

Feb
2009

CEARC Report no. 3

Report on comments received on CEARC working paper 2:

Towards a conceptual framework for co-
operative accounting

and discussion paper 1: iSORP objectives, scope and purpose

February, 2009

Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC)
Saint Mary's University, Halifax, Nova Scotia



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discussion paper 1**

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The Centre of Excellence in
Accounting and Reporting for
Co-operatives (CEARC) is
sponsored by:

- Saint Mary's University
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Chartered Accountants
- The Co-operators
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(UK)
- Co-operatives Branch –
Service Nova Scotia and
Municipal Relations
- Co-operative Housing
Federation
- United Farmers of Alberta
- Nova Scotia Co-operative
Council
- Scotsburn Dairy

Published by CEARC
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1. BACKGROUND

CEARC Working Paper 2 (Conceptual Framework) and CEARC iSORP Discussion Paper 1 (ISORP objectives, scope and purpose) were published in March 2008. Both papers were made available for download on the CEARC website. They were also e-mailed out to a distribution list that included:

- Sponsors
- CMEC members
- Co-operative apex organizations
- Academics, accountants and co-operators that have indicated an interest in the topic

The papers included the following questions for feedback:

Conceptual framework paper

1. Does this working paper omit any key concepts which are necessary in a Statement of Concepts?
2. Does this working paper include any items which should be introduced in the proposed co-operative international Statement of Recommended Practice (iSORP)?
3. What expansion is needed in the items covered in this working paper?

iSORP objectives, scope and purpose paper

1. Are there any additional items to include in the iSORP objectives, scope and purpose?
2. Are there any items currently listed that you feel are inappropriate for inclusion in the objectives, scope and purpose?
3. Are there any revisions you would recommend regarding the existing wording, structure and/or order of items?

2. RESPONSES RECEIVED

Three persons provided comments on the conceptual framework paper and one person provided comments on the iSORP paper.

Table 1: Breakdown of responses by type of organization:

Accounting body	1
Co-operative	1
Academic/research	2

Although the above analysis is by organization type, respondents were not necessarily providing comments endorsed by their organization.

3. FEEDBACK ON THE CONCEPTUAL FRAMEWORK

Non-financial reporting

Of the three respondents providing comments on the conceptual framework paper, two addressed at least in part, the questions included in the paper. In particular they suggested that non-financial reporting should be more central to the framework. One respondent viewed the conceptual framework as too narrowly focused on financial measurement, presentation and disclosure and that it should be broadened to include social and environmental reporting.

Member patronage allocations, loans and preference shares. Equity or liability?

One respondent requested clarification on how they might apply the conceptual paper's definition of liabilities ("the present obligations of an entity to non-members") to their co-operative. In particular they pointed out that in their co-operative, patronage dividends payable to members are presented under current liabilities in their financial report. Another respondent raised a similar concern regarding member loans and member preference shares and the question of whether they are more appropriately classed as liabilities rather than equity.

Inclusion of IASB qualitative characteristics

One respondent suggested that the characteristics mentioned in the IASB conceptual framework should also be included in the co-operative conceptual framework. Examples include the qualitative characteristics of understandability and comparability.

Areas of Contention

The CEARC conceptual framework paper does present a challenge to current thinking in standards setting. Respondents touched on a number of areas where the conceptual framework potentially conflicts with existing accounting standards. Differences noted by respondents are summarized in table 2 below.

Table 2: Areas of contention noted by respondents

Accounting standards setters view	Co-op accounting conceptual framework
One set of universally applicable standards; sector neutral.	Different approach for different organizational model.
Fixed asset measurement at cost or revaluation.	Fair value applied to all measurement.
Fixed asset revaluation increases taken direct to the balance sheet (to a non-distributable reserve).	All revaluations recognized in income statement. Subsequent transfers to a reserve may be made by decision of the directors.
Member loans to the co-operative, preference shares and allocated patronage are classified as liabilities.	Obligations to non-members are liabilities. The interest of members in the assets of the entity = equity.

4. FEEDBACK ON iSORP OBJECTS, SCOPE AND PURPOSE

A focus on improved reporting to third parties as well as to members

The respondent to this discussion paper noted the emphasis on reporting to co-operative members and argued that this should be broadened out to consider the differing needs of third parties. The observation was made that third parties can potentially have more difficulty understanding co-operative financial reports because they are not as involved as the members and don't necessarily understand the impact that co-operative difference can have on financial reporting. So, for example, they may not be familiar with patronage rebates or the classification of member shares as liabilities.

It was noted that improvements arising from a member focus should also result in a better understanding by third parties. However it was also noted that if you do not take third parties into account while compiling a SORP it may be that opportunities to address information asymmetry may be missed.

5. CONCLUDING REMARKS

The respondents raised a number of interesting points and highlighted a number of areas for further consideration. There is, for example, merit in further exploring the relationship between financial and non-financial reporting; recognising the benefits that arise from a strong linkage of the two forms of reporting. In addition the questions raised in relation to applying the conceptual framework to existing GAAP indicate the difficulties in developing a co-operative accounting perspective that is likely to challenge not all but some existing practices. Also, a valuable point was made in regard to giving due attention to reporting to third parties. While identifying the co-operative member as the primary user of the financial report, consideration of other users does provide an opportunity to improve the clarity and usefulness of the information to a broader audience.

There are a number of specific questions arising from the respondents' comments:

1. Should the co-operative accounting conceptual framework more closely reflect current international GAAP even though this is predicated on investor-owned entities being the appropriate and universal model?
2. Should the iSORP include a list of international standards, and identify in that list, areas of potential contention.
3. Does the conceptual framework need to include more on non-financial reporting and if so, what?
4. Do objects, scope and purpose need to include more on non-financial reporting and if so, what?
5. Would it be a useful exercise to seek to identify third parties additional reporting/information needs arising specifically from their lack of knowledge of the co-operative model?

These questions and the comments will be fed in to the review process with a view to further developing and revising content for inclusion in a draft iSORP. This is viewed very much as an ongoing process and further comments and suggestions on any aspect of the co-operative iSORP project are welcome.

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