Perspectives on the Accounting and Reporting Needs of Co-operatives and Co-operators: A Preliminary Examination

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Goals of this Presentation

• To present research findings suggesting Generally Accepted Accounting Principles (GAAP) do not fully consider the reporting needs of members and are not compatible with co-operative identity and purpose.
  – Understanding the co-operative identity & purpose in particular member ownership
  – Co-operative accounting issues
  – A co-operative centered approach to financial reporting - Next steps
Understanding the co-operative identity & purpose

- Economic & Social Duality of Purpose
- Member as owner & user of co-op
- Associative & Business Organization Structure
- ICA Values & Principles

Co-operative Identity & Purpose
Co-operative Centered Approach to Financial Reporting
Characteristics of Member Ownership

• GAAP assumes investor as prime user of financial statements but co-ops have members rather than investors
• Member as owner, controller, and economic participant
  – One member, one vote
  – Elects board from membership,
  – Benefits in proportion to transactions with co-operative
  – Additional financial benefits may be limited e.g. ROE
  – May have no rights to residual net assets upon dissolution
  – Shares rarely trade on market
    • May be redeemable at par or allocated to reserves when member leaves
    • Co-operatives are less visible to market
    • Not the same level of external analysis & scrutiny
Co-operative Accounting Issues

• Informed by
  – literature review,
  – survey of NS co-op financial statements,
  – review of co-operative comment letters to IASB re: definition of debt & equity
## Issues Arising from Member Characteristics

<table>
<thead>
<tr>
<th>Co-op characteristic</th>
<th>Issue</th>
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</table>
| Member ownership      | **Definition of equity.**  
Need to recognize distinctive features of co-op member ownership |
|                       | **Members’ financial interest in co-op.**  
Need more clarity in presentation & full disclosure |
|                       | **Reserves.**  
Need more clarity in presentation & full disclosure |
|                       | **Investor focus in accounting standards.**  
Standard setters need to consider co-op form of business |
## Issues Arising from Member Characteristics

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<td>Member control; member as key user of financial statements</td>
<td><strong>Accountability</strong>&lt;br&gt;Need for minimum standards of financial reporting.</td>
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<td><strong>Accountability</strong>&lt;br&gt;Need for understandability and usefulness of financial reports.</td>
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<td>Member benefit through economic participation</td>
<td><strong>Reporting performance in relation to member transactions</strong>&lt;br&gt;Need for appropriate measures and disclosure regarding delivery of goods, services, jobs, to members, as opposed to focus on profitability alone.</td>
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## Issues Arising from Values, Purpose & Goal Characteristics

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<td>Social and economic goals, arising from purpose, values, and principles.</td>
<td><strong>Investor and profit maximizing focus in accounting standards.</strong></td>
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<td>Need to understand applicability of standards to differing goals of co-ops &amp; evaluate impact of standards on co-ops</td>
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<td><strong>Accounting for social and economic goals</strong></td>
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<td>Need to report co-op performance including co-op values and principles.</td>
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<td>(Consider separate vs. integrated; standardized)</td>
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<td><strong>Lack of visibility/assessment in reporting</strong></td>
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<td>Need to quantify and report on co-ops delivery and impact in co-op education, training and on the community.</td>
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# Issues Arising from Values, Purpose & Goal Characteristics

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<td>Co-operation among co-operatives.</td>
<td><strong>GAAP and business combinations</strong>&lt;br&gt;Need to recognize approaches more suitable to a mutual pooling of resources rather than an acquirer / acquiree</td>
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<tr>
<td>Relatively large number of small and medium sized co-operatives</td>
<td><strong>Economic relationships with other co-ops</strong>&lt;br&gt;Need to disclose relationships with other co-ops</td>
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<tr>
<td>Relatively large number of small and medium sized co-operatives</td>
<td><strong>Cost / benefit considerations</strong>&lt;br&gt;Need to consider limited resources&lt;br&gt;Need to consider users need for simpler and more understandable reporting</td>
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A Co-operative Centered Approach to Financial Reporting – Next Steps

• Current lay of the land:
  – An emerging visible interest by co-operatives in financial reporting
  – Internationally variations among co-operatives in law
  – Standard setters lack understanding of co-operatives
  – A shortage of places and spaces for discourse
  – A co-operative specific accounting framework does not exist

• A feasible solution: develop sector specific guidance such as a Statement of Recommended Practice for Co-operatives
  – Increased co-operative engagement and discourse
  – Vehicle for raising visibility of co-operatives and accounting
  – Increase dialogue with standard setters thus improving understanding