PERSPECTIVES ON THE ACCOUNTING AND REPORTING NEEDS OF CO-OPERATIVES AND CO-OPERATORS: A PRELIMINARY EXAMINATION[1]

Presented to the 1st International CIRIEC Research Conference on the Social Economy
"Strengthening and Building Communities:
The Social Economy in a Changing World"
Victoria, BC, Canada
October 22 – 25, 2007

Authors

Elizabeth Hicks, Assistant Professor,
Mount Saint Vincent University, Canada

John Maddocks, Researcher,
CMEC & CEARC Project, Canada;
and Student, Saint Mary's University, Canada

Alan J Robb, Adjunct Professor,
Saint Mary's University, Canada;
and Co-operative Consultant, New Zealand

Tom Webb, Adjunct Professor and MMCCU Manager,
Saint Mary's University, Canada

[1] The authors gratefully acknowledge the support of the Social Sciences Humanities Research Council, Canada and the cooperation of the Co-operatives Branch of Service Nova Scotia and Municipal Relations

Abstract

Historically, developments in accounting standards have centred on the activities of investor-owned companies (IOCs) and the information needs of investors. This begs the question that if the relationship between co-operatives and their members differs from that between investor and IOC, and if the co-operative represents a fundamentally different model to the IOC, what impact should this have on financial reporting and the information contained in financial statements and annual reports?

Initial research findings suggest that Generally Accepted Accounting Principles (GAAP) do not fully consider the reporting needs of co-operative members and are not always compatible with co-operative identity and purpose. This paper considers how a co-operative centred approach to financial reporting might differ and the potential for developing a co-operative accounting framework. The paper is informed by an empirical study of co-operative financial statements, a review of co-operative comment letters on international accounting, as well as a literature review.

Perspectives sur les besoins des coopératives et des coopérateurs en matière de comptabilité et de préparation de rapports : un examen préliminaire[2]

Résumé

Les développements en matière de normes comptables se sont jusqu'ici principalement concentrés sur les activités des entreprises appartenant à des investisseurs (EAI) et sur les besoins des investisseurs en matière d'informations. Il est donc intéressant de se demander si la relation qui existe entre les coopératives et leurs membres diffère de celle qui existe entre les investisseurs et les EAI, si la coopérative représente un modèle fondamentalement différent de celui des EAI, et de savoir quel effet cela devrait avoir sur la comptabilité financière et les informations contenues dans les états financiers et les rapports annuels.

Les résultats de recherches préliminaires suggèrent que les principes de comptabilité généralement admis (PCGA) ne tiennent pas entièrement compte des besoins en matière de comptabilisation des membres des coopératives et ne sont pas toujours compatibles avec l'identité et les objectifs des coopératives. Cette communication examine comment une approche de comptabilisation centrée sur les coopératives pourrait être différente. Elle examine également le potentiel qui existe pour mettre sur pied un cadre de comptabilité pour les coopératives. Cette communication est basée sur une étude empirique d'états financiers de coopératives, sur une étude de commentaires de coopératives en matière de comptabilité internationale, ainsi que sur l'examen d'articles traitant de ce sujet.

---

[2]Les auteures remercient le Conseil de recherches en sciences humaines du Canada pour le soutien qu'il leur a accordé, ainsi que la succursale des coopératives de Service Nova Scotia et des relations municipales pour leur coopération.

Introduction: co-operative duality in purpose and organizational structure

Co-operatives evolved in the laissez-faire environment of the early 19th century; as a response to the shift to a market society and the resulting economic and social hardships faced by many who were disadvantaged by this process of change. Society became subservient to the market: "There seemed to be nothing that could not be done – as long as it made a profit" (Birchall, 1997, p3). Old forms of social support weakened as commodification of services and labour gathered pace. Birchall (1994) sees co-operation at that time as a conscious attempt to create and develop new forms of solidarity and mutual aid capable of surviving as a business form within this new market society.

The idea of co-operatives as an alternate response to the shift to a market society, with a long term interest in promoting strong social as well as economic goals, points to the importance of both the social and the economic component in co-operation, and the need to consider both elements in order to fully understand how co-operatives differ from other forms of organization. This social and economic duality of purpose is mirrored in the co-operative organizational structure with its combination of associative and business aspects, linked through the members' dual roles as democratic owners and users of the co-operative. The duality results in a complex interaction between social and market enterprise oriented goals (Michelson, 1994), which needs to be consciously and carefully managed in order to achieve equilibrium (Cote, 2003), between the co-operative's associative and business activities.

Aspects of this duality are evident in the co-operative values and principles articulated by the International Co-operative Alliance (ICA) statement of co-operative identity (2006). These include values of self-help, self responsibility, democracy, equality, equity, solidarity, honesty, openness, social responsibility and caring for others. These values find practical expression through seven principles:

1. voluntary and open membership.
2. democratic member control
3. member economic participation. Members contribute equitably to, and democratically control, the capital of their co-operative.
4. autonomy and independence.

5. education, training and information provided by co-operatives to members, elected representatives, managers and employees so that they can contribute effectively to the development of their co-operatives.
6. co-operation among co-operatives.
7. concern for community.

Co-operatives stand apart from both investor owner business and non-profit models, while displaying aspects of each. We can apply the two elements (social/associative and economic/business) when considering a co-operative approach to accounting. One consequence is that co-operatives need to give consideration to a balanced form of reporting that recognises both their social/associative and their economic/business performance.

Members play a central role in both the associative and business aspects of co-operative activity, as both democratic member owners of and transactors with the co-operative. It is appropriate therefore, to explore the potential for membership characteristics to impact on co-operative accounting in addition to considering the broader perspective of co-operative purpose and identity

This paper considers how a co-operative centred approach to financial reporting might differ and the potential for developing a co-operative accounting framework. The paper is informed by an empirical study of co-operative financial statements, a review of co-operative comment letters on international accounting, as well as a literature review.

Characteristics of co-operative member ownership

The first three principles of the statement on the co-operative identity (ICA, 2006) focus on the nature of co-operative membership and point to the central role of the member as owner, controller and economic participant (Birchall, 2005). While there are variations, typically in a co-operative: each member has just one vote, irrespective of their financial dealings with the co-operative; elects a board from the membership with responsibility for overseeing the co-operative; and benefits in proportion to their transactions with the co-operative and not solely in proportion to their investment in the co-operative. It is a fundamental difference from IOCs that economic benefits to members are strongly linked to the level of transacting

between member and co-operative over the year, rather than being based solely on the extent of the member's shareholding. The investor invests, but the member joins and participates in the daily economic activity of the co-operative, as a consumer or producer, and/or an employee.

Member rewards outside of transacting with the co-operative, may have limits set on them. For example, co-operatives will often have a rule in their governing document limiting the return on investment, so that an investor secures nothing in excess of that required to secure such investment in the market (Co-operatives Secretariat, 2007, FSA, 2006). Furthermore, in some co-operatives, the member has no rights to the residual net assets on dissolution (Co-operatives^{UK}, 1996, 1997a, 1997b). Such a limitation is designed to protect mutuality and provide a safeguard against asset stripping by carpetbaggers. Consequently conventional financial measures, such as asset backing per share, may have little relevance in co-operatives.

Because of the nature of co-operative member ownership, it is also relatively rare for shares to trade on the open market. Where hybrid co-operatives do exist, the tradeable shares frequently may be restricted in terms of voting.[3] There are a number of characteristics that flow from this. The transacting or co-operative member shares may be redeemable by the co-operative at par/nominal value, or may simply be allocated to the co-operative's reserves when a member leaves; member shares do not have a market value placed on them; co-operatives are less visible to the market; and there is not the same level of external analysis and scrutiny applied to the member share.

The member owner replaces the notion of the investor owner as a key user of financial reports (CICA, 1984). This is important because the investor owner as key user of financial statements does dominate thinking around accounting standard setting. There is an assumption evident in standard setting that financial statements designed for investors will meet the needs of other users (IASB, 2006), however this runs the risk of ignoring important differences in the nature of co-operative member share ownership.

[3] For example, under the Co-operative Companies Act in New Zealand investing shareholders may never have more than 40% of the voting rights irrespective of the capital contributed.

Co-operative accounting issues identified

We can apply these characteristics of membership along with the broader themes of co-operative duality, purpose, values and principles, in identifying areas where co-operative characteristics may have implications for accounting and inform a differing approach to accounting and reporting.

Our research to date has included a literature review, a survey of co-operative financial reporting in Nova Scotia, Canada and an initial review of comment letters sent by co-operative organizations to the International Accounting Standards Board (IASB) in response to discourse on co-operative member shares and their definition as equity or liability. The literature review and survey have been covered in more detail in earlier papers (Hicks, Maddocks, Robb & Webb, 2007a & 2007b) while the review of comment letters is ongoing and discussed further below. We have drawn on this work done to date in building a partial picture of some of the linkages between co-operative characteristics and accounting issues.

There is recognition (Robb, Shanahan, & Lord, 2006, Hyndman, McKillop, Ferguson, & Oyelere, 2002, Hicks *et al*, 2007b) that there has been limited research into co-operative accounting. This is reflected in this paper, in signaling some areas for further discourse and research. What follows is an initial attempt to consider how co-operative differences can have relevance to accounting and to explore some of the possibilities for informing a co-operative approach to accounting and reporting. It suggests that the co-operative identity has the potential to impact on accounting and reporting and equally that GAAP has the potential to impact adversely on co-operatives by the imposition of inappropriate accounting standards.

Tables 1 and 2 below link co-operative characteristics to issues related to accounting and reporting and possible areas of accounting to consider.

Table 1: Membership characteristics

Co-op characteristic	Issue	Accounting areas

Member ownership	Definition of equity in co-op. Current GAAP recognises some but not all member shares as equity.	Accounting definition of equity that encompasses the concept of co-operative member ownership.
	Clarity regarding members' financial interest in co-op.	Presentation and disclosure on the financial statements and in the notes. Full disclosure of member and investor shares in co-op (rights, risks, rewards). Full disclosure of other member interest in the co-op (loans, allocated surplus, etc)
	Clarity regarding reserves.	Presentation and disclosure on the financial statements and in the notes. Reserves policy.
	Investor focus in accounting standards ignores differences found in co-op member ownership.	Standards setters to evaluate impact of proposed standards changes from co-op member perspective.
Member control; member as key user of financial statements	Accountability - quality of financial reporting.	Minimum standards. Compliance with GAAP. Levels of assurance.
	Accountability - understandability and usefulness of financial reports.	Member oriented presentation and disclosure. Plain/appropriate accounting language.
Member benefit through economic participation/transacting with co-op	Reporting performance in terms of how resources managed in relation to transacting with members. Delivery of goods, services, jobs, to members, as opposed to focus on profitability alone.	Appropriate presentation. Appropriate performance ratios and statistics. Clearer definitions of types of member benefit.

Table 2: Co-operative values, purpose and goals characteristics

Co-op characteristic	**Issue**	**Accounting areas**
Differing co-operative social and economic goals, arising from purpose,	Investor and profit maximising focus in accounting standards ignores differences in co-op model.	Standards setters to evaluate impact of proposed standards changes on co-ops as part of normal process. Development of understanding of impact of differing goals on applicability of standards.

values, and principles.	Accounting for both social and economic goals and activities of the co-op. Need to report co-op performance re co-op values and principles.	Co-op sustainability reporting guidance. Social accounting separate from or integral to financial reporting. Standardized co-op performance measures. Presentation and disclosure.
	Lack of visibility/assessment in current reporting regarding co-ops delivery and impact in co-op education, training and information.	Approaches for quantifying and reporting on co-op's impact on the community. Standardized comparable measures. Guidance on presentation and disclosure.
	Lack of visibility/assessment in current reporting regarding co-ops impact on community.	
Co-operation among co-operatives.	Closer working between co-operatives as one response to globalisation. Current GAAP assumption of merger relationship based on acquirer and acquired. Value of reporting on inter co-operation.	Business combinations: Evaluation of an alternate accounting approach that recognises mutual pooling as valid alternative to current assumption of acquirer/acquiree. Guidance on full disclosure in notes concerning relationships with other co-ops.
Relatively large number of small and medium sized co-operatives.	Limited accounting resources available in small co-ops. Simpler, understandable reporting to benefit user.	Standard for small and medium sized co-operatives. Evaluation of cash accounting for the smallest co-ops.

Member ownership

Co-operatives and co-operative differences have been most visible at national and international levels, concerning the defining of co-operative member shares as equity or liability. We have already commented on this in a previous paper (Hicks *et al*, 2007a). It is evident from an initial analysis of comment letters responding to the International Financial Reporting Interpretations Committee's statement on members shares (IFRIC D8, IASB, 2005), that co-operative organizations see members' shares and member capital as requiring a co-operative-specific approach in their accounting treatment.

As such, the nature of co-operative member ownership, shares and equity perhaps represents the major, pivotal point of co-operative difference in relation to GAAP. The topic has

generated the greatest number of co-operative comment letters sent to the IASB. It is clear from the letters that standards setters do not seem to fully understand co-operatives, or properly evaluate the impact of proposed changes in GAAP on co-operatives.

The IASB and the U.S. Financial Accounting Standards Board (FASB) are continuing to consider further revisions in relation to accounting for financial instruments and this includes recent FASB work around defining the characteristics of equity and liabilities (FASB, 2006, 2007a).

Linked to issues around defining member shares is the need for clarity regarding the nature of members' ownership of the co-operative, including associated rights, risks and rewards. There is an opportunity here to draw on existing examples of presentation and disclosure and to develop good practice guidance. A thoughtful use of presentation, on the financial statements and in the notes, has the potential to improve members' understanding of their position, but also to make clear to external stakeholders the full extent of member financial commitment to the co-operative, whether it be in the form of equity or debt instruments.

Reserves are recognised as an important source of financing for co-operatives with some co-operative legislation and regulation requiring establishment and maintenance of adequate reserves (Canada Co-operatives Act, 1998, Co-operative Associations Regulations, 2004). Disclosure of a reserves policy along with clarity concerning the nature and extent of reserves would assist readers in understanding the co-operative's financing. Our survey of Nova Scotia co-operatives' financial statements (Hicks *et al*, 2007b) found that fewer than half of the co-operatives included a note on reserves in their financial statements. This is surprising given the regulatory requirement placed on them to establish an appropriate general reserve from retained earnings (Co-operative Associations Regulations, 2004).

Member control

The co-operative member is the primary recipient of financial reports and may be seen as equal to and interchangeable with the investor (CICA, 1984), as the owner and main provider of risk capital. But the member's ability to participate in the democratic control of the co-operative will be compromised where the quality of reporting is poor and/or the general understandability and usefulness of the reporting is questionable.

There are indications that many co-operatives struggle in complying with even some of the most basic aspects of GAAP (Hicks *et al*, 2007b and Hyndman *et al*, 2002). This must seriously limit the usefulness of the financial reports. It brings into question the degree to which members have the necessary information available to them to properly assess the performance and effectiveness of their co-operative.

This is perhaps compounded by the lack of external analysis and commentary on co-operative financial reports. Co-operative financial reports do not generally attract the attention of financial market analysts and commentators. It has been the experience of one of the authors, over a number of years, that external analysts and the media often fail to understand the nature of co-operatives. Such absence of comment by analysts may be preferable to ill-informed comment. However, without independent informed analysis there is little to ensure that co-operative financial reports are subject to scrutiny. The present risk is that the reports members receive may not be understandable, transparent or presented frequently and in a timely and accessible manner.

The development of co-operative specific accounting guidance could assist in both compliance with the accepted fundamentals of GAAP but also in developing a more 'member friendly' presentation, which seeks to improve the language and layout of the report, avoiding confusing or ambiguous reporting styles. This could be described as a combination of co-operatives putting their accounting house in order while also enhancing the ability of the annual report to enable good governance and member accountability.

Member benefit

Economic benefit for members arises mainly from economic participation in and transacting with the co-operative. An important element of economic benefit can include patronage returns or discounts linked to the level of transactions between member and co-operative.

Patronage returns are typically found in agricultural, producer, buying and consumer co-operatives, in differing forms and to varying degrees. For example: a retail co-operative may offer members a customer card that allows them to accumulate points towards the purchase of more goods or services in the future; a buying co-operative may offer members a discount on

prices, dependent on the amount of their transacting with the co-operative; and a marketing/producer co-operative will buy members' produce and may also offer a patronage return taken from any surplus made on the processing and marketing, and based on level of goods sold to the co-operative by the member.

For worker co-operatives the main economic benefit to members may arise through employment, the wage and associated benefits; while, for housing co-operatives the member benefit arises from access to appropriate, affordable housing.

All of the above examples share the common theme of member economic benefit linked to the extent of their use of, and transacting with, the co-operative, rather than from investment in shares alone. The members' interest will be in the ability of the co-operative to deliver these benefits related to transacting with the co-operative, rather on share dividend.

Such member benefits can be viewed as part of the co-operatives operating activity and costs, rather than as a distribution of profit. Indeed tax law may view members' patronage returns not as dividends but rather as discounts to the customer member on transactions (Canada Revenue Agency, 2006, HM Revenue & Customs, 2007a, b).

Furthermore, co-operative principles promote a limited return on investment capital and many co-operatives have a rule in their governing document that sets a ceiling on the amount of interest that may be paid on shares or on loans (Co-operatives Secretariat, 2007, FSA, 2006).

As such, there are fundamental differences between member reward and shareholder reward which has implications for financial reporting. It suggests a need to consider how best to communicate to the member the co-operative's performance with respect to the provision of services or goods and discounts, which can have implications for presentation in the financial statements and the inclusion of appropriate notes and performance measures, including ratios.

There is also the question of the clarity of accounting language used in describing member transactions with the co-operative. Some co-operatives use the words "distributions" and "dividends" to describe certain items of operational expenditure, such as patronage returns and discounts to members. In accounting, dividends normally represent a distribution of

profits. As such, they are: "an appropriation rather than an expense, are not charged in the calculation of profit, nor are they tax deductible for the paying company" (Nobes, 2002, p.112). By contrast, rebates to members are tax deductible for the paying co-operative and the distribution is directly related to the cost of goods supplied to members (and not to the shares held). The Co-operatives[UK] Performance and Accounting Standards Committee (PASC), echo this view: "Where distributions continue to be treated as a revenue account charge they should not be characterised as 'distributions' or 'dividends' but described as what they are – 'payments to and on behalf of members' with analysis in the notes." (PASC, 2006, p.B1.11-4). Co-operatives, and their members, would benefit from adopting this approach and moving away from ambiguous use of accounting language in the interests of clarity and transparency.

Differing co-operative social and economic goals arising from purpose, values and principles

Nadeau and Thompson (1996) assert that co-operatives are simply not designed to maximise shareholder return but rather are a democratic model for delivering goods and services to members at a reasonable price. While co-operatives must be economically viable businesses, their reason for existing is closely linked to broader goals which include meeting the unmet needs of members, but also giving practical expression to a range of social values and goals that link to their associative/social characteristics. These include, for example: equity, democracy, solidarity and social responsibility (ICA, 2006).

When considering additions or revisions to GAAP accounting standards setters adopt only the investor owner perspective, with its emphasis on performance measured in terms of profitability and maximising return to investors. The IASB asserts "provision of financial statements that meet [investor] needs will also meet most of the needs of other users" (IASB, 2006, para 10). However, as with the co-operative difference in respect of membership characteristics, there is also co-operative difference in respect of broader social and economic goals. Co-operative accounting could benefit from considering how the broader co-operative purpose and related goals might impact on approaches to financial reporting, with a view to providing standards setters with a means of evaluating the impact of changes in GAAP on co-operatives and their ability to report on these differing goals.

In relation to social reporting, while opportunities do exist for co-operatives to report on their performance in relation to social goals, there is only limited evidence of co-operatives attempting to do this within the financial report. Indeed, our survey of financial statements (Hicks *et al*, 2007b) found very little evidence of financial reporting that could be linked, however tentatively, to the wider social goals evident in the co-operative values and principles, such as equity, solidarity, education, community or environmental concerns.

There are, however, good examples of social and environmental accounting by co-operatives. These include the Vancity Accountability Report (2005), and the Co-operative Financial Services Sustainability Report (2005). These reports are stand alone documents, separate from the financial reports of these organizations. There is an opportunity here to explore connections between social and financial reporting and to consider how closely they might be integrated and to what extent members and other users would benefit from standardized, comparable measures. The Phone Co-op (2006), for instance, includes in its annual report, key social and co-operative performance indicators based on those developed by Co-operatives[UK] (2006). The Phone Co-op approach has a number of interesting features: i. social performance measures included in the same document as that for the financial statements; ii. the use of standardized measures; iii. annual reporting on a small number of critical performance indicators that are easy to read and compare.

Accounting bodies acknowledge the need for organisations to report on both financial and non-financial information, including the social and environmental aspects of their activities. For example: the Canadian Institute of Chartered Accountants (CICA) guidance on management and discussion analysis disclosure (CICA, 2007a), includes environmental and social responsibility in its list of potential key performance drivers; the CICA corporate reporting awards recognize environmental and sustainability reporting (CICA, 2007b); and the Association of Chartered Certified Accountants (ACCA) sponsors annual awards for sustainability reporting in various countries (2007). But, as noted by Gray (2002, 2005), there is little indication of any move towards bringing social and environmental reporting within the realm of financial reporting and GAAP.

There may be limits to the extent to which co-operative social values and principles can find adequate expression in financial reporting; however it would seem to be too early to close the

door on exploring the possibilities for bridging the gap between social and financial reporting and finding ways for closer collaboration. Furthermore co-operatives are playing an important role in the development of social accounting, evidenced by the annual co-operative reporting examples discussed previously, but also in the range of co-operative research and guidance in this area (Brown, 2001, Mook, Quarter, & Richmond, Cooperative Commission, 2001, VICTO, 2003, Co-operatives[UK], 2006).

Co-operation among co-operatives

The sixth of the seven co-operative principles (ICA, 2006) is co-operation among co-operatives. The assertion is that co-operatives can work more effectively and strengthen co-operation through closer working with other co-operatives at all levels. Potentially, a co-operative approach to working with other co-operatives can be very different from the more adversarial approach that investor owned companies may adopt towards other companies. This is also different from collusion between companies, which has at times led to consumer exploitation, and is thus anti-competitive and socially detrimental.

Co-operatives have an opportunity here to report the extent of their economic relationships with other co-operatives, through the inclusion of appropriate notes in the financial reports. This could be in the form of information on the level of transacting with other co-operatives, but could also include more detailed disclosures regarding related parties and economic dependence.

Furthermore, closer co-operation resulting in a merger of two or more co-operatives may represent a very different form of joining to that normally found when two IOCs combine. Yet International Financial Reporting Standard (IFRS) 3: Business Combinations (IASB, 2004), requires the use of the purchase method, with the assumption of an acquirer and an acquiree.

Comment letters sent to the IASB indicate a critical co-operative response to IFRS 3. For example: Co-operatives Europe (2005b) and the World Council of Credit Unions (2005) have expressed concern regarding the relatively narrow acquirer/acquiree perspective adopted in IFRS 3, and have indicated support for an alternative co-operative approach that would allow for situations where there is no acquirer but rather a mutual pooling of resources. While

some co-operative mergers may take the form of an acquisition it is not clear that all do, but the possibility of an alternate co-operative approach has not been fully explored, and standards setters do not currently appear responsive to the notion of other possibilities outside of acquiring or being acquired. For example: the FASB consideration of not-for-profit mergers (FASB 2007b) supports the acquisition approach for all forms of organization, while the CICA (2007) does not see the need for a differing co-operative approach.

A co-operative pooling approach could offer the prospect of a potentially simpler and less costly accounting process. This could assist smaller co-operatives in engaging in closer co-operation and merger; potentially widening the options open to co-operatives in responding to globalisation and increasing competition.

Small and medium sized co-operatives (SMCs)

While there is perhaps a debate to be had whether this represents a characteristic of co-operatives, there are indications that many co-operatives would fit the label of SMC (Bibby, 2004, Hicks *et al* 2007b, Co-operatives Europe 2005a). This would include a substantial number of worker co-operatives, and a variety of co-operatives limited in size by their focus on serving local communities and neighbourhoods, and/or delivery of services or goods on a small scale.

Our survey of Nova Scotia co-operative financial statements (Hicks *et al*, 2007b) found that non compliance with basic GAAP was most evident among smaller co-operatives. This may reflect the limited accounting resources and expertise available to smaller co-operatives, but also suggests the need to consider a simpler form of reporting for SMCs, in the interests of both the producer and user of the report. Current work by standard setters on accounting standards designed for small and medium sized entities (SMEs), includes: the UK Financial Reporting Standard for Smaller Entities (FRSSE, ASB, 2007); the international SME standard under development (IASB, 2007) and discussions on an SME standard in Canada (CICA, 2007).

Given that so many co-operatives are likely to fit the category of SME, there is an opportunity, during this period of SME standards development, to address a range of issues concerning co-operatives, including some we have already touched upon. Co-operatives

Europe (2005) for example, argues for a separate SME standard for co-operatives to take account of co-operative specificities and including consideration of: financial instruments, business combinations, appropriateness of fair value accounting to small organizations, and improving understandability for the non-accountant user.

Co-operative centred approach to financial reporting

This partial exploration of co-operative characteristics and their relevance to financial reporting, suggests there are differences in co-operative identity and purpose which could, if they were recognised and allowed to, have an influence on financial reporting for co-operatives. Our initial review of co-operative comment letters to the IASB indicates a real desire for greater discourse on the topic of co-operative accounting. Furthermore, co-operative organisations could prove an invaluable and relatively untapped source of experience, knowledge and ideas in support of improving the applicability of existing financial reporting standards to co-operatives as well as providing standards setters with new co-operative centred approaches to consider.

The comment letters on IFRIC D8, for example, included arguments for other ways of defining co-operative equity instruments, which also extended to a number of detailed presentations on alternative approaches. While it doesn't add up to a complete co-operative accounting perspective or framework, there is also a wide range of existing co-operative accounting material to draw on. In an earlier paper we described a typology of current discourse on co-operative accounting (Hicks *et al* 2007a). This included: co-operative responses to changes in accounting standards; practice oriented guidance produced by co-operative apex organisations; research and position papers on co-operative capital, accountability and a co-operative GAAP; and the leadership role of co-operatives in social, environmental and sustainability reporting.

It is important to recognise that the national legal framework has an impact on the co-operatives approach to financial reporting. It was noticeable in the comment letters, for example, that some countries gave considerable flexibility to co-operatives in the adoption of rules concerning the redemption of shares and the powers of the board, while others had set legislation requiring specific approaches to the redemption of shares. Equally, some

countries defined member shares as equity, in law, while others did not. Any future work in developing co-operative responses to international developments in accounting must have a good understanding of both variations and similarities across countries, in order to offer a robust and coherent response.

There are indications that co-operatives are playing a more pro-active role regarding developments in financial reporting; most noticeably since the revision of IAS 32 and the resulting re-defining of financial instruments that faced some co-operatives with the prospect of treating their members' shares as debt instruments. Some 71 co-operative organizations, responded to the IASB's request for comments to IFRIC D8. Since then, there are examples of co-operative organizations seeking to engage in other developments, through comment letters, research and position papers. One example is Co-operatives Europe and its position papers on IFRS 3 and the SME standard proposals; as well as a survey on co-operative equity instruments (Co-operatives Europe, 2005a, 2005b, 2007).

There does, though, appear to be some way to go before we can say that a co-operative accounting framework exists or that co-operative organizations have provided standard setters with a comprehensive understanding of co-operative identity, characteristics and their implications for financial reporting. There is perhaps a shortage of places and spaces for co-operatives to discuss and develop their ideas on co-operative accounting. One possibility would be to create comprehensive co-operative specific guidance, in the form of recommended practice, operating alongside accounting standards but giving expression to co-operative characteristics and seeking to improve the quality of reporting to members and other users of co-operative financial reports.

Practical examples of sector specific Statements of Recommended Practice (SORP) exist, though definitions and applications of SORPs vary from country to country. Canada has a public sector SORP which takes the form of guidance, but is not considered part of GAAP (CICA, 2007). In the UK SORPs are more closely associated with GAAP and are seen as supplementing accounting standards (ASB, 2006). Perhaps of particular interest to co-operatives is the fact that the UK ASB hands over the job of developing the particular SORP to the relevant sector or industry bod. However, it may be that a SORP presents serious challenges for a sector or industry in terms of administration and costs associated with maintaining, revising and promoting it.

The SORP example does indicate the feasibility of adopting a co-operative specific approach to financial reporting, whether that be in the form of a SORP or other form of co-operative specific guidance. The creation of such a document could provide opportunities for increased co-operative engagement and discourse, both during its initial creation and subsequently through consideration of its application, criticism and discussion of any shortcomings or problematic areas and further updating and revision. It could also prove a vehicle for raising the visibility of co-operatives in accounting and offer increased dialogue with standards setters, thus improving the prospects for greater understanding on the part of co-operators and standards setters.

REFERENCES

Accounting Standards Board (ASB). (2006). *SORPs (statements of recommended practice)*. London: ASB. Retrieved July 28, 2006, from http://www.frc.org.uk/documents/pagemanager/asb/sorp280706.pdf

Accounting Standards Board (ASB) (2007). *Financial Reporting Standard for Smaller Entities*. London: ASB. Retrieved 1 July, 2007, from http://www.frc.org.uk/documents/pagemanager/asb/FRSSE-Jan2007%20web%20optimized.pdf

Association of Chartered Certified Accountants (ACCA) (2007) *Awards*. Retrieved 1 July, 2007, from http://www.accaglobal.com/publicinterest/activities/subjects/sustainability/awards/

Bibby, A. (2004) *Financial participation by employees in co-operatives, in Britain*. Retrieved 1 July, 2007, from http://www.andrewbibby.com/socialenterprise/Confidencereport.pdf

Birchall, J. (1994). *Co-op: the people's business*. Manchester: Manchester University Press.

Birchall, J. (1997). *The international co-operative movement*. Manchester: Manchester University Press.

Birchall, J. (2005). Co-operative principles 10 years on. *Review of International Co-Operation,* 98(2), (2005), 45-63. Retrieved 9 August, 2006, from http://www.ica.coop/publications/review/documents/2005.issue2.pdf

Brown, L. (2001). *Social auditing and community cohesion: The co-operative way* (Executive summary). Halifax, Nova Scotia: Mount Saint Vincent University. Retrieved July 25, 2006, from http://www.coop.gc.ca/pub/pdf/brown-smmr_e.pdf

Canada Cooperatives Act, (1998). Retrieved 26 July, 2006, from http://laws.justice.gc.ca/en/showtdm/cs/C-1.7

Canada Revenue Agency (2006) *Patronage dividend deduction form*. Retrieved 1 August, 2007, from http://www.cra-arc.gc.ca/E/pbg/tf/t2sch16/t2sch16-06e.pdf

Canadian Institute of Chartered Accountants (CICA). (1984). *Financial reporting for credit unions*. Toronto: CICA.

Canadian Institute of Chartered Accountants (CICA). (2007a). *CICA Handbook - accounting*. Toronto: CICA, 2007. Electronic version accessed through the Knotia.ca online service https://www.knotia.ca

Canadian Institute of Chartered Accountants (CICA). (2007b). *Awards*. Retrieved August 29, 2007, from http://www.cica.ca/1/3/1/index1.shtml

Co-operative Associations Regulations. Province of Nova Scotia, 2004. Retrieved 8 November, 2006, from http://www.gov.ns.ca/just/regulations/regs/coopgen.htm

Co-operative Commission (2001). *The Co-operative Advantage: creating a successful family of co-operative business*. London. Co-operative Commission. Retrieved July 28, 2006, from http://www.co-opcommission.org.uk/index2.html

Co-operative Financial Services (CFS). (2005). *Sustainability Report 2005*. Manchester, CFS. Retrieved July 28, 2006, from http://www.cfs.co.uk/images/pdf/FullReport.pdf

Co-operatives Europe (2005a) *Comments of Co-operatives Europe on the IASBs questionnaire on possible recognition and measurement modifications for small and medium sized entities (SMEs)*. Retrieved 1 July, 2007, from http://www.coopseurope.coop/IMG/doc/IAS_PME__28_06_FINAL.doc

Co-operatives Europe (2005b) *Comments of Co-operatives Europe on the IASBs Exposure Draft on amendments to IFRS 3: Business Combinations*. Retrieved 1 July, 2007, from http://www.coopseurope.coop/IMG/pdf/Coop_Europe_Draft_IFRS_3_Final_draft.pdf

Co-operatives Europe (2007) *Survey on Co-operative Shares and other Equity Instruments issued by Co-operatives.* Brussels: Co-operatives Europe.

Co-operatives Secretariat (2007) *Main provisions of the Canada Co-operatives Act backgrounder*. Retrieved 1 May, 2007, from http://www.agr.gc.ca/rcs-src/coop/index_e.php?s1=leg&page=loi

Co-operatives[UK] (1996) Model rules for co-operative incorporated as an industrial and provident society

Co-operatives[UK] (1997a) Model memorandum and articles of association for private company limited by shares (co-operative).

Co-operatives[UK] (1997b) Model memorandum and articles of association for company limited by guarantee (co-operative).

Co-operatives[UK] (2006) *Demonstrating co-operative difference: Key social and co-operative performance indicators*. Retrieved 1 July 2007, from http://www.cooperatives-uk.coop/live/images/cme_resources/Public/kscpi/guidance_feb06.pdf

Cote, Daniel (2003) *Managing cooperative equilibrium: a theoretical framework* (Montreal: HEC).

Financial Accounting Standards Board (2006). *Summary of principles for the ownership approach*. Retrieved 1 July 2007 from http://www.fasb.org/project/Summary_of_Principles_for_the_Ownership_Approach_rev_nov2006.pdf

Financial Accounting Standards Board (2007). *Board meeting minutes, June 27, 2007, Liabilities and Equity*. Retrieved 20 August 2007 from http://www.fasb.org/board_meeting_minutes/06-27-07_liabeq.pdf

Financial Accounting Standards Board (2007b). *Exposure draft, proposed statement of financial accounting standards, not-for-profit organizations: mergers and acquisitions.* Retrieved 1 August, 2007 from http://www.fasb.org/board_meeting_minutes/06-27-07_liabeq.pdf

Financial Services Authority (2006). *Information on the registration of bona fide co-operatives under the Industrial and Provident Societies Act 1965*. Retrieved 1 July, 2007, from http://www.fsa.gov.uk/Pages/doing/small_firms/MSR/pdf/cooperative.pdf

Gray, R. (2002). Of messiness, systems and sustainability: Towards a more social and environmental finance and accounting. Paper presented at the *British Accounting Association Annual Conference,* Jersey. Retrieved August 15, 2006, from http://www.accfin.gla.ac.uk/AccFin/UploadedDocs/WorkingPapers/2002/ROBG1-2002-6.pdf

Gray, R. (2005). Taking a long view on what we now know about social and environmental accountability and reporting. *Electronic Journal of Radical Organisation Theory, 9*(1), 07/18/2006. Retrieved 18 July, 2006, from http://www.mngt.waikato.ac.nz/ejrot/EJROT(newdesign)Vol9_1specialissue_front.asp

HM Revenue & Customs (2007a). *CTM40560 – Particular bodies: industrial and provident societies: payments not treated as distributions*. Retrieved 1 July 2007, from http://www.hmrc.gov.uk/manuals/ctmanual/CTM40560.htm

HM Revenue & Customs (2007b). *CTM40515 – Particular bodies: industrial and provident societies: carrying on trade: dividends etc*. Retrieved 1 July 2007, from http://www.hmrc.gov.uk/manuals/ctmanual/CTM40515.htm

Hicks, E., Maddocks, J., Robb, A., & Webb, T. (2007a). *Accounting for the co-operative difference: An exploration of financial reporting for co-operatives*. Paper presented at CAAA conference, June 2007.

Hicks, E., Maddocks, J., Robb, A., & Webb, T. (2007b). Co-operative accountability and identity: An examination of reporting practices of Nova Scotia co-operatives. *Journal of Co-operative Studies* , 40 (2), 4-16.

Hyndman, N., McKillop, D. G., Ferguson, C., & Oyelere, P. (2002). *Credit unions in the UK: A study of their structure, growth and accountability* (Association of Chartered Certified Accountants' Research Report No. 75). London: Certified Accountants Educational Trust.

International Accounting Standards Board. (2004). *IFRS 3: Business Combinations*. London: International Accounting Standards Board. Retrieved July 21, 2006, from Lexis Nexis Butterworths Services.

International Accounting Standards Board. (2005). *IFRIC draft interpretation 8 comment letters.* Retrieved July 21, 2006 from http://www.iascfoundation.org

International Accounting Standards Board. (2006). *Framework for the preparation and presentation of financial statements*. London: International Accounting Standards Board. Retrieved July 21, 2006, from Lexis Nexis Butterworths Services.

International Accounting Standards Board. (2007). *Exposure draft of a proposed IFRS for small and medium sized entities*. London: International Accounting Standards Board. Retrieved July 21, 2006, from http://www.iasb.co.uk/

International Co-operative Alliance. (2006). *Statement on the co-operative identity.* Retrieved 21 July 2006, from http://www.coop.org/coop/principles.html .

Michelsen, J. (1994). The rationales of cooperative organisations: Some suggestions from Scandinavia. *Annals of Public and Cooperative Economics, 65* (1), 13. Retrieved July 17, 2006, from Business Source Premier database

Mook, L., Quarter, J., & Richmond, B. J. (2007). *What counts: Social accounting for nonprofits and cooperatives.* London: Sigel Press.

Nadaeu, E. G., Thompson, D. J. (1996) *Cooperation works!* Rochester: Loan Oak Press.

Nobes (2002). *The penguin dictionary of accounting*. London: Penguin.

Performance & Accounting Standards Committee (PASC). (2006). *Co-operative accounting standards manual* (Revised March 2006 ed.). Manchester: Co-operatives UK.

Robb, A. J., Shanahan, Y. P. and Lord, B. R. (2006). Annual Report Readership and Understanding: An international comparison. *Journal of Co-operative Studies*, 39 (1), 24-34.

The Phone Co-op (2006) *Annual report and financial statements 2005-06*. Retrieved 1 July, 2007 from http://www.thephone.coop/members/documents/annual_report_06.pdf

Vancity (2005) *Accountability Report 2004-2005*. Vancouver, Vancity. Retrieved November 24, 2006, from https://www.vancity.com/SharedContent/documents/0405AccountabilityReport/AccountabilityReportVancity.pdf

VICTO Social Audit Project. (2003). *Social audit manual*. Retrieved November 24, 2006, from http://www.coopdevelopmentcenter.coop/Good%20Practices/SocialAuditManual.pdf

World Council of Credit Unions (WOCCU). (2005). *Comment letter to IFRS 3 amendment*. Madison: WOCCU. Retrieved August 18, 2006, from http://www.woccu.org/lrac/files/1130767490_PC_IASB_Board_102705.pdf