of variation	38.21%
Sports clubs generating income only from unpaid public benefit activities	100
Average	91.54%
Standard deviation	19.67%
Coefficient of variation	21.49%

Source: own elaboration based on financial statements.

The analysis shows in sports clubs that had revenues from paid activity, this revenue constitutes on average 34.81% of the total revenues of the organization. The share of these revenues in total revenues deviates from the average value on average by +/- 33.65%. Based on the calculated coefficient of variation, this group can be considered as very diverse in terms of the studied feature, as shown in Table 5. This is due to the fact that some of these 80 organizations also generate significant revenues from other types of activity. As many as 44 of them achieve relatively the highest revenues from unpaid activities. However, for 14 organizations, the highest value of revenues is generated by paid activities.

Table 5. The standard deviation and coefficient of variation for sports clubs with the public benefit organization status engaged in paid public benefit activities

Sports clubs that also generate income from paid public benefit activities	80
Average	34.81%
Standard deviation	33.65%
Coefficient of variation	96.68%
Sports clubs generating income mainly from paid public benefit activities	14
Average	79.36%
Standard deviation	18.44%
Coefficient of variation	23.24%

Source: own elaboration based on financial statements.

Much greater variation occurs among organizations that generate income from business activity. The value of the coefficient of variation, as shown in Table 6, indicates a significant heterogeneity in terms of the tested feature. This is due to the fact that only in the case of two of the organizations analysed, revenues obtained from business activity constitute the main source of income.

Table 6. Standard deviation and coefficient of variation for sport clubs with the public benefit organization status conducting business activity

Sports clubs that also generate income from business activity	12
Average	21.23%
Standard deviation	16.30%
Coefficient of variation	76.79%

Source: own elaboration based on financial statements.

The group of sports clubs with the public benefit organization status generating revenues from 1% of personal income tax is very diverse in this respect, which is indicated by the coefficient of variation at the level of 147.97% (Table 7). The situation is different if we only consider the organizations for which these are the main revenues. The coefficient of variation indicates that these units are homogeneous due to the share of the analysed revenues in total revenues.

Table 7. Standard deviation and coefficient of variation for sports clubs with the public benefit organization status generating revenues from 1% of personal income tax

Sports clubs that also generate revenues from 1% of personal income tax	164
Average	18.70%
Standard deviation	27.67%
Coefficient of variation	147.97%
Sports clubs generating revenues mainly from 1% of personal income tax	26
Average	74.49%
Standard deviation	21.35%
Coefficient of variation	28.66%

Source: own elaboration based on financial statements.

When analysing organizations that obtain revenues from public sources as one group, it turns out that it is very diverse in terms of the share of revenues from public sources in the total value of revenues, as shown in Table 8. In the case of sports clubs preparing a simplified substantive report, for which subsidies from sources of public sources constitute the main source of income, the coefficient of variation indicates that the population is quite homogeneous.

This ratio is almost identical among the organizations that prepare the basic substantive report. However, when it comes to the average share of revenues from public sources in total revenues, it is slightly higher than in the case of organizations preparing a simplified substantive report.

Table 8. Standard deviation and coefficient of variation for sports clubs with the public benefit organization status generating revenues from public sources

Sports clubs that generate revenues from public sources	126
Average	52.24%
Standard deviation	31.98%
Coefficient of variation	61.22%
Sports clubs that prepare a basic substantive report, obtaining revenues mainly from public sources	62
Average	68.66%
Standard deviation	19.55%
Coefficient of variation	28.47%
Sports clubs that prepare a simplified substantive report that generate revenues mainly from public sources	24
Average	71.28%
Standard deviation	21.00%
Coefficient of variation	29.45%

Source: own elaboration based on financial statements.

In the case of organizations preparing the substantive report in a simplified version, the coefficient of variation indicates the relative homogeneity of the organization in terms of the examined feature. Donations from legal persons were the main source of income from the type of private sources for all the organizations preparing the basic substantive report, and also here the group is homogeneous.

Table 9. Standard deviation and coefficient of variation for sports clubs with the public benefit organization status generating revenues from private sources

Sports clubs that generate revenues from private sources	164
Average	33.22%
Standard deviation	32.36%
Coefficient of variation	97.41%
Sports clubs that draw up a simplified substantive report that generate their income mainly from private sources	16
Average	70.76%
Standard deviation	21.73%
Coefficient of variation	30.71%
Sports clubs that prepare a basic substantive report and obtain revenues mainly from private sources	12
Average	71.05%
Standard deviation	22.94%
Coefficient of variation	32.29%

Source: own elaboration based on financial statements.

Discussion

The analysed sports clubs with the public benefit organization status constitute a homogeneous group in terms of the selection of the template of the annex to the Accounting Act on the basis of which the financial statements are prepared. Almost all of them prepare a report based on Annex 6 to the Act, dedicated to non-governmental organizations. However, in the case of substantive reports, the choice of the formula depends on the revenues generated, most organizations prepared this document in a basic form, and the rest of the units in a simplified version, which confirms the first hypothesis. It means that 3/5 of sports clubs with the public benefit organization status achieved revenues with a total value exceeding PLN 100,000. Revenue is an important aspect of accounting for any entity. Public benefit organizations can generate income simultaneously from various sources. A relatively large number of sports clubs achieved the highest revenues from public sources, which confirms the second hypothesis. In the case of organizations that prepare basic technical reports, it is possible to define the type of source more precisely. Thus, among these units, revenues from the budget funds of local government units most often constituted the main source of revenues, which is confirmed by the results of the study by Kościółek (2019). The dominance of such revenues, according to Horch (1994) and Wicker, Longley and Breuer (2015), may lead to dependence of the entity in the performance of tasks on state bodies. In the case of organizations conducting unpaid activities, almost 3/4 of the units achieved a positive financial result. The situation is different in the case of paid activities, as half of the organizations achieved a negative financial result. Sports clubs with the public benefit organization status as one statistical group are very diverse in terms of the share of individual types of revenues in total revenues. However, selecting only the organizations for which the investigated type of influence was at the same time the main source of income, one can notice homogeneity within these groups, which confirms the legitimacy of examining financial statements using statistical methods.

Conclusions

Sports clubs constitute a specific group of individual units whose activities are aimed at satisfying the broadly understood needs of the society in terms of supporting and disseminating physical culture. In the case of entities with the public benefit organization status, an additional obligation is imposed on them to operate within legally defined areas. The specificity of this group is also noticeable when it comes to accounting-related aspects. It is important to use the knowledge of sports club managers regarding the care for the quality of both the financial statements and the substantive report. This may contribute to the improvement of the club's image, which may translate into the possibility of maintaining or acquiring larger or new sources of financing. This is a very important element, especially under the COVID-19 pandemic and during this time it may even be part of the survival of a given sports club. This paper is a starting point for further research on both the quality of financial reporting and other aspects related to the accounting of sports clubs with the public benefit organization status.

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