

## Quality of the Accounting Information of Brazilian Third Sector Entities

**Fernando Maciel Ramos,**

Master of Science in Accounting at PPG in Accounting Sciences of the Regional University of Blumenau (FURB), Brazil  
framos@unc.br

**Roberto Carlos Klann**

PhD in Accounting and Administration Sciences from the Regional University of Blumenau Blumenau (FURB), Brazil  
rklann@furb.br

### ABSTRACT

In this study, the objective was to analyze the quality of accounting information of Brazilian non-profit organizations. As for the objective the research is characterized as a descriptive one; as for the research strategy it is documental and as for the approach it is quantitative. In order to measure the quality of the accounting information of the analyzed entities, it was prepared a checklist starting from the accounting rules that guide the accounting practice of the third sector entities made up of seven sections and 59 requisites, which enabled the construction of the Quality Index for Accounting Information. The data were analyzed through descriptive statistics (minimum, maximum, mean, standard deviation) and the results indicated a low level of the accounting information quality reported by the analyzed entities, especially when compared to for-profit organizations. One comes to the conclusion, based on the findings, that the analyzed entities present a low level of quality as to the accounting information which may jeopardize the information usefulness reported by these entities users.

**KEY-WORDS:** Quality of Accounting Information. Third Sector. Non-Profit Organizations.

## Qualidade da Informação Contábil das Entidades Brasileiras do Terceiro Setor

### RESUMO

Neste estudo, o objetivo foi analisar a qualidade da informação contábil das organizações sem fins lucrativos brasileiras. Quanto ao objetivo, a pesquisa caracteriza-se como descritiva; quanto à estratégia de pesquisa é documental e de abordagem quantitativa. Para mensurar a qualidade da informação contábil das entidades analisadas, foi elaborado um *check-list* a partir das normas contábeis que norteiam a prática contábil das entidades do terceiro setor composto por sete seções e 59 quesitos, os quais permitiram a construção do Índice de Qualidade da Informação Contábil. Os dados foram analisados por meio de estatística descritiva (mínimo, máximo, média, desvio padrão) e os resultados apontaram um baixo nível de qualidade da informação contábil reportada pelas entidades analisadas, principalmente quando comparadas a organizações com fins lucrativos. Conclui-se a partir dos achados que as entidades analisadas apresentam um baixo nível de qualidade da informação contábil o que pode comprometer a utilidade da informação reportada pelos usuários dessas entidades.

**PALAVRAS-CHAVE:** Qualidade da Informação Contábil. Terceiro Setor.  
Organizações sem Fins Lucrativos.

## 1 INTRODUCTION

In Brazil, as in other countries, it has been observed a growth of the third sector in recent years, which may be tied to the State inefficiency to comply with its social functions, thus allowing the growth of these institutions, which demonstrate their role in society, becoming increasingly relevant in the global economy (Assisi, Mello & Slomski, 2006).

In the mid-1960s, researches in accounting migrated from an economic and normative approach to an approach based on the information (*informational perspective*), and the accounting began to be seen for its ability to provide useful information to the decision-making processes (Lopes & Martins, 2007). Bearing in mind the changes in the accounting researches perspectives, in the mid-1980s, researchers began to investigate the accounting and the usefulness of accounting information in the context of the non-profit organizations (Cruz, 2010), and the researches precursors in this area were Weisbrod and Dominguez (1986), Tinkelman (1997) and Greenlee and Brown (1999).

Although the literature points out the accounting and financial reporting as a communication tool between the third sector organizations and the stakeholders, Falconer and Vilela (2001) showed in a study that very few non-profit entities published their financial reports and in their composition the guidelines for the management of the funds received. Milani Filho (2009) mentions that in Brazil there is a low index of financial information disclosure from the third sector organizations. Cruz (2010) emphasizes that on the national scene researches on the accounting information quality of these entities is still little explored, since regulatory and disclosure issues are still precarious.

But it is not enough only to disclose the information; the organizations should also be attentive so that the disclosure is made with quality because the disclosure of distorted or wrong information can lead to a minimization in the confidence relationship among organizations and their stakeholders (Campbell, 2001; Behn, DeVries & Lin, 2010). However, so that these entities accounting information are relevant to the decision-making process, they should contain the following fundamental qualitative

and improvement characteristics: relevance, materiality, faithful representation, comparability, verifiability, well-timed and understandability (FASB, 2010; CPC 00, 2012).

Thus, considering the scarcity of studies in this area and the importance of disclosing high quality information by the third sector entities, the following issue in this research is studied: *What is the quality level of the accounting information of Brazilian third sector entities?* In order to answer the question-problem, it was determined as objective of the study to analyze the quality of accounting information disclosed by those entities.

The carrying out of this study is justified in the theoretical field due to the fact that there are very few studies in the accounting area focused in the third sector entities, as well as related to the accounting information quality in this context. In the social field, the study is relevant given the importance that these organizations have in the economic and social national field, and, in the empirical field, the study aims to contribute to the provision of data and information to regulatory agencies and other users of financial statements of the analyzed entities.

## **2 BIBLIOGRAPHICAL REVIEW**

### **2.1 QUALITY OF THE ACCOUNTING INFORMATION IN THE THIRD SECTOR CONTEXT**

In accordance with the *Financial Accounting Standards Board* [FASB] (2010), so that the accounting information in the third sector is useful for the decision making process, it must meet the following aspects: (i) generate information to demonstrate the continuity of the services that the entities propose to do; (ii) issue information about the environment, the nature of the activity and other issues that are related; (iii) provide information on the work of its managers and their ability to use the funds made available to them; (iv) prove the flow of funds made available to them, with a view to their continuity and their ability to meet their obligations; (v) provide information on the entity's accomplishments as a way to measure the effectiveness of its managers, since the investors do

not know them thoroughly, unless it is through financial reports; (vi) include in the demonstratives the costs calculation and allocation techniques as well as the method through which funds are distributed to the several different programs and services made available; and (vii) inform where the funds come from and how they are useable, showing how it affects its liquidity.

Cruz (2010) points out that, within an informational perspective and accounting information relevance, the financial statements are the sources of communication and useful information for the decision-making process of non-profit organizations users. Thus, it is also possible to point out that through the financial reports it happens the accounts rendering (accountability) of these institutions. The useful accounting information is able to provide its users lots of evidence that may be useful in the decision-making process. In the context of the third sector, users of such information are those who provide funds for the entity, users of services, managers and government bodies (Araújo, 2009).

To evidence is to turn evident, to show clearly the information from which it will not arise any doubts, to be sure that the information can be readily understood. Therefore, evidencing means to disclose information in a way that the content of what is being communicated is understood immediately (Aquino & Santana, 2002). Hendriksen e Van Breda (1999, p. 511) emphasize that "the financial disclosure should provide useful information for the decision making on rational investment, lending, etc. by investors and current and future creditors, as well as other users". It is from the financial reporting that organizations demonstrate their economic and financial data, allowing those concerned in obtaining information for decision making. In order that these reports are useful, they must represent a reliable picture of the organizational reality and have adequate procedures that precede the disclosures and the evidencing of the accounting data. For Dantas, Zendersky, Santos and Niyama (2005), the evidencing is related to the qualitative characteristics of understandability, relevance, reliability and comparability of accounting information.

On the relationship between the evidencing levels and the qualitative characteristics of the accounting information, it is pointed out

that an evidencing higher level is associated with a higher level of the accounting information quality. The lower the evidencing, the easier the manipulation of accounting reporting and opportunistic management efforts, besides minimizing the accounting information capacity of being used (Basu, 2005; Coppens & Peek, 2005; Jiraporn, Miller, Yoon & Kim, 2008; Iatridis, 2011 ).

It is worth mentioning the existence of the relationship between the evidencing and the aspects of materiality of the accounting information because all the evidenced information should be relevant and be material to the users (Iudícibus & Lopes, 2004). Other relationship that can be cited is between the evidencing and the comparability attribute, since the disclosure of accounting statements of different periods will enable the user to compare the information received as well as the progress or the drop of accounts (Hendriksen and Van Breda, 1999; Lopes & Martins, 2007).

Yetman and Yetman (2004) point out the evidencing assessment as a valid alternative for the quality measurement of the accounting information of non-profit organizations, guided on two grounds: (i) first because the measurement metrics of accounting information quality set out in the literature are applicable to for-profit organizations; and (ii) the accounting statements of non-profit organizations serve as a communication tool and accounts rendering (accountability) of their leaders to their users.

It is also possible to point out a relationship between the accounting information evidencing and the relevance attribute, once studies have shown that greater evidencing levels contribute to a better financial assessment of the entity and, consequently, lower fluctuation of their market prices; higher return; lower funding costs; improved performance; higher growth of the company; better internal and risk management controls (Malacrida & Yamamoto, 2006; Ambler & Neely, 2007).

Based on the aforementioned outline, it is possible to reaffirm the use of the evidencing as one of the ways to analyze the quality of accounting information, since it is through the disclosure of the accounting reports that it can be observed characteristics such as reliability, comparability, materiality, comprehensibility, verifiability, opportunity and relevance, all of them important for the decision making process.

### 3 METHODOLOGY

According to Beuren (2004) and Collis and Hussey (2005) a survey in the field of applied social sciences can be characterized as to its objectives, procedures, data collection strategy and the analysis techniques employed. Thus, the present study, as to its objective is characterized as descriptive, since it aims initially to assess the accounting information quality of the Brazilian non-profit organizations.

Regarding its procedures, it is a documental investigation, once the variables will be gathered on information arising from documents, in this case, the accounting statements and other accounting reports available for analysis. In this research, past data information is used. The necessary data come from the National Register of Public Utility Entities (CNEs / MJ).

Regarding the data analysis, the research can be classified as quantitative. Under this approach, Hayati, Karami and Slee (2006) point out that the research results can be reproduced and can also be generalized, enabling a general knowledge about a population. The research is classified as quantitative because probabilistic methods are used to define the sample to be analyzed. It also employed univariate statistical methods (mean, minimum, maximum, standard deviation) for analyzing the quality index of the accounting information measured.

#### 3.2 POPULATION AND SAMPLE

The study population consists of the third sector organizations officially incorporated in Brazil, because, by adopting the aforementioned concepts, these entities have certain characteristics in common, pertinent to the accomplishment of this study and coherent with the consensus guidelines in the literature (Salamon & Anheir, 1996): (i) organization, which is the formalization and institutionalization of the entities; (ii) private, that is, institutionally separate from government; (iii) non-profit, being so, there is no return of profits to the shareholders, directors or owners; (iv) self-government, capacity to control their own activities.

Due to the accounting statements low disclosure index by the entities that make up the universe of this research, it is necessary to define the target population, which, in this case, is the total of the entities qualified as Civil Society Organizations of Public Interest (OSCIP) and Federal Public Utility (UPF), which amounted to 18,553 Brazilian institutions in October 2013. The OSCIP and UPF organizations are classified as the study target, since they are obliged to accomplish their rendering of accounts (accountability) and present their accounting statements to the CNEs / MJ – (National Register of Public Utility Entities of the Ministry of Justice).

For Freitas Oliveira, Saccol and Moscarola (2000), the best sample of a research is the representativeness of a population or a model of it. The author also mentions that there is no perfect sample and what may vary is only the degree of error or bias. The sample size must be defined taking into account whether the universe is infinite or finite, using a confidence degree of 95% and an allowable error of 5%. The larger the sample size, the lower the probability of error in the sampling. Thus, this study sample is probabilistic; for the sampling plan, the research was started as from the target population, with a reliability degree of 95%, as recommended by Freitas et al. (2000), which determined a sample of 392 non-profit institutions.

The period of data collection and analysis is limited to the year of 2012, because, at the time of data collection, the accounting statements of the entities registered at the National Register of Public Utility Entities (CNEs / MJ) for the year 2013 had not yet been published. In addition, the use of previous years becomes limited because there is no regularity of the accounting statements presentation by the third sector entities to the Ministry of Justice.

### 3.3 COLLECTING AND DATA ANALYSIS

As already envisaged by the literature in the context of the third sector, the quality of the accounting information is seen from the perspective of transparency and the rendering of accounts (*accountability*). Therefore, as from the current rules, it was drawn up the second survey



instrument: a *check-list* to determine the evidencing level of the accounting statements of these entities.

It was used the *check-list* to enable the preparation of an evidencing index, in which for each adopted criterion, it was used a binary combination for its assessment, being used 0 when the entity does not evidence and 1 when the entity evidences.

Other studies such as those of Silveira (2007), Cruz, Stadler, Martins and Rocha (2009) and Gollo, Schulz and Rosa (2013), have already used similar instruments on the national scene. Regarding the international literature, it is possible to point out the studies of Keating and Frumkin (2003), Yetmann and Yetmann (2004) and Verbruggen, Christiaens and Milis (2011), who also used in force rules for the preparation of a checklist and thus analyze the quality of accounting information of non-profit organizations.

In Brazil, the accounting criteria and procedures applied to non-profit organizations are established through the General Technical Interpretation (ITG) 2002 and also other through rules that subsidize the accounting practices of these entities. Thus the research instrument used consists of 59 criteria of analysis and is subdivided into seven sections that aimed to capture the evidencing level of these entities. Chart 1 presents the instrument sections followed by the respective aspect observed and the rules that subsidized the *check-list* construction.

Section	Observed Aspects	Normative Basis
1.0	Accounting Statements	ITG 1000 and ITG 2002
1.1	Balance Sheet	NBC TG 26 (R1) and NBC T 03
1.2	Income Statement	NBC TG 26 (R1) and ITG 2002
1.3	Statement of Changes in the Net Equity	NBC TG 26 (R1) and ITG 2002
1.4	Cash Flow Statement	NBC TG 26 (R1) and ITG 2002
1.5	Explanatory Notes	NBC TG 26 (R1) and ITG 1000 and ITG 2002
1.6	Government Grants	NBC TG 07 (R1)

### Chart 1: Instrument Research summary

Source: Research Data

In this research, the collected data is secondary, because they have been collected from the accounting statements presented in the website of the National Register of Public Utility Entities (CNEs/MJ). Although the database used is relatively new, it is unique on the national scene because

it is configured as a disclosure mechanism of the accounting information of third sector organizations in Brazil (Cruz, 2010). In order to ease the process of data collection, electronic spreadsheets were employed through the Microsoft Excell ®, which allowed calculating the disclosure index.

Regarding the data analysis, for evaluating the accounting information quality of these entities, through the resulting evidencing index in an indicator, such data analysis was performed through descriptive statistics (minimum, maximum, mean, standard deviation).

## 4 ANALYSIS OF RESULTS

The measurement of the accounting information quality through the evidencing criteria is advocated in the literature by authors such as Lima (2010), Gabriel and Silveira (2011). In the third sector area it can be highlighted the authors Keating and Frumkin (2003), Yetmann and Yetmann (2004), Silveira (2007), Cruz et al. (2009), Verbruggen, Christiaens and Milis (2011), Mario, Paula, Alves and Jupetipe (2013) and Gollo, Schulz and Rosa (2013). The ways of measuring the accounting information quality in the literature are mostly oriented to the market and it considers the result (profit/loss) as one of the measurement variables, which made it necessary to adopt an alternative to measure the accounting information quality in the context of the third sector entities. Lima (2010) argues that to be based on the standards is important, as they are signed on the principles of information quality, transparency and comparability among the financial reports, in order to provide higher level of useful information for the organizations *stakeholders'* decisions.

The first *check-list* group aims to identify the evidencing of accounting statements that turned to be mandatory. Some of them were already provided by the NBC T 10, such as the Balance Sheet, the Statement of Superavit or Deficit and the Statement of Changes in Social Equity. With the validity of the ITG 2002 (2013), it became mandatory the presentation of the Cash Flow Statement and the Explanatory Notes. In addition, it was also changed the classifications of Social Equity which started to be called of Net Equity; and the Superavit or Deficit Statement started being called of Income Statement. Table 1 presents the index related to the means of disclosure identified in the accounts rendering (accountability) in the National Register of Public Utility Entities (CNEs/MJ).

**Table 1: Means of Accounting Statements Disclosure**

Nº	Verified Item	n	%
1	Did it present the Balance Sheet?	392	100%
2	Does it disclose the Income Statement for the Period?	392	100%
3	Does it present the Statement of Changes in the Net Equity?	-	0%
4	Does it present the Cash Flow Statement?	1	0,25%
5	Does it present the Explanatory Notes?	392	100%

Source: Research Data

It is observed through the Table 1 that all organizations use the Balance Sheet, the Income Statement and the Explanatory Notes to disclose their accounting information. However, it was not identified in the database used, the presentation of the Statement of Changes in the Net Equity by none of the entities; the same way in relation to the Cash Flow Statement, only one organization reported in the Explanatory Notes that it had handed it.

Regarding the low level of disclosure of the DMPL (Statement of Changes in the Net Equity) and the DFC (Cash Flow Statement), it is possible to present two arguments that become limiters for this study results: (i) entities deliver the demonstrations in their rendering of accounts (accountability) to the Ministry of Justice, however, the Ministry itself does not disclose this information in its portal and consequently it was not transferred to the database used in this study; (ii) as to the DFC (Cash Flow Statement), its presentation has become mandatory for non-profit organizations as from the enactment of the ITG 2002 (2013) - (*accounting rules applicable to nonprofit organizations*), however, the DFC (Cash Flow Statement) was already required by the accounting regulations inherent to all entities before the enactment of the ITG 2002 (2013).

The results achieved are partly convergent with the findings of the studies of Silveira (2007), Silveira and Borba (2010), Mario et al. (2013). Silveira and Borba (2010) analyzed the evidencing index and the means of disclosure of the Research Foundations of the State of Santa Catarina. Those authors have identified that all of the analyzed entities presented the Balance Sheets and the Superavit or Deficit Statement, but only 68% reported the Explanatory Notes. However, unlike the results of this study, the authors have identified that 99% of the Foundations presented the DMPL (Statement of Changes in the Net Equity) and 97% presented the DOAR (Statement of Sources and Applications of Funds), which is no longer mandatory for the Brazilian entities. Mario et al. (2013) replicated the study by Silveira and Borba (2010), however, with the Research Foundations of Belo Horizonte, State of Minas Gerais. The results in relation to the disclosure means are convergent with the study of Silveira and Borba (2010). The divergences between the findings in relation to the presentation

of the disclosure means may be related to the fact that it were consulted databases different of that used by Silveira (2007), Silveira and Borba (2010) and Mario et al. (2013), which demonstrate that, in the context of non-profit organizations, it is possible to find divergences among the several databases.

It is worth mentioning that the adoption of ITG 2002 (2013) – [*General Technical Interpretation*] became mandatory as of 2013 onwards, however, the accounting practices that guided the accountancy in general, before the aforementioned law, already mentioned the aspects observed by the research instruments used in this study. As of the second *check-list* group, it is sought to identify the evidencing level of the accounting information concerning the specific items of each disclosure means presented in Table 1.

The second group of analyzed items refers to the Balance Sheet, which, in the context of the third sector, is as important as it is for the other organizations (of the market), because through the Balance Sheet it is possible to get information regarding liquidity and indebtedness of the organization as well as to identify their sources of funds. Table 2 presents the analyzed items and the global compliance level verified in the analyzed entities.

Table 2: **Evidencing Level of the Balance Sheet**

Nº	Verified Item	N	%
6	Does the entity present in the Balance Sheet (BS) the structure of the groups' subdivision of assets and liabilities as current and non-current?	388	98,98
7	Were the deferred taxes classified as non-current assets?	15	3,83
8	Is the ANC (Non-current assets) divided into Long-term Receivables (RLP), Investment, Fixed and Intangible Assets?	0	0
9	Does the entity disclose additional items to the accounts, i.e. sub-classifications performed according to the entity operation?	32	8,16
10	Is it evident in the Balance Sheet the Net Equity group of the organization?	367	93,62
11	Did the organization present provision constitution to cover possible losses as well as removal of expired values, bad debts and given amnesty values?	43	10,97
12	Does the organization record the funds coming from the covenants in specific accounts of assets and liabilities?	79	20,15
13	Does the entity record the Superavit or Deficit amounts of the financial year in a proper account on the Balance Sheet?	332	84,69
14	Does the organization avoid presenting asset accounts with generic titles and amount exceeding one tenth of the value of the respective group of accounts?	144	36,73
15	Does the organization avoid presenting liability accounts with generic titles and amount exceeding one tenth of the value of the respective group of accounts?	107	27,30
<b>GLOBAL EVIDENCING INDEX BALANCE SHEET</b>		<b>1.507</b>	<b>38,44</b>

Source: Research Data

It was identified through the data analysis that the entities presentation of accounting statements did not follow the division planned by the Standard Basic Concept (CPC 00 - Conceptual Framework) of the Accounting Pronouncements Committee (CPC), regarding the division of the Non-Current Assets (ANC) in long-term receivables, Investments, Fixed Assets and Intangible Assets. However, it is not possible to state accurately that non-profit organizations have not submitted the ANC properly, because it is the database used that is not suitable to the new accounting standards.

The items with the highest evidencing level were those related to the presentation of the groups of the assets and liabilities (98.98%), of the net equity (93.62%) and of the Superavit/Deficit evidencing in the group of the net equity. The fact that these items presented the highest evidencing levels can be understood having in mind that they are basic items in the construction of a balance sheet. With the lowest levels of evidencing are: (i) the classification of deferred taxes in the non-current assets (3.83%); (ii) the disclosure of additional items according to the entity's activities in the presentation of the assets and liabilities accounts (8.16%); and (iii) the constitution of provision to cover possible losses (10.97%).

The results are convergent with the ones identified by Gollo, Schulz and Rosa (2013), who analyzed the evidencing level of 46 Brazilian entities using the same database of this study. As emphasized by the authors, what may have contributed to the evidencing low level in relation to the provision for possible losses arising from default was the fact that not all organizations possess securities receivable. However, it was observed that some of the entities presented balances to be received that were recorded in the asset accounts and even then, they did not have the record of this provision.

One of the analyzed items was the item related to the record of funds received by covenants in proper accounts, evidenced by only 79 entities, an index of 20.15%. This record made separated from the funds provided by operations and covenants is of utmost importance for assessing the company, because, in general terms, the funds obtained through covenants demand compensation from the entities. In their majority, they are considered with restraint and are used for specific purposes. Another

point is that the separation of funding sources allows donors, government and direct users to evaluate not only the dependence of the entity as to these funds, but also its economic and operational financial sustainability.

Another noticeable aspect was regarding the presentation of generic accounts. It was identified that only 36.73% of the entities avoid presenting assets accounts using generic wording and 27.30%, in the liabilities accounts. This result demonstrates a high level of entities that present generic accounts, which may undermine the usefulness of the accounting information provided to users.

The third research instrument group aims to identify the evidencing level of aspects related to the Fiscal Year Income Statement. To Olak and Nascimento (2010), the purpose of this demonstration is not the result, since it occurs in the entities for profit, but rather the Superavit or Deficit of the activities developed by the nonprofit organization. Bersland and Mersland (2013) point out that in the context of non-profit organizations it is also important to know the result of their activities, since it is through this information that donors, lenders, and managers will be able to analyze the institution sustainability and capability in reinvesting the results in its operations. The analyzed items in the disclosure of the Fiscal Year Income Statement (DRE) are shown in Table 3.

**Table 3: Evidencing Level of the Fiscal Year Income Statement (DRE)**

<b>Nº</b>	<b>Verified Item</b>	<b>n</b>	<b>%</b>
16	Are revenues sub-divided in revenues with or without restrictions?	187	47,70
17	Are revenues classified by programs/activities for revenue generating?	266	67,86
18	Are costs presented by programs/activities?	102	26,02
19	Are expenses classified according to their nature?	342	87,24
20	Does the organization use the accrual method for recording the accounting facts?	295	75,26
21	Does the demonstration present the result (Superavit or Deficit) for the period?	363	92,60
<b>GLOBAL EVIDENCING INDEX OF THE FISCAL YEAR INCOME STATEMENT - DRE</b>		<b>1.555</b>	<b>66,11</b>

Source: Research Data

Among the analyzed items disclosure through the Fiscal Year Income Statement (DRE), it was identified that 92.60% of the entities revealed the income for the period, namely the Superavit or Deficit. The item analyzed with lower index is the one related to the presentation of costs per

programs and activities, demonstrated by only 102 organizations. A possible reason of this result may be related to the fact that the entities themselves do not know their costs by programs, which may show lack of professionalism in the control and management of the entities' costs and funds.

The data also show that 75.26% of the entities registered the accounting facts through the accrual basis. To Mario et al. (2013), this shows that it is not yet clear to these entities how to register their operations observing such accounting principle. According to Diamond (2002), and Borges et al. (2010), the use of the accrual basis method leads to greater transparency of the accounting reporting and generates incentives to the managers for a more suitable funds management.

The group of analyzed items related to the Fiscal Year Income Statement (DRE) is the one presenting higher evidencing levels, if compared to the others, which reflects the fact that organizations are concerned about properly presenting their operating results for stakeholders. It is also worth mentioning that the found results are convergent with the results of Gollo, Schulz and Rosa (2013), when the use of the accrual basis for registering the accounting facts is analyzed. These authors identified a 76% index in 2009; 78% in 2010 and 2011, close to the index found in this study (75.26%). Regarding the results related to other analyzed items they are divergent from those found by Gollo, Schulz and Rosa (2013) and Mario et al. (2013), in which the evidencing level was lower than the identified ones, which may be due to the difference in the sample size of analyzed entities.

Chagas, Luzivalda, Alves and Queiroz (2010) argue that the information on the Superavit or Deficit is used by funds investors in order to examine whether the fundraising is greater than the spending incurred. In case of deficit, this may show that the institution does not have an adequate planning for the application or for the amount that should be raised, that is, there is no balance between fundraising and spending.

The third and the fourth analysis groups are comprised of items evidenced through the Statement of Changes in the Net Equity (DMPL) and



the Cash Flow Statement (DFC), however, as already presented earlier, these two statements were not identified in the public rendering of accounts (accountability) and in the database made available by the Ministry of Justice. The studies of Silveira and Borba (2010) and Mario et al. (2013) analyzed these issues, however in another database called Registration and Rendering of Accounts System (SICAP).

Despite the lack of data, it was decided to keep these items in the *check-list* that makes up the evidencing index so that it can draw the attention of government agencies such as the Ministry of Justice, the Public Ministry, among others, so that the public systems for consultation of rendering accounts are revisited and, as from that, they are enabled to present all the accounting information considered as adequate.

The fifth group of analyzed items is related to the disclosures through the entities' Explanatory Notes. The instrument was prepared considering the aspects determined by the accounting rules, which must be disclosed by the third sector entities. As it was already provided by Hendriksen and Van Breda (1999), the main advantages of the Explanatory Notes consist in the opportunity that the entity has to present more detailed information than in the quantitative statements and in the opportunity to disclose qualitative and descriptive information of the entity's situation, which cannot be presented through the other statements.

Table 4 presents the evidencing index of the analyzed items in the presentation of the Explanatory Notes.

**Table 4: Evidencing Level though Explanatory Notes**

<b>Nº</b>	<b>Verified Item</b>	<b>n</b>	<b>%</b>
34	Does it disclose the accounting rule which is used to determine the accounting practices?	362	92,35
35	Is it present in the Explanatory Notes the statement of compliance with the rules, the interpretations and technical communications of the Federal Accounting Council (CFC)?	349	89,03
36	Does it present the summary of the significant accounting policies applied?	392	100,00
37	Does it have support information of the items of the demonstrations by the order and with rubris that are presented?	82	20,92
38	Does it present other disclosures relating to liabilities/contingent assets and/or management policies?	38	9,69
39	In the accounting policies summary, does the entity disclose the measurement bases and other accounting policies used that may be relevant?	211	53,83
40	In the accounting policies summary, does the entity disclose the judgments made for determining the accounting policies?	54	13,78
41	Did the entity disclose the impairment losses amount recognized in the income during the period and the income statement accounts in which those impairment losses were included?	1	0,26
42	Did the entity present in the Explanatory Notes (NE) the reversals amount for impairment losses recognized in the income during the period, and the accounts of the income statement in which those impairment losses were reversed?	0	0
43	Did the organization presented in its Explanatory Notes (NE) the subsequent events to the date of the year-end closing which have, or could come to have relevant effect on the situation?	1	0,26
44	Does it present the entity's operational context, including its social nature and its economic and social objectives?	391	99,74
45	Does it present the calculation criteria of revenue and expenditure, especially with gratuitousness, donation, subsidy, contribution and funds investment?	212	54,08
46	Are the tax waivers related to the activity evidenced in the accounting statements – as if it were the due obligation?	93	23,72
47	Does it demonstrate the grants received by the entity, the funds investment and the responsibilities arising from these grants?	180	45,92
48	Does it disclose the funds of restricted investment and the responsibilities arising from such funds?	68	17,35
49	Does it demonstrate the funds subject to restriction or linkage on the donor part?	183	46,68
50	Does it present the interest rates, due dates and the guarantees of long-term obligations?	0	0
51	Does it present information on the contracted insurance policies?	0	0
52	Does the entity disclose the criteria and procedures of the accounting record of the depreciation, amortization and exhaustion of fixed assets, considering that it must be observed the compulsory recognition based on estimates of its useful life?	37	9,44
53	Does it present the segregation of services performed with own resources from the other services performed by the entity?	31	7,91
54	Does it list all the practiced gratuitousness separately, highlighting those that should be used in the rendering of accounts (accountability) to the government bodies, presenting quantitative data, that is, the benefits amount, number of people served, number of appointments, number of scholarship students with representative amounts and percentages?	145	36,99
55	Does it demonstrate, comparatively, the cost and the amount recognized when this amount does not cover the costs of services rendered?	45	11,48
56	Does it disclose in the Explanatory Notes (NE) the information related to th awarded gratuitousness and voluntary services obtained by type of activity?	93	23,72
<b>GLOBAL EVIDENCING LEVEL INDEX EXPLANATORY NOTES</b>		<b>2.968</b>	<b>32,92</b>

Source: Research Data

Based on Table 4, it is possible to see that the best evidencing indexes are related to the disclosure of the summary of the main practices and policies used, with a 100% index; it is followed by the operational context evidencing with 99.74%; then it is followed by the disclosure of the accounting rule observed for preparing and presenting the accounting statements, with a 92.35% rate; besides the statement drawing up and the statements presentation in accordance with the accounting standards, with 89.03%. As for the other analyzed items they showed evidencing indexes below 60%.

Based on the observed results it can be noticed that organizations are more concerned in declaring they comply with the rules, than to present information about its operational aspects, such as the presentation of the interest rate, of the due dates and other information of the long-term obligations, information about insurance policies and the reversing of losses, items that were not disclosed by any analyzed institution. It is worth mentioning that such information may not have been disclosed by those entities simply because they have not performed this type of operation in the analyzed period and therefore they are presented with zero percentage in Table 4.

In addition to the aforementioned aspects, it showed disclosure index lower than 10% the items 38, 41, 43, 52 and 53, which are related to operational aspects and are relevance in the balances of equity accounts of the entity as well as to aspects related with the management policies that enable stakeholders to know the entities' practices. This information can generate greater credibility and increase the confidence in the relationship between the organization and its donors, social investors, lenders and users. These results are coherent with the results of Gollo, Schulz and Rosa (2013) and Mario et al. (2013).

Mario et al. (2013) argue that, taking into account the explanatory and informational power that the Explanatory Notes present, it is possible to point out that non-profit organizations present low informational level through their accounting statements.

After analyzing the evidencing of items of each group concerning the means of disclosure, it is shown in Table 5 a global evidencing index (IEG) by accounting statement.

**Table 5: Global Evidencing Index Through Means of Disclosure**

Means of Disclosure	Expected Evidencing(N)	Obtained Evidencing (n)	Global Evidencing Index (%)
Balance Sheet	3.920	1.507	38,44
Income Statement	2.352	1.555	66,11
Statement of Changes in Net Equity	2.352	0	0
Cash Flow Statement	2.352	0	0
Explanatory Notes	9.016	2.968	32,92

Source: Research Data

Through the Table 5, it is possible to see that, in addition to not presenting the Cash Flow Statement (DFC) and the Statement of Changes in the Net Equity (DMPL), unidentified for the reasons already mentioned, it was also found that the Explanatory Notes represent the means of disclosure with the lowest evidencing indexes among all items analyzed with an IEG – (Calculation of the general indebtedness index) of 32.92%, followed by the Balance Sheet (38.44%). The Income Statement showed the best evidencing index (66.11%).

These results are consistent with the studies of Silveira (2007), Silveira and Borba (2010), Gollo, Schulz and Rosa (2013), Mario et al. (2013) and Silva (2013), which, despite using samples different from the samples used in this study, they also obtained similar results.

In addition to the means of disclosure, the non-profit organizations must submit in the Explanatory Notes information about the government subsidies received. Table 6 shows the evidencing index of the items analyzed concerning this aspect.

**Table 6: Evidencing Level of Government Subsidies**

<b>Nº</b>	<b>Verified Item</b>	<b>n</b>	<b>%</b>
58	Does the entity disclose the accounting policy adopted for government subsidies including presentation methods adopted in the accounting statements?	136	34,69
59	Does the entity show the nature and extent of government subsidies or government assistance recognized in the accounting statements and an indication of other forms of government assistance from which the entity has directly been benefited?	142	36,22
60	Does the entity disclose the conditions to be complied with regularly and other contingencies connected to the government assistance which has been recognized?	8	2,04
<b>Global Evidencing Level of the Government Subsidies</b>		<b>286</b>	<b>24,32</b>

Source: Research Data

The level of global disclosure of government subsidies of the analyzed entities is of 24.32%, which can be considered a low level of disclosure if compared to the other analyzed groups. Among the items analyzed, it is denoted that 36% of the organizations reported the nature and extent of government subsidies recognized in the accounting statements, however, only 2% of these entities disclosed the obligations arising from the receiving of these funds. The policy adopted for recognition and presentation of government subsidies is presented by only 34.69% of the organizations.

This result converges with the research of Chagas, Araújo and Damascena (2011), who found that the Civil Society Organizations of Public Interest (OSCIPs) have not yet submitted the disclosures as provided by the Technical Pronouncement CPC 07, accounting rule which deals with the government subsidies. These authors attribute the low level of evidencing to the unawareness from the entities part of the mandatory aspect in disclosing such information. However, it is possible to point out that the non-disclosure of this information could jeopardize the analysis of the social investors and other external users of the entity.

The accounting disclosure in the context of non-profit organizations is of paramount importance because it is through the accounting reports that entities may render accounts (accountability) and disclose important information about their economic, financial and operational situation. Table

7 presents the descriptive statistics regarding the quality index of the entities accounting information, which was ascertained after analyzing the evidencing of the items analyzed.

**Table 7: Descriptive statistics of the accounting information quality index**

<b>Panel A – Descriptive Statistics – Index of the Accounting Information Quality (IQIC)</b>				
	<b>Average</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Standard Deviation</b>
IQIC - Accounting Index	32,4%	10%	54%	7,94%
<b>Panel B – Descriptive Statistics of the IQIC by Operation Sector</b>				
	<b>Average</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Standard Deviation</b>
Social Assistance	32%	15%	47%	7%
Culture	31%	10%	54%	10%
Development and Protection of Rights	33%	10%	53%	9%
Education	33%	10%	47%	7%
Housing	34%	34%	34%	-
Environment and Animal Protection	31%	12%	49%	11%
Religion	34%	24%	42%	9%
Health	34%	22%	51%	6%
<b>Panel C – Descriptive Statistics of the IQIC by Legal Form</b>				
	<b>Average</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Standard Deviation</b>
Association	32%	10%	54%	8%
Foundation	35%	10%	46%	7%
<b>Panel D – Descriptive Statistics of the IQIC by Qualification</b>				
	<b>Average</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Standard Deviation</b>
OSCIP - Civil Society Organizations of Public Interest	30%	10%	51%	8%
UPF - Federal Public Utility	35%	20%	54%	7%

Source: Research Data

When analyzing the ascertained accounting information quality index (IQIC), a worrying situation is identified as the highest index found was 54%, which represents an evidencing of little more than half the items that should be disclosed by the entities. If compared to studies such as the studies of Lima (2010) and Gabriel and Silveira (2011), who also used an evidencing index to measure the quality of accounting information, however, in for-profit entities, it may be stated that the informational accounting quality of Brazilian non-profit entities falls short of the for-profit sector entities. The ascertained evidencing average in this study was of

32.40% and the minimum was of 10%, while in the financial market the studies of Lima (2010) and Gabriel and Silveira (2011) demonstrated an average index of 64.82% and 67.17%, respectively. The lowest evidencing indexes in these studies were 62.62% and 29.17% respectively, which indicates that the third sector entities have low IQIC if compared to the second sector entities.

When analyzing the IQIC by sector of operation, it was identified that only the entities of three sectors, presented index higher than 50% of the analyzed items, as the sector of Culture (54%), Development and Protection of Rights (53%) and Health (51%). Regarding the entities of the Housing and Religion sectors, they had the lowest indexes. This difference may be connected to the fact that usually entities related to the promotion of culture are related to bids of culture fostering, which leads them to the fulfillment of certain rules and to the rendering of accounts (accountability) of the funds obtained to the specific government bodies.

Flack (2006) carried out a study with 646 non-profit organizations in Australia, whose results showed that the entities of the health and education sectors are more likely to better disclosures, which is partly convergent with the results identified in this study. However, education entities presented an evidencing level of 47%, therefore lower than half of the expected items.

When analyzing the data by legal form of the entities, it is identified that the foundations have evidencing level slightly higher than the associations, with an evidencing average index of 35% as against 32% of the associations. This result is plausible, since the foundations are ruled by stricter standards than those standards that rule the associations, taking into account that the foundations are constituted from a public deed, called Statute (Bylaws), and must obtain operating permits from the Public Ministry (MP). Foundations must render accounts annually to the Public Ministry of the State where its headquarters is located, as well as to report any alterations related to their operational and financial matters. It is worth remembering that the obligation of rendering accounts annually is determined by the Article 66 of the Civil Code and by the sanction of normative acts, which are arranged by the MP of each Brazilian State.

Silveira (2007), when analyzing the research and education foundations of the State of Santa Catarina, identified an evidencing index of 67% of those entities, which differs partially from the results found in this study. Mario et al. (2013), when analyzing the private foundations of Belo Horizonte also identified an evidencing average of 65.50%.

When analyzing the evidencing index by title / qualification it is identified that the Federal Public Utility (UPFs) have higher average than the Civil Society Organizations of Public Interest (OSCIPs) respectively 35% and 30%. The UPF with the highest disclosure index presented 54% of the analyzed items, while the OSCIP presented 51%.

When analyzing the set of Brazilian non-profit organizations studied in this research, it was observed that only five of them presented evidencing index higher than 50%, being them of the sector of culture, health and the development and protection of human rights. On the other hand, 19 entities presented index below 20%, being the lowest the index of 10.17% of entities operating in the development and protection of human rights..

Taking everything into account, the indexes show a low level of accounting information quality of the Brazilian entities, as 98.72% of the investigated entities presented less than 50% of the items that should be disclosed, determined by the accounting standards as necessary to enable accounting information to be useful for the decision making process by social investors, creditors, managers, government and other stakeholders in these entities.

The low level of accounting information quality, make these reports little useful to stakeholders. Thus, entities lose the opportunity to use such a mechanism as a means of rendering accounts (accountability) and higher management transparency of their funds. In addition, a low level of evidencing and a low level of accounting information quality do not help in creating effective connections between the institutions and the social investors, as the information obtained to evaluate these entities are low and do not allow the identification of the real economic, financial and operational situation of the institution.



Silveira and Borba (2010) point out that the third sector development also depends on the increase of its transparency. Works such as the ones of Weisbrod and Dominguez (1986) Keating and Frumkin (2003) Trussel and Parsons (2007); and Cruz (2010) have already demonstrated the positive effect of the accounting information in the receiving of donations and in the reaching of new social investors.

What can be deduced from the data presented in this section is that the Brazilian entities have a low informational level of their accounting variables, which can lead investors to distorted analyzes, as well as to possible jeopardizing of the sustainability and the image of nonprofit organizations. To highlight what characteristics of the entities are related to the better disclosure can contribute in order to identify factors that can be observed by the other entities that pursue the improvement of their evidencing process.

## **5 CONCLUSION**

To study the context of the third sector entities has proved to be prolific in the academic world, due to the heterogeneity of studies in several areas of the social sciences knowledge and especially in the applied social sciences. However, the studies already carried out in this area are still incipient and often isolated, which do not allow the generalization of the results, generating thereby, an isolated knowledge.

Likewise the accounting information quality has already been widely discussed in the academic world, since currently the lines of researches are focused on the use of accounting as information source for the analysis, evaluation, control and decision making process in the business environment. Such a fact makes it imperative that the generated accounting information has quality and hence be useful for its users. Studies in this area of knowledge point to the existence of a relationship and influence of organizational characteristics on the accounting information quality in the second sector organizations. Within this context, the general objective of this study was to evaluate the accounting information quality disclosed by the Brazilian third sector entities.

The main results found point to a low level of accounting evidencing and, consequently, of the accounting information quality disclosed by the Brazilian third sector organizations when compared to the second sector entities. It was concluded, therefore, that the organizations analyzed are not in full compliance with Brazilian accounting standards applied to the sector, which may be tied to the lack of knowledge of professionals working in the management of those entities, or to the poor level of professionalism of the management and of the internal controls. However, further studies are needed for proving or disproving such aspects, which were not the object of this study. Thus, the entities must be attentive to the importance and the ability of the accounting reports to provide useful information to the management process and to the stakeholders' evaluation.

From the obtained results, it can be suggested to the public and regulatory bodies to rethink the process of rendering of accounts (accountability) and the accounting information disclosure of the Brazilian third sector entities as well as to readjust the database so that they meet the accounting standards applied to non-profit organizations.

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