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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 Sc



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discussion paper 1

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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 i-ad

### **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**

#### **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 to addrsco

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