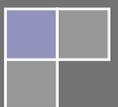


July
2008

CEARC Report no. 2

Report on accounting topics survey 2008

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The Centre of Excellence in
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1. BACKGROUND

As part of a process of identifying accounting topics of interest and/or concern to co-operators and those with an interest in accounting and co-operation, CEARC decided to undertake a survey of co-operative accounting topics. The approach taken was a relatively direct one of asking people for their top three co-operative accounting topics/issues. The survey took place in March- April 2008 and was disseminated to individuals and organizations on the CEARC e-mail contacts list and to co-operative apex organizations for wider dissemination.

2. RESPONSES RECEIVED

CEARC received twenty one replies; the majority from North America (see table 1 below).

Table 1: Number of respondents by country

Canada	10
USA	8
Germany	1
Italy	1
International	1

Table 2, below provides a breakdown of respondents by job role. The majority of those responding were accountants working in a variety of settings including: co-operatives, accounting practice, accounting bodies, academia and research.

Table 2: Number of respondents by job role

Co-operative accountant	9
Co-operative manager	4
Academic/researcher	4
Accountant	4

In table 2, 'co-operative accountant' includes CFOs, a financial VP and other management accountants. 'Accountant' includes accountants in practice or working for accounting bodies; i.e. not directly employed in a co-operative.

3. ACCOUNTING TOPICS AND ISSUES

Of the twenty one respondents: fifteen provided their top three accounting issues; four provided their top four issues; and two provided their top five issues. A full list of all the topics mentioned is shown in table 3 below. Top of the list was the issue of defining equity and the classification of financial instruments. Three of the respondents who mentioned the equity issue also made reference to the presentation of co-op member financial instruments on the financial statement.

Table 3: Accounting topics/issues, by number of respondents

Equity, classification of financial instruments	9
Patronage rebates/returns	6
Reporting non financial information	5
Tax	5
Business combinations	4
Glossary of co-op accounting terms	4
Conversion to IFRS	3
Pool accounting	3
Financial statements presentation	2
Member transaction analysis	2
Objects, scope and purpose	2
Reporting member interests	2
Consistency	1
Co-op financial indicators	1
Differential reporting	1
Equity redemption	1
Fair value	1
GAAP	1
Hedge accounting	1
Impact of report formats on user behaviour	1
Inactive dormant membership	1
Price Volatility	1
Research and development	1
Stakeholders/users of report	1
Small and medium size enterprises	1
Swaps	1
Value added	1
Variable Interest Entities	1

'Tax' issues included accounting for income tax and tax treatment of member rebates/dividends. 'Pool accounting' relates here to crop pools.

As table three indicates, the resulting list of co-operative accounting topics is a lengthy one. I've divided the list into four main accounting areas (see table 4). While there is some overlap between the four areas identified and the approach risks oversimplification it does help identify a number of themes: dealing with change in accounting and reporting, understanding co-operative specific issues, the need for technical advice and a desire to address broader accounting and reporting issues. The themes are discussed further below.

i. Changes in accounting standards and convergence

Some of the topics identified by respondents relate to particular developments and changes in accounting standards, and perhaps most noticeably in respect of the process of the convergence of many countries' accounting standards with International Financial Reporting Standards (IFRSs).

The equity issue, for example, is linked to the revision of International Accounting Standard (IAS) 32, and the resulting discussion of whether co-operative shares should be classified as equity or liabilities. The business combinations topic arises partly from changes at the national accounting standards level (e.g. Financial Accounting Standards Board's (FASB) SFAS 141 in 2001 and similar changes in the Canadian accounting hand book), and the move away from the pooling method. More recently a joint project undertaken by the International Accounting Standards Board (IASB) and FASB has resulted in a revised version of IFRS 3: Business Combinations, which is more in line with SFAS 141. Fair value appears to be increasingly favoured by the IASB over historical cost accounting. In 2007 the IASB produced a discussion paper on fair value reporting and an exposure draft is expected in 2009. There has also been increasing discussion around guidance for small and medium sized entities (SMEs), with the IASB producing an exposure draft in 2007 of an IFRS for small and medium sized entities. Interestingly there has since been a name change from SMEs to 'Private Entities'.

Various co-operative apex organizations are increasingly engaged in responding to accounting standards changes, while also seeking to explain the co-operative model to those involved in policy and standards setting. The process of international convergence suggests the ongoing need for information regarding the impact of changes on co-operatives.

ii. Co-operative accounting matters

There are a number of topics that are specific to co-operatives and their membership structure. These include: patronage returns/dividends, dormant memberships and a co-operative accounting glossary. These topics indicate the potential for developing co-operative specific material which could assist both accountants and co-operators with the processes of producing, presenting and understanding co-operative financial reporting. The development of examples of best practice and appropriate guidance could be a welcome addition for encouraging a distinctive co-operative approach to reporting.

iii. Technical accounting issues

Respondents mentioned a variety of technical accounting issues. While some have co-operative aspects to them, they can be viewed as technical matters which may arise in a variety of forms of organization and which don't necessarily require a distinctly co-operative approach. The range of technical topics raised, perhaps suggests that some form of comprehensive co-operative accounting guidance would be welcomed. Accounting and reporting guidance that would cover co-operative specific items as well as more generally applicable technical matters.

To what extent a comprehensive guide for all co-operatives is feasible is not clear at the moment, given the range of co-operative activities and differing membership structures (e.g.

consumer, worker, business). It may be that it is possible to develop core guidance applicable to most co-operative types, which is then supplemented with more specialist guidance depending on differing co-operative models and economic activities.

iv. Broader accounting concerns

A number of broader concerns were mentioned, including: consistency of reporting, the impact of reporting changes on users of the reports and developing appropriate non-financial reporting. These topics hint at some very important questions around the understandability and usefulness of financial reporting, especially in relation to co-operative members who depend on them as an important source of information on the activities and achievements of their co-operative.

Table 4: Topics by accounting areas

Area of accounting	Accounting topic/issue
i. Changes in accounting standards and convergence	Business combinations
	Conversion to IFRS
	Equity, classification of financial instruments
	Fair value
	Small and medium size enterprises
ii. Co-operative accounting matters	Co-op financial indicators
	Equity redemption
	Financial statements presentation
	Glossary of co-op accounting terms
	Inactive dormant membership
	Member transaction analysis
	Patronage rebates/returns
	Reporting member interests
iii. Technical accounting issues	Differential reporting
	Hedge accounting
	Pool accounting
	Price Volatility

Area of accounting	Accounting topic/issue
iii. Technical accounting issues continued	Research and development
	Swaps
	Tax
	Value added
	Variable Interest Entities
iv. Broader accounting matters	Consistency
	GAAP
	Impact of report formats on user behaviour
	Objects, scope and purpose
	Reporting non financial information
	Stakeholders/users of report

4. CONCLUDING REMARKS

Given the relatively small number of responses it would be dangerous to draw too many conclusions from the list shown in table 2. The list does appear, however, to echo some of the topics already identified by CEARC as of interest to co-operators.

The main difference is perhaps in respect of the inclusion of a number of 'how to' technical questions around certain topics, for example: taxation, pool accounting, hedges, swaps and variable interest entities. These 'technical' topics were mentioned by accountants working in co-operatives, although this same group of respondents also mentioned such co-operative specific topics, arguably also of a technical nature, such as the equity issue and guidance on accounting for patronage rebates.

Tax issues included accounting for income tax, deferred tax calculation and determining patronage dividend for tax purposes. To some extent these are country/state tax law specific. If we set aside tax accounting we are left with a top three of:

Equity, classification of financial instruments	9 (43%) respondents
Patronage rebates/returns	6 (29%) respondents
Reporting non financial information	5 (24%) respondents

This is an interesting mix of topics, with each representing differing areas of accounting and arising for different reasons:

- The equity topic is a co-operative reaction to external change caused by standards setters applying investor owned business characteristics to co-operative ownership.
- Accounting for patronage returns is an issue generated by this specific feature of co-operatives and the variety of approaches available to co-operatives when accounting for economic benefit arising from member transactions with the co-operative.
- Reporting non-financial information reflects a growing interest in reporting on co-operative performance outside of the usual financial indicators. This includes interest in co-operative performance measures linked to purpose and values; and an overlapping interest in social, environmental and sustainability reporting.

Many of the items listed in table 2 are compatible with CEARC's current research plans, with many feeding in to CEARC's work on developing an international statement of recommended practice (iSORP). Examples include: presentation of members funds in the financial statements, and reporting patronage returns. Other topics also reflect current research interests, for example CEARC's current involvement in research looking at co-operative share characteristics. To some extent encompassing all of these topics are the changes resulting from convergence with IFRS. Linked to this is the importance of identifying and commenting on how these changes will impact on co-operatives.

This survey, along with ongoing feedback on working and discussion papers, will be used by CEARC in informing the direction and content of future research.