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Although co-operatives are distinctly different from investor owned business (IOB), there is very little evidence of a distinct co-operative perspective in relation to financial reporting and accounting standards setting. This paper contrasts the UK charity accounting and reporting SORP developed and administered within the charity sector (Charity Commission for England and Wales and Office of the Scottish Charity Regulator, 2014a; 2014b), with the less formalised approach adopted by co-operatives and co-operative apex organisations, of lobbying standards setters on specific financial reporting standards as they are developed. It considers co-operatives' engagement in the development of financial reporting standards and, in particular the extent of co-operative influence on developments in international accounting standards. It raises the question: why is there not a distinct co-operative accounting framework at least as developed and visible as that for UK charities?

Introduction

The UK charity accounting guidance, *Accounting and Reporting by Charities: Statement of Recommended Practice*[1] (Charity Commission for England and Wales and the Office of the Scottish Charity Regulator, 2014a; 2014b) or SORP appears to offer a way for a sector to become involved in the development of its own accounting and reporting framework, while operating within the boundaries set by Generally Accepted Accounting Practice (GAAP). Internationally, the International Financial Reporting Standards (IFRS) Foundation's International Accounting Standards Board (IASB):

> … is committed to narrowing … differences by seeking to harmonise regulations, accounting standards and procedures relating to the preparation and presentation of financial statements" (IASB, 2010: 5).

This includes the development and publication of an international financial reporting standard for small and medium sized entities (IASB, 2015). As a result, interest in the charity SORP for the purposes of this paper, is in exploring its effectiveness as a method of developing sector specific guidance in the context of international integration of reporting standards, and in considering its potential relevance to local, national and international co-operative accounting and reporting.

Since its inception in 1988, the charities SORP has been an instrument of normative practice attempting to address the perceived (and actual) deficiencies in charity accounting and reporting. SORP recommendations have evolved over time to have "increased legislative weight"; apply "charity-specific principles; [require] significant amounts of governance and performance reporting; and [allow] only limited preparer discretion" (Hyndman and McMahon, 2009: 8). Part of this specificity as Hyndman and McMahon (2009: 9) point out, is the use of language and terminology that have "no meaning or comparator in the commercial sector".

Language and interpretation is also pertinent to the debate and areas of contention with regard to reporting for co-operatives, specifically in the area of member shares and equity in co-operative entities. This is as much tied to identity and values dimensions of co-operatives as it is to technical issues of reporting data. An arena where these arguments can be identified clearly is in relation to the "member shares as equity or liability" debate between standard setting bodies and co-operatives (International Accounting Standard 32). This debate is the main focus of this paper in assessing the impact of lobbying and the questioned need for sector-specific guidance.

While discussion between the international co-operative movement and the International Financial Reporting Interpretations Committee has led to a compromise (IFRIC 2: Members shares in co-operative entities) namely for a co-operative to treat member shares as equity if redemption of the share can be refused (by the co-operative or by law, regulation or similar), this temporary amendment is not seen to present a comprehensive solution for all co-operatives. In fact, this 'solution' does not address the underlying issue raised by co-operatives, that is recognition of the particular and unique nature and characteristics of co-operative member ownership spelled out in the ICA *Statement on the Co-operative Identity* and the internationally agreed framework of co-operative values and principles (Maddocks et al, 2009).

At this time, it is not clear whether GAAP will take full account of the differences between the co-operative and the investor owner model. There is, perhaps, an underestimation of the extent of these differences and a tendency to see investor owner approaches as applicable in most cases to co-operatives. Also, existing research suggests a complex picture with unresolved questions regarding SORP's effectiveness, the degree of engagement and consultation with the sector and the usefulness of the information generated in the SORP format (see discussions around development, implementation, compliance and impact, for example Hines and Jones, 1992; Williams and Palmer, 1998; Connolly and Hyndman, 2000; Palmer et al, 2001). Taking this into consideration, the impetus of this paper arises from interest in the extent to which the charity SORP processes provide opportunities for the sector to influence its own accounting and reporting, and to get a sense of the possibilities of the SORP approach for co-operatives, as well as the potential hurdles and limitations in applying lessons from the UK charity model to co-operatives at the international level.

The next section sets out the research approach and methods, followed by sections on the background and context relating to co-operative perspectives on accounting, and some of the results from preliminary research. Finally, the contrast is made between lobbying the standards setter and developing comprehensive, sector specific, accounting and reporting guidance which is administered by that sector such as the UK charities SORP.

Methods and Approach

In addition to a literature review relating to the administration of the UK charity SORP and its potential for increased discourse and the inclusion of sector specific approaches to accounting and reporting, the research included document and text analysis of co-operative comment letters to the IASB regarding the International Financial Reporting Committee Draft Interpretation 8, IAS 32: Members' Shares in Co-operative Entities (IASB, 2004). This particular co-operative discourse with the IASB was of interest because of the uniqueness of the draft and the subsequent IFRIC 2 as the only co-operative specific document within international GAAP. As such, it represents an important component of co-operative sector dialogue with standards setters.

Only comment letters sent by co-operatives and co-operative apex organisations were included in the study. In particular, the sources of the comments submitted (ie country and type of co-operative organisation) were examined, the extent of uniformity or divergence of approach and any recommendations proposed. The questions that led to the research included: why is there not a distinct co-operative accounting framework at least as developed and visible as that of UK charities? Are there any lessons that co-operative accounting can learn from charity accounting; in particular the SORP approach to developing a successful sector specific accounting and reporting framework that engages with the sector? Furthermore, is there a fully developed understanding of the value of sector specific guidance in underlining and making visible the sector difference? In order to try to answer these questions, the research examined to what extent co-operatives have found effective ways to engage with international accounting standards setters in relation to International Accounting Standard 32 (IASB, 2003) and thus contribute to the development of a co-operative accounting perspective. Two approaches — direct lobbying of standards setters and developing a sector specific SORP — are considered in relation to their potential as mechanisms for engagement with GAAP, enlarging the arena of sector specific accounting discourse and improving the visibility and voice of organisations that fall outside of the investor owner model, in the world of accounting.

A Co-operative Perspective on Accounting and Reporting

Co-operatives are recognised as constituting a type of ‘third sector’ organisation along with other forms of organisation that are distinctly different from investor owned business (IOB). Often, when a co-operative seeks to explain to stakeholders (through promotional literature, website information, annual reports and similar) what a co-operative is, they draw on two themes: 1 the nature of member as owner and customer of the co-operative, and 2 the International Co-operative Alliance (ICA) *Statement on the Co-operative Identity* (ICA, 1995), which describes a distinct set of co-operative values and principles. The latter include factors that help to define organisations as co-operatives: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education and training; co-operation among co-operatives; and concern for community. For Birchall and Ketilson (2009), the first four of these principles are seen as core and without which a co-operative would lose its identity. In addition, there is a wide range of co-operative literature that asserts the existence of co-operative difference (see, for example Co-operative Commission, 2001; Fairbairn, 2004; Birchall, 2005; Co-operatives Europe, 2007).

This structural form with member as owner and user, combined with democratic control (one member one vote) and surplus distributions based on member patronage suggests a very different approach to social and economic activity than that of the Investor Owned Business (IOB) model, both structurally and in relation to objectives. However there is little evidence of a distinct co-operative perspective in relation to accounting and reporting. Furthermore, the limited visibility of co-operatives in accounting standards persists in spite of efforts by co-operatives to inform standards setters of the need to consider co-operative differences when revising or developing GAAP (IASB, 2004).

For simplicity, a basic categorisation of co-operatives is provided (see Box 1) that may be helpful in discussing variations in comment letter responses. Three co-operative types are identified based on differing member stakeholders. Two of these categories; “consumer” and “worker”, are in common use (eg NSCC, 2006). The third category is “business” which replaces the “producer” category and which includes all co-operatives whose membership is composed of other co-operatives and/or IOBs. In addition to the three co-operative types, apex organisations are also identified as a distinct group. These bodies are not necessarily constituted as co-operatives themselves but are sector umbrella organisations, which seek to represent the views of their co-operative stakeholders.

Box 1 Simple typology of co-operatives in relation to IASB

Consumer co-operatives	Members purchase goods or services through the co-operative. Examples include retail and finance co-operatives.
Worker co-operatives	Members access employment and control over their work environment.
Business co-operatives	Members are IOBs and/or other co-operatives and store, and/or process and/or market goods and/or purchase goods or services through the co-operative.
Apex co-operative organisations	Peak or apex bodies are member-based infrastructure organisations providing support and services to member organisations. Also termed ‘umbrella’ organisations and include local, regional national and international bodies.

The purpose of financial statements is to provide decision useful financial information (IASB, 2010). The main focus of international accounting standards is on IOBs, and the IASB

Conceptual Framework for Financial Reporting (IASB, 2010) clearly identifies existing and potential investors, lenders and other creditors as the primary users of financial reports. There is an underlying assumption that the reporting needs of co-operative members are not dissimilar to the reporting needs of investors. The IASB framework also asserts that "other parties … may also find general purpose financial reports useful" (OB10, p11), yet, in its *Standards and Guidance Collection*, the CPA Canada, states:

> the objective of financial statements for profit-oriented enterprises focuses primarily on information needs of investors and creditors (Part II paragraph 1000.09).
>
> the objective of financial statements for not-for-profit organisations focuses primarily on information needs of members, contributors and creditors. (Part III paragraph 1000.09).

These statements recognise two key groupings of users: *investors and creditors* for profit-oriented enterprises (investor owned companies) and *members, contributors and creditors* for not-for-profit organisations. Although this recognises members in not-for-profits as key users of financial statements, co-operatives do not sit happily within either of these groupings. As suggested earlier, co-operatives do differ from IOBs in respect of their ownership structure and purpose and may, as a consequence, have differing financial accounting and reporting needs. While some decision useful information relevant to shareholders and investors will also be relevant to members of co-operatives, there is also a need to consider the co-operative member's unique combination of roles as owner, controller and user of the co-operative (ICA, 1995; Birchall 2005). For example, while investor focus is on the company's ability to maintain a suitable rate of return on their investment, the co-operator will have a range of points of interest which will include the sustainability of the co-operative, but will also encompass the co-operative's ability to fulfill its purpose in providing members with benefits arising from their use of and participation in the co-operative. It is this engagement with what the co-operative does, linked to rewards based on extent of use of or employment with the co-operative, rather than solely on return on investment, where it might be argued a significant difference arises between member and investor perceptions of the role of co-operative entities and IOBs. This suggests a requirement to focus on difference rather than similarity of needs for co-operators and investors (Hicks et al, 2007).

Co-operative visibility in accounting literature and research is acknowledged as limited (Robb et al, 2006; Hicks et al, 2007). Co-operatives are mentioned briefly in a number of international accounting standards, for example: *IFRS 3: Business Combinations* (IASB, 2008), *IAS 1: Presentation of financial statements* (IASB, 2007) and *IFRS 9: Financial instruments* (IASB, 2014). However co-operative influence on international accounting standards is reflected in only one publication specific to co-operatives: the IASB interpretation document — *IFRIC 2: Members' shares in Co-operative Entities and Similar Instruments, in respect of International Accounting Standard 32: Financial Instruments Interpretation* (IASB, 2003). IFRIC 2 has been described in terms of a successful outcome of co-operative campaigning, consultation and negotiation with the IASB (ICA, 2004; Detilleux and Naett, 2005). However, it is not clear to what extent IFRIC 2 represents a co-operative consensus view on the issue and also whether this indicates the successful inclusion of a co-operative specific approach to accounting or rather a "fix" which rests on co-operative willingness to amend their governing documents and restrict members' rights.

Analysis and Observations

When International Accounting Standard (IAS) 32: *Financial Instruments: Disclosure and Presentation* was issued by the IASB in December 2003, it aroused the concern of co-operatives around the world and appeared to ask them to turn their accounting world (or at least their balance sheet) upside down. Where previously, members' shares had been reported as equity, suddenly, in very many cases (where members were able to request repayment of their share) they were to be reported as a liability (Hicks et al, 2007). As a response to concerns expressed by co-operatives, IFRIC published a draft interpretation, *D8 Members' Shares in Co-operatives*, with a call for public comment (June–September, 2004). This section provides an analysis of co-operative comment letters sent in response to this call.

Out of ninety-six comment letters, sixty-nine comment letters from co-operatives and co-operative apex organisations were identified. In the co-operative apex organisations, two agricultural bodies were included that have both co-operative and other farming organisations as members. Although these two are not exclusively co-operative bodies, they do recognise their co-operative membership as significant and are, in this case, representing co-operative views to the IASB. An analysis by country and type (see Table 1) indicates that co-operative organisations from nineteen countries responded, as well as nine international co-operative bodies. Five of the international bodies represent European co-operatives, three are global and one represents the Asia and Pacific region. The majority of co-operative responses (58%) were from co-operative apex organisations and while a number of consumer and business co-operatives also sent comments only one worker co-operative commented, albeit the substantial Mondragon Co-operative Corporation in Spain.

Table 1: Co-operative comment letters by country and co-operative type

Type / Country	Consumer Co-operative	Business Co-operative	Worker Co-operative	Apex Co-operative Organisation	Total
Australia		5		4	9
Bulgaria				1	1
Canada		1		1	2
Denmark				1	1
Finland		1		1	2
France	5			2	7
Germany		1		6	7
Hungary				1	1
Italy				2	2
Japan	1			2	3
Kenya	1				1
New Zealand	1			1	2
Slovakia				1	1
Spain			1	1	2
Sweden				1	1
UK	11			1	12
Ukraine				1	1
Uruguay				1	1
USA		1		3	4
International				9	9
Total	**19**	**9**	**1**	**40**	**69**

An initial analysis of the co-operative comment letters to the IASB indicates that co-operative opinion was divided regarding the proposed interpretation; 59% (41 in total) supporting the interpretation, and 41% (28 in total) indicating partial or total disagreement with the draft interpretation (see Table 2). Partial disagreement includes those respondents who accepted that the interpretation allowed some co-operatives to classify their member shares as equity but also recognised that it did not resolve the continuing problem of recognition of co-operative member equity in general. As such they saw it as one step along the way to addressing the wider accounting problem of recognition of differences in co-operative member ownership, and not the complete solution.

Table 2: Support or disagreement with interpretation by co-operative type

	Support	Disagree partially or totally	Total
Consumer co-operative	17	2	19
Business co-operative	2	7	9
Worker co-operative	1		1
International apex organisation	8	1	9
National apex	13	18	31
Total	**41**	**28**	**69**

Support or opposition for the proposed interpretation was divided along national lines. Of the nineteen countries represented in the co-operative comment letters: ten (53%) supported the interpretation and nine (47%) did not. This may reflect differing local legislative issues faced in adopting the IFRIC2 approach, but could also reflect co-operative organisational and ideological differences between countries regarding the right to redeem member shares. A number of respondents, for example Japan, refer to the natural right of members to redeem their shares upon leaving the co-operative, and some link this right to the co-operative values and principles. Indeed the International Co-operative Alliance statement on the co-operative identity (ICA, 1995) and in particular the value of openness and the principle of voluntary and open membership appear relevant here.

There were many similarities in the content of letters from those countries that presented the most number of replies. This was most evident in letters sent from co-operative organisations in Australia, Germany, France, Japan and the UK. Those in agreement with the interpretation frequently asserted co-operative difference, but did not appear to connect this to any assertion for a broader co-operative accounting approach. Interestingly, all but one of the nine international apex organisations supported the interpretation. However, comment letters sent by national co-operative apex organisations were more likely to be critical of the interpretation, with thirteen agreeing, and eighteen indicating partial or total disagreement with the interpretation.

The direct lobbying approach clearly had an impact on GAAP in regard to negotiating this interpretation, although it seems that co-operative opinion was strongly divided in regard to the applicability of the favoured approach. The long-term effect of the resulting changes to co-operative governing documents and removal of mandatory redeemability of member shares however, remains to be seen. Removal of the automatic right to redeem member shares could compromise member control. Arguably the right to redeem shares is a practical requirement in a member based co-operative organisation given the limited transferability of co-operative member shares and the need to reflect membership as an active process of joining, participation and, eventually, leaving. In addition, the redeemability mechanism can be viewed as an important check on management. While the demand for and subsequent market price of shares is one indicator of management performance in an IOB, the acquisition and retention of co-operative members provides an alternative corresponding indicator of management performance in a co-operative. If members lose their ability to redeem their shares at will, member retention no longer provides the same check on management, with the threat of loss of exiting member shares as a counterbalance to the lack of any market influence on share price. As such, this example of co-operative engagement with standard setters may have resulted in a compromise which does not have universal acceptance within the co-operative sector and which has altered a previously accepted feature of co-operative identity.

The UK Charities SORP: a Suitable Example for Co-operatives?

In the UK Statements of Recommended Practice (SORPS) are seen as supplementing accounting standards. They seek to clarify matters that are addressed in the Financial Reporting Council (FRC) standards, and provide necessary additional guidance (FRC, 2015). They also take account of "… special factors prevailing or transactions undertaken in that particular industry, sector or area of work" that are not addressed in FRC standards (p3). The (FRC) recognises appropriate sectoral or industry bodies as SORP making bodies, which are then given the task of developing their SORP, within criteria set by the FRC, and without conflicting with current financial reporting, auditing, or actuarial practice. There are a range of UK SORPs including ones for: charities, educational institutions, registered providers of social housing, limited liability partnerships, investment trusts, authorised funds, and pension schemes.

While some time has now passed since their survey of the impact of the first charity SORP on six charities, Gambling, Jones, Kunz and Pendlebury (1990) suggested that the SORP lacked input from the charity sector itself and that it more closely reflected an accountant's view of the charity sector, rather than the charity sector's view of accounting. The current charities SORP committee comprises persons from two regulators, three charity sector bodies, a finance director, three practitioners/preparers of accounts, six auditors/independent examiners, and four persons drawn from the broader sector including academia (Charity Commission for England and Wales and the Office of the Scottish Charity Regulator, 2015). Perhaps not surprisingly, the majority of committee members have a finance/accounting background. However, there may be a key difference from Gambling et al's earlier observations in that the committee's accountants have direct experience of working in and/or with the sector and so could be expected to appreciate the charity perspective and related reporting needs. In addition there are a number of non-accountants on the committee. Having said that, it is not known to what extent the SORP committee members' understanding of charities reflects the views held more widely within the sector nor the extent to which it influences their decisions on amendments to the SORP. Nevertheless, given the restraints on producing a coherent reporting environment and framework, it might seem reasonable to assume that the accountants' view will, of necessity, be an important factor in discussions on continued changes to the SORP.

Our initial review indicates an ongoing discourse and differing views on the extent of improvements in charity reporting resulting from the adoption of the Charities SORP. However, as Hyndman and McMahon (2009: 18) observe:

> what is clear is that such a standard provides a 'benchmark' of legitimation which is accepted by government, by funders and by the charities themselves.

In addition, there are indications that a properly resourced SORP can provide the means of developing a distinct and sector specific form of reporting. Furthermore, an approach that involves the sector and engages it in the process of ongoing development of sector specific accounting and reporting recommendations, can lead to greater likelihood of compliance with those standards. For example, Cordery and Baskerville-Morley (2005; 2007) note that the existence of a SORP, even when non-mandatory, is likely to result in increased compliance. They also point to the potential advantages of having a comprehensive sector specific guide, offering both accountants and charities a common understanding of good reporting practice. In addition, they also stress the important role played by the charity regulators in providing supporting infrastructure for the development and implementation of the SORP. Indeed they view the SORP-making body as capable of building "a protective barrier against IFRSs for registered charities" (Cordery and Baskerville-Morley, 2005: 25).

In 1990, Hyndman noted that users of charity reports find the non-financial performance reporting of greater importance to them than the traditional financial reporting. Since this time, there has been a growing emphasis in UK charity accounting on non-financial reporting. In addition to accounts guidance the SORP also includes extensive guidance on the trustees' annual report and places emphasis on the quality of non-financial reporting as well as the importance of developing linkages between the non-financial and financial reporting.

The UK SORP experience, then, is viewed as successful in terms of increased compliance and greater accountability, but with the proviso that there are still improvements to make and that progress may be dependent on having an appropriately resourced and actively supportive sector infrastructure. It is not possible to see just how effective the SORP has been in comparison to other possible approaches and it would be useful to see a comparable study undertaken in a country adopting a different approach to charity accounting. Furthermore, there are a number of matters to address regarding its applicability to co-operative accounting. For example: the co-operative sector's ability to provide the level of infrastructure required, the complexities of dealing with differing co-operative structures and types, applying a national model to the international reporting environment, and its comparative effectiveness in improving the quality of reporting to members and influencing the accounting standards setting process.

Questions Rather than Conclusions — Implications for Future Research

Much of the research on the UK charity SORP has focused on its effectiveness in relation to improving reporting and the extent of compliance. Such research needs to continue over a longer period in order to consider the nature of the SORP as an ongoing exercise of reviewing, refining and developing. Connelly, Hyndman and McMahon (2009: 36) conclude from their research with key stakeholders that the SORP is seen as a tool to drive

> improvement in accounting and reporting; and encouraging appropriate structure and discipline in charities by focusing the attention of trustees on key issues.

Yet, there are also other aspects of the effectiveness of the SORP to be considered, for example to what extent has the SORP made charities more visible to accountants and standards setters? Has it led to the development of a charity sector body of accounting expertise? To what extent have the users of charity financial reports gained a better understanding of charities as a result of the SORP? Do charities feel more engaged in the process of charity accounting?

In regard to co-operatives, further exploration is required concerning the applicability of both the SORP and the direct lobbying approach in advancing useful reporting to members. We need to question whether direct engagement with the IASB on particular key co-operative accounting issues is the most effective and efficient way of seeking to influence the co-operative accounting framework given the level of resources required. Such an approach may result in a patchwork of compromises to "fit" the unique characteristics of co-operatives into the IOB model and there are concerns that this could encourage gradual, but fundamental changes in the co-operative organisational model. Future research could examine the dialogue between co-operatives and standards setters on a range of accounting topics and the extent to which co-operatives are now organising their responses to new and revised standards.

Finally, our research to date indicates that co-operative business requires a similar set of specialist guidance, not least because of its distinctive member, owner characteristics and the difficulties this has given the IASB in terms of recognition of this form of ownership in the balance sheet. An international SORP for co-operatives has the potential to provide a timely response at the international level; flexible enough to allow for adaption to local laws, regulations and standards, but at the same time providing a shared view on co-operative accounting and promoting understanding of co-operative difference (see Maddocks, 2007). However, further research on the variation of co-operative member ownership and organisational structures and their potentially differing accounting and reporting needs would be useful in considering the applicability of a sector wide SORP approach.

The Authors

John Maddocks is a researcher with, and former executive director of, the Centre of Excellence in Accounting and Reporting for Co-operatives, Saint Mary's University, Canada. Elizabeth Hicks is Associate Professor, Mount Saint Vincent University, Canada where she specialises in accounting and taxation. She is Treasurer and Board member of the Association of Nonprofits and Social Economy Research, and board member of the Centre of Excellence in Accounting and Reporting.

Note

1 There are two charities SORPs applicable for reporting periods commencing in 2015: one for charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE) and one for charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). However, the FRSSE SORP will only be applicable for accounts commencing in 2015, and for reporting periods commencing on or after 1 January 2016 only an FRS 102 SORP will be applicable.

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