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1. INTRODUCTION

*Although co-operatives have been active for over 150 years and are dominant
ly are not very well understood. More often than
not standards and rules which have been developed for public stock companies
are applied to co-operatives with no change to recognize the unique
characteristics and purposes of co-*

(Bardswick, K. The Co-operators comment letter to IASB, 2004).

Co-operatives do not always fit well into accounting frameworks designed with others in mind. Generally Accepted Accounting Principles (GAAP) and practice, focus mainly on publicly listed investor owned companies (IOCs). While non-profits, charities, and the public sector are accommodated within specific accounting standards and/or guidance, co-operatives are rarely glimpsed. Yet significant differences are to be found in the co-operative member ownership structure, and co-operative purpose, values and principles (ICA, 1995).

This lack of visibility and recognition in accounting can be problematical. One example is in relation to the search for universally applicable accounting definitions and classifications of financial instruments as equity or liabilities. The co-operative response to the International Accounting Standards Board (IASB) 2003 revision of International Accounting Standard (IAS) 32: *Financial Instruments: Disclosure and Presentation*, and the subsequent introduction of IFRIC 2: *Members shares in co-operative entities* (IASB, 2004), highlight the

2. WHAT IS A SORP?

A SORP is a form of sector specific guidance on accounting and reporting that operates alongside accounting standards but provides a means for giving expression to characteristics particular to a given sector. Definitions and applications of SORPs do vary from country to country. In Canada for example, there are two public sector SORPs which provide guidance but are not considered

encourage and assist public sector entities in effectively reporting relevant information that is

In the UK, SORPs are viewed as supplementing accounting standards; taking account of the , and they can be prescriptive. There are a wide range of UK SORPs including ones for: banking, charities, educational institutions, insurance, investment trusts, limited liability partnerships, local government, pension schemes, oil and gas and unit trusts. Recognised roles for UK SORPs include: reducing the degree of differing approaches to particular accounting treatments and the promotion of a particular preference where more than one option exists.

The Accounting Standards Board (ASB) re[]TJET EMJ9(de)4(:)TJETBT1 0 073(r)-.78 50r5696 T1(or Tm[])T2

Reserves

Reserve funds can be an important source of capital for co-operatives. Co-operatives are sometimes required by regulation to build and maintain an appropriate reserve; yet co-operatives often do not disclose a reserves policy or indicate their goals, achievements and future plans in this regard (Hicks, Maddocks, Robb and Webb, 2007). An iSORP could recommend items to be disclosed, with a view to improving accountability and stewardship.

Definition of co-operative accounting terms (glossary)

We have already touched on the language of accounting. In the interests of clarity, standardisation and plain language, a list of relevant accounting terms and definitions could be included. There is also a question of how far co-operatives want to go in using language to emphasize co-operative difference. Potential candidates for review could include *surplus*, and we might also want to consider whether *excess* best describes the excess of revenues over expenses in a co-operative. Certainly there are variations in the application of these words by co-operatives and it would seem a reasonable goal to seek a standard approach to the use of these and other words.

Annual report, non-financial content

While there are certain items required by statute and regulation to be reported in annual reports, there still remains scope for inclusion of additional material that could expand existing entries to better explain the co-operative's activities. In addition, new sections could be considered, aimed at reporting on non-financial aspects of the co-operatives current performance and future targets. An iSORP could recommend information to be included and could also suggest a minimum standardized, comparable approach to social, ethical and environmental reporting. This might, for instance, include a minimum set of non-financial performance indicators; based on existing good practice found in co-operative reporting, but with a view to making them appropriate to a range of co-operative types and sizes.

Other areas where co-operative specific approaches could be considered

Below is a list of other potential topics for inclusion in a co-operative accounting and reporting iSORP. Some of these may not appear to require a differing co-operative approach, but the suggestion is that we could revisit them with a view to finding ways of reporting more fully on aspects of co-operative identity within current reporting requirements. For example, are there ways in which notes on related parties and economic dependence, could be improved to further explain relationships with other co-operatives and between members and co-operatives?

Areas for consideration include:

Objectives, scope and purpose of co-operative annual reports and financial statements

4. NEXT STEPS

CEARC proposes to begin the process by producing a series of draft papers on specific topics that would make up the components of a draft iSORP. The Centre will circulate the draft papers widely for comment and feedback, with dissemination achieved through the use of e-mail and access to a website. This consultative process will seek to involve interested national and international co-operative organizations, interested co-operative scholars, accountants, accounting bodies and co-operative businesses. A number of national and international co-operative associations have inBTnserati

5. QUESTIONS FOR FEEDBACK

CEARC is keen to receive feedback concerning any aspect of this working paper and including the ideas and views presented. In particular we would be interested in your views on all or any of the following:

1. *Do you see current GAAP and the existing accounting framework as adequate in guiding co-operative accounting and reporting?*
2. *Is development of a co-operative iSORP a useful addition?*
3. *What, if any, of the issues covered under iSORP topics are currently of concern to you?*
4. *What other issues would you want an iSORP to provide guidance on?*
5. *To what extent do you think an iSORP can improve accountants understanding of co-operatives?*
6. *Should co-operative identity, purpose, values and principles influence co-operative accounting and reporting?*
7. *Is the proposed process of dissemination and feedback appropriate?*

Please send comments in writing by e-mail, mail or fax to:

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Universities UK. (2003) Statement of recommended practice: accounting for further and higher education. London: Universities UK. Retrieved November 1, 2007, from <http://bookshop.universitiesuk.ac.uk/downloads/SORPOct03.pdf>

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Published by CEARC
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Canada

