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**AN ACCOUNTING STANDARD FOR NONPROFITS –
THE MISSING ESSENTIAL BUILDING BLOCKS**

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INTRODUCTION

There have been numerous calls over the years for the development of an accounting standard for not-for-profit entities (NFPEs). Probably the most commonly quoted in this regard is that from the Industry Commission Report No. 45 in 1995 which contained the following recommendation:

The Commonwealth government should provide funds to the Australian Accounting Standards Board and the Public Sector Accounting Standards Board to develop within two years suitable accounting standards for Community Social Welfare Organisations.

This recommendation was made over 5-years ago. Why has no action been taken towards its implementation?

The lack of response is not due to inactivity on the international scene. In the USA, Canada and the UK, the standard-setting bodies have devoted a great deal of time and effort to producing conceptual framework documents and accounting standards relating to NFPEs. Further, the academic accounting literature contains much valuable information to assist in the task. The objective this paper is to detail what I believe has to be done in order to have an accounting standard on NFPEs issued by the Australian Accounting Standards Board (AASB).

In discussing **an** accounting standard for NFPEs, there may be a need for more than one accounting standard for NFPEs. It is possible that the NFP sector requires separate accounting standards for the various industries in the sector, such as health, universities and colleges, and charities. This is an empirical question based on research on user needs within each of the industries in the NFP sector. On the other hand, the needs of users in these industries may be sufficiently common that only one accounting standard is necessary. The current AASB accounting standards suggest this may not be the case, as they include separate accounting standards for extractive industries, construction industries, financial institutions and insurance entities. Notwithstanding the outcome, the building blocks suggested in this paper apply whether there is one or a number of accounting standards.

THE MISSING BUILDING BLOCKS

In my view, the missing building blocks necessary to achieve the goal of an accounting standard for NFPEs are:

1. A **co-ordinated approach** by preparers and users of NFPE financial reports, professional accounting bodies and standard-setters. This is a necessary building block to overcome the political elements of standard setting.

2. Undertaking research that has a **user-oriented or decision-usefulness approach** is the second key element. Such an approach fits into the accounting conceptual framework, but the framework currently lacks the detail necessary to provide the answers to the accounting problems facing NFPEs. It is necessary to follow the conceptual framework approach, even if only for political reasons. What is then required is the detailed information necessary to deduce appropriate accounting standards.
3. **Empirical research** must be undertaken to convince the doubters that a proposed accounting standard has the necessary basis for its conclusions. There are many who have doubts about the need to have a separate accounting standard for NFPEs. Having relevant research will provide the evidence necessary to convince the doubters.

These three building blocks are not mutually exclusive, but inter-relate with each other.

A CO-ORDINATED APPROACH

Potentially the main reason that an accounting standard on NFPEs has not been issued is the “one size fits all” mentality of those in charge of setting accounting standards, that is, that a single conceptual framework and one set of accounting standards will be suitable for all entities. As noted by Cohn (1992:20), Warren McGregor, then executive director of the Australian Accounting Research Foundation (AARF), argued that if accounting standards were developed specifically for charities, then they would look very much like the standards that already exist. Macintosh (1995) in his examination of the development of accounting standards for NFPEs in the USA and Canada argued that standard-setters in those countries held similar views to McGregor. He stated (1995:38):

When examined closely, the arguments put forward to justify the application of the same accounting procedures to business entities and NFPOs appear to follow a clearly defined pattern. They are based on the decision not to develop a separate conceptual framework for any particular category of entities and follow the reasoning that (1) a conceptual framework has been developed that has defined the objectives of financial reporting, (2) these objectives provide a common basis for the reporting by both business enterprises and NFPOs, and (3) as a result, the same accounting principles should therefore apply to business enterprises and NFPOs.

With the AARF having such a firm view on the place of the conceptual framework and the need for a single set of accounting standards, it has been very difficult for other entities to prove a case for a separate accounting standard for their industry. For a long period the Public Sector Accounting Standards Board (PSASB) was responsible for setting standards for the public sector. However, this group has always been the poor relation of the two Boards, and although managing to have three accounting standards issued specifically for

government entities, it spent much of its time endorsing standards produced for the private sector. The PSASB no longer exists, the two Boards having melded into the new AASB, established in 2000.

Intuitively for many of us, it is easy to believe that the diversity of users in each NFP industry makes it impossible to have one set of financial reports that will satisfy all users' needs. A comparison of a hospital system and a University in terms of their psychosocial systems reveals differences in users, decisions and organisation structures. However, in order to have an accounting standard issued on NFPEs, it is first necessary to have those in charge of setting accounting standards be willing to listen. This is a political game. Whether the proponents of a separate accounting standard on NFPEs are right or wrong about the need for such a standard, unless the standard-setters are listening it's fairly useless to shout about the need for a standard. Booth (1997:114) stated it clearly when he wrote:

In achieving such ends it is important for all parties to recognise that standard setting (and accounting) is an inherently social practice of the construction of some financial reality. THE TRUTH is not there to be suddenly discovered by some flash of accounting (or any other insight). It is therefore critical that NPOs, both individually and as a sector, identify accounting practices that they believe meet the above ends and best serve the accountability relationships that they confront. They must then be prepared to lobby standard setters to achieve the embedding of these practices in regulation.

This exhortation should not be taken lightly. Do not believe that because you start from the premise of the special nature of your sector, that accounting standard setters will do the same.

There have been changes in the political climate in recent times that make it more promising that the standard-setters will at least listen to proponents of a standard on NFPEs. These changes are discussed in Leo (2000). However the issue of an accounting standard on NFPEs will only come after the political battle is won. To overcome the political barriers, it is essential that a co-ordinated approach is adopted by those who have a stake in the standard-setting process. These stakeholders include: practitioners working in the NFP area, the professional accounting bodies, relevant government bodies, and the AASB. In order to succeed, it is essential that all these stakeholders are a party to the research process. Initially it is necessary that there is:

- agreement with the AASB that research is required to determine the need for an accounting standard for NFPEs, and the steps in the research process.
- support from the professional accounting bodies – CPA Australia and the Institute of Chartered Accountants in Australia – for any research undertaken. This support can be demonstrated by assistance in determining appropriate members of the bodies who will be willing to participate in reading and commenting on the research.

- support from the NFP sector in the form of an expert panel of practitioners prepared to discuss issues with the researchers, and, along with the professional accounting bodies, provide critical comment on the research. Assistance in determining major areas of complaint by NFPE practitioners would also be welcomed.
- assistance from government bodies in terms of regulating NFPEs. The results of the research hopefully will flow through to such areas as taxation and corporations law areas, and potentially all areas to which government grants are made.

In relation to the government, the diversity of organisational types is itself a barrier to change. As noted by Berman (2000), in relation to charities, an analysis of current legislation highlights inconsistencies in the definition and regulation of charities, leading to a lack of comparability within the reporting process. If an accounting standard is to be established, its effects must flow through to the various reporting requirements in the current diverse legislation. Hopefully, legislation across state barriers will be improved.

Many researchers in Australia have written papers, and groups have formed to inquire into the needs of NFPEs. It is time to have a co-ordinated approach to solving the problems of the NFP sector. The first step is to get the support of those who will determine the end result, the standard-setters, at the beginning of the project, and to have the co-operation of those affected by the end result, the practitioners, to ensure an acceptance by the sector of the end result.

Not to do this in Australia will lead to no separate accounting standard issued for NFPEs, with the continued enforcement of private sector standards on NFPEs, or adoption of one of the overseas accounting standards on NFPEs.

Assuming that the necessary political support can be gathered, what has to be done to ensure that the standard-setters will listen to the message from the NFP sector?

A USER-ORIENTED/DECISION-USEFULNESS APPROACH

The advantages of adopting a decision-usefulness approach, or a user-oriented approach, is not new to accountants. The Statement of Accounting Concepts SAC 2 “Objective of General Purpose Financial Reporting” establishes that the objective of general purpose financial reports is to “provide information useful to users for making and evaluating decisions about the allocation of scarce resources”. Connolly and Hyndman (2000) provide further evidence of overseas standard-setters adopting a user-oriented approach.

What is meant by a user-oriented/decision usefulness approach?

In their analysis of user involvement in the standard-setting process, Harding and McKinnon (1997:61) described the dimensions of decision-usefulness as follows:

- (i) whether the information at issue is used in decision making, i.e., is it the type of information that is relevant to users;
- (ii) whether the information improves users' ability to make informed decisions; and
- (iii) whether the new information could be obtained from information already disclosed in the financial statements.

Similar dimensions were identified by Jonas and Young (1998) in their comments concerning the need for a user-oriented approach:

... the quality of a standard should be measured based on the decision usefulness of the information the standard requires. ... That is, standard setters must adopt a user focus in their deliberations.

A user focus means that the standards-setting process begins with understanding the decision usefulness of information. This stage of the process should answer questions such as: Does the current package of information provided today meet users' needs for information? If not, in what respects is it deficient? How should we change the package to improve the users' decision process? How do we know the decision process will be improved by the proposed standard? How will we measure these improvements?

What is important about these descriptions is that the questions posed require a detailed response. It is necessary to determine specifically:

- who the expected users are,
- what decisions the users make,
- how the information provided is used in making those decisions,
- whether one package of information is preferable to another in enabling the users to make their decisions.

Unfortunately, the standard-setting process in Australia is not attuned to providing these detailed answers prior to the issue of an accounting standard. Many accounting standards contain a comforting comment such as that found in paragraph (x) of AASB 1024 "Consolidated Accounts":

The preparation of consolidated accounts for this economic entity is consistent with Statement of Accounting Concepts SAC 2 ...

In 1999, the outgoing AASB issued a number of new disclosure standards – AASB 1040, 1018 and 1034 – that substantially changed the format of financial reports in Australia. In issuing these new accounting standards, the AASB provided no evidence that these new reports would provide users (which ones?) with more relevant information to enable them to make better decisions (which ones?). The preparers and users of the financial reports have to take it as an article of faith that the new reporting process is better than the old one. Even

though the standard-setters accept the logic of SAC2 and its user-oriented approach, there is never any evidence provided by them of the increased relevance or reliability of the newly issued standards. Unfortunately, as is elaborated in the next section of this paper, it is doubtful that the NFP sector will have this luxury.

Timing of the user analysis

There are a number of articles in the accounting literature that research the effects of accounting standards subsequent to their issue. For example, Jones and Puglisi (1997) analysed the relevance of AAS 29 to the public sector after the issue of the standard in 1993. They concluded that users were not satisfied with the decision relevance of AAS 29:

Lack of support for the standard appeared to be associated more with perceptions about the decision relevance of GPFRs and financial reporting. The results indicate that while AAS 29 could be of benefit to certain users, respondents did not perceive GPFRs to be relevant to a wide range of users. Nor were many user groups expected to have common information needs which can be satisfied by the provision of GPFRs

The approach suggested in this paper is that the analysis of the decision usefulness of a proposed standard be undertaken prior to, rather than after, its issue.

Problems with the decision usefulness approach

A major problem with the decision usefulness approach, particularly when the analysis is undertaken prior to the issue of an accounting standard, is that in order to test the relevance of information to users, it is first necessary to determine who the users are and the nature of their decisions. Connolly & Hyndman (2000:95) analysed financial reports by charities in the UK since the 1980s and concluded:

The results provide evidence that charity accounts have improved significantly since the early 1980s, where improvement is seen in terms of increasing compliance with recommended practice. (emphasis added)

Improvement was measured by the increase in compliance with recommended practice. There was no measure of whether this recommended practice had improved the decision relevance of the reported information to users. Analysis of compliance with recommendations is the easy part. Unfortunately, with the NFP sector, because SAC 2 does not sufficiently detail who the users of NFP reports are, and what decisions they make, a first step has to be determining this information.

An alternative approach to measuring decision usefulness, as used by Harding and McKinnon (1997), is to ask users of financial reports to indicate the extent of their agreement or disagreement with a decision usefulness attitude statement, using a five-point Likert-type

scale. The problem with this approach is that it does not determine why users reach their conclusions on utility. Were the users thinking about the same or different decisions? A similar approach was used by Jones and Ratnatunga (1997) who surveyed Australian listed companies to determine the perceived utility of information concerning cash flow statements to users. Table 4 in their article (1997:76) contains a list of possible uses of cash flow statements to lenders, and the companies were asked to rate the level of importance of the cash flow statement for each decision. Companies were also asked to state which user group was their prime reporting group. The problem with this form of analysis of decision usefulness is that the users themselves are not involved in the assessment. However, at least the researchers were prepared to consider the possible decisions for which the cash flow statements could be used. For proper research to be undertaken about users and their decisions, there has to be a determination of possible decisions, possible users and the variables necessary for those decisions to be made. This is the hard task. This work will require much creative thinking by the researchers. As noted by Robson (1994:62):

It is, in fact, the first stage, the 'inspiration, creation, imagination and guesswork that finally leads to a hypothesis' (Shipman, 1988, p. 10) which might be thought of as the 'real science'. The confirmatory process, admittedly involving rigorous testing, is essentially run-of-the-mill.

It is important that this point be understood. The initial stage in the development of an accounting standard for NFPEs will require a normative determination of the information required by specific users for particular decisions. This information is not obtainable from the documents prepared in overseas jurisdictions, as their bases for conclusions do not provide this level of detail. The documents will however be valuable as insights into possible important information inputs into the decision-making process.

An example of such a process is determining the information that should be provided in the financial reports issued by Universities. If the user group was identified as "students", and the particular decision was "which University should I attend?", what, if any, financial information could be provided in the financial reports by Universities to assist a student making this decision? Little help is available from the general guides to students about choosing a University as these usually contain information of a non-financial nature. Hence, if a researcher wanted to test alternative financial reporting formats by Universities, he/she would need first to consider the potential inputs into the choice decision. For example, would a student wanting to choose between different Business Schools be interested in receiving a segmented report about the University rather than the usual consolidated report? Would it be of interest to know the trend in the spending by the Business School on technology, or library resources etc? The hard work is in providing a logical solution detailing the decision process and the information inputs into that process. A comparative project in the private sector area is the discussion document Making Corporate Reports Valuable, written in 1988 by McMonnies. According to Berry and Waring (1995:140), McMonnies took the view that user

needs should be a key determinant of the form and content of financial reports, and that bank lending officers (BLOs) were a significant user group. McMonnies produced a comprehensive framework by proposing a conceptual model as well as detailed suggestions as to what constitutes a set of financial statements. These recommendations were far removed from current practice. The key to the McMonnies' document was the attempt to relate the proposed accounting requirements to the decisions made by BLOs.

One value of this process if done for the NFP sector, besides providing inputs into the empirical research, is that the resultant information will provide a basis for users to understand how to evaluate NFPEs and to comprehend how the financial numbers are determined.

A problem that will arise during the empirical testing process is the possible need to educate users about the likely utility of certain information. For example, if the researcher on University reporting determined that certain financial information was useful in determining choice of University, the difficulty in testing this on students would be that students are not familiar with evaluating University financial reports and using them as inputs into their decision model. They would first have to be educated in the potential use of the information if it were made available. Thus, for decision-makers in the NFP sector, the education process would be assisted if any proposed models were widely publicised and debated prior to testing. This would be a lengthy process and would extend the time frame for the AASB issuing a standard on accounting for NFPEs.

Examples of the approach

There are examples in the accounting literature of researchers who have attempted to apply a user-oriented approach.

The Berry and Waring (1995) paper provides one example of adopting a user-oriented approach to making corporate reports more valuable. The paper seeks to identify the information base and procedures used by bank loan officers (BLOs) when assessing loans. Hence, the authors target a specific user group with a specific decision to be analysed. Berry and Waring (1995:139) stated that their aim was to analyse the results "from the perspective of a would-be designer of financial statements. In other words, the paper translates the pattern of use of financial information by a significant user group into arguments about the appropriate form and content of a set of financial statements". The research design involved interviews with BLOs as well as case study loan applications. In order to determine the reasoning pattern of the BLOs, each was asked to supply a diary and discussion of his/her approach to the case studies. This assisted the researchers in determining the information that the BLOs considered useful in making their decisions, as

well as providing the logic behind the use of the variables. Berry and Waring concluded that users used a narrower range of data than expected, they tended towards an impressionistic rather than an analytical approach, and were heavily influenced by the form in which the information was provided. The problem in determining which information to provide is that the result should not necessarily be based upon what users want, or on what preparers users want or need, or on what users currently use. This emphasises the need to understand the logic behind the decision process before conducting any empirical tests, and the possibility of educating the market as well.

In an earlier study, Holder (1987) conducted interviews with accountants and management representatives of NFPEs and users of NFPE financial reports, such as grantors, contributors, creditors and lenders. This study was less structured than that of Berry and Waring. An important feature of Holder's study is that he specified a series of decisions for which the NFPE financial reports could be used, namely to:

- (a) Determine whether, and to what monetary extent, the not-for-profit organization conducts the programs for which it exists;
- (b) Evaluate the relative allocation of resources between administrative and fund-raising activities and various programs of service;
- (c) Assess the ability to continue to deliver services of an adequate quality in an uninterrupted fashion.

It is only if the relevance of the NFPE financial reports is evaluated in relation to specified decisions that a meaningful determination can be made. This is in contrast to studies such as that by Hyndman (1990) who investigated the information needs of contributors to charities in the UK. Hyndman asked contributors to rate 14 types of information in terms of importance to them, using a 5-point scale to measure responses. The problem with this approach is that there is no information about why the information is considered important, and why the information is critical in the decision process. Moreover, the strategy of asking users to assess the usefulness of a "simplified balance sheet" and a "simplified operating statement" provides zero information about the content of those financial statements and on how the users will use them. Without this detail, it is not possible to justify the choice of accounting recommendations.

EMPIRICAL EVIDENCE BACKING THE STANDARD

It has been argued so far that a major obstacle in developing a separate accounting standard for NFPEs is the politics of the standard-setting game and that a necessary step in overcoming that hurdle is to ensure that the work undertaken is consistent with the conceptual framework document SAC 2. This will mean adopting a user focus so that any

proposed standard has as its aim the provision of the information needed by users to make their economic decisions concerning NFPEs.

However, the standard-setters are not going to be easy to persuade. As Booth (1997:114) argued, “Do not believe that because you start from the premise of the special nature of your sector, that accounting standard setters will do the same”. It will be necessary to provide sufficient evidence to the standard-setters that any proposed standard is the right one. As Jonas and Young (1998) noted:

Third, users are not aggressive participants in the standard-setting process ... Standard setting isn't exactly a warm and fuzzy process – it is rough duty, especially for non-accountants. The process is dominated by accountants, and it is intimidating for any professional to participate in another's profession. Testifying before a standard setter has all the appeal of appearing before a grand jury.

To convince the AASB and the accounting profession who have grown up on a diet of a single conceptual framework and believe that one set of accounting standards is the staple meal for all organizations, empirically tested recommendations are crucial. As Macintosh (1995:38) noted, in the USA and Canada, the accounting standard-setters have produced different sets of recommendations for accounting for NFPEs. However, neither standard-setting body has provided evidence that their recommendations achieve the desired end of providing useful information to users. Macintosh was particularly critical of the fact that the American standards were too close to business accounting standards, stating:

And, most important of all, is whether the approach of the CICA in disregarding the differences in economic activity of NFPOs is theoretically correct. Evidence suggests that this is not the case.

The evidence to date is casual only. Consider, for example, the recommendations in Canada. In accounting for contributions, as detailed by Danyluk (1998:43), a senior manager in the CICA's Accounting Standards Department, the accounting standards allow two different ways of accounting for contributions, namely the deferral method and the restricted fund method of accounting. The principle, according to Danyluk, underlying the deferral method of accounting for contributions is matching. In the year 2000, is there any possibility of persuading the AASB that matching should be the theoretical principle to guide accounting for NFPEs? I do not think so. The provision of empirical evidence of enhanced usefulness will achieve more than a theoretical debate.

In considering the empirical evidence needed, it is useful to view the research approach taken by Khumawala and Gordon (1997). First, the title was impressive – “bridging the credibility of GAAP”. This is the key to the exercise, as accounting standards for NFPEs must be demonstrably credible. Khumawala and Gordon (1997) chose a specific user group, namely donors, a specific decision, namely, the donation of money, and investigated the

utility of alternative accounting information in the making of this decision. A sample of donors was selected, and each donor was allocated an amount of money to donate to the charities for which the financial statements were provided. The research questions raised by K&G are given in the Appendix to this paper. As K&G (1997:65) stated, “so little is known about how individuals might use financial information in deciding how much to give to nonprofit organizations”. More in fact is written on nonfinancial than financial reasons for giving, for example, Hutton (www.nonabout.com as downloaded 11/8/00) suggested that the main reasons for giving are compassion, personal involvement, someone asked me to give, a tradition of giving, and fear. However, many people excuse their non-giving on the basis of mistrust of the charity’s use of the money – an extreme case of this being reported by Snavelly and Desai (as downloaded 5/11/99, (www.aspeninst.org/polpro/nsrf/summaries/Snavelly) in which the Bulgarian public were perceived as not yet being firmly convinced of the legitimacy of the nonprofit sector because of enforced “volunteering” during the communist era. Snavelly and Desai argued that if the sector lacks credibility, it will not be able to develop to its full potential. Similar arguments can be made in Australia. If we cannot build “a bridge of credibility” between the accounting standards and the NFP sector, then the sector will continue to struggle.

Another example of where there needs to be a melding of theory and empirical evidence is in the use of ratio analysis in the NFP sector. As noted by Patrick Ponting (1999:3)

Our own Society is a good example of an organization ill-served by existing accounting standards. ... When an entity with a profit focus discloses an operating loss there is justifiable concern. For a not-for-profit organization, it may well be a normal part of its operating cycle.

Ratio analyses using profit or rates of return are as meaningless as using the bottom line of the statement of financial activities for measuring performance. Similarly, normal liquidity ratios involving current assets are suspect when some NFP assets are restricted in terms of their use. What financial ratios should be used? Is the information available in the financial reports to allow for their calculation? It is disturbing to note, for example, as reported by Harrow et al (1999:165) in their analysis of the management information needs of trustees in smaller charities, that:

Nearly all trustees considered income and expenditure statements against budget comparisons and nearly 90% also received cash flow information of some sort. Two thirds saw a balance sheet. Roughly two thirds of respondents did not consider any financial ratios when judging their performance, but approximately half considered one or more non-financial indicators of performance. There was very little comparison reported with other organisations’ performance and none with that of other charities. (Emphasis added)

On the other hand organisations such as the American Institute of Philanthropy (www.charitywatch.org/criteria) consider it important to use such ratios as percent spent on charitable purposes, cost to raise \$100, and years of available assets. Similarly the National

Charities Information Bureau (www.give.org/) in its analyses of charities considers ratios such as the program expense ratio, and the fund-raising expense ratio. Some questions to be researched are:

- Are these ratios useful?
- Do users calculate them?
- How do users interpret them?
- Is trend information useful?
- How should the variables be calculated – should donated goods and services be included?
- Can they be compared across different industries in the NFP sector?

These questions must be theoretically analysed as well as empirically tested.

CONCLUSION

In 1945, the chairman of IBM said that the world market for computers was a maximum of four.

In 1919 the President of the United States of America said that the telephone was an interesting invention, but who would ever want one?

Will there ever be an accounting standard for NFPEs? Who will dare make a prediction? Without making a prediction as to when, this paper has attempted to outline what is necessary to achieve the issue of an accounting standard for NFPEs by the AASB. This task will not be an easy one. It will require the co-operation of a large group of people, and support from the professional accounting bodies and the AASB. Researchers will have to undertake the difficult task of providing a theoretical framework linking users, their decision and the accounting for and reporting of the information as inputs to those decisions. The proposed reports and accounting methods will then need to be empirically tested using Australian NFPEs. It is only after painstaking, exhaustive research in a number of settings that we can be confident of describing relationships that are broadly applicable. Even then, new foundations for financial disclosure will always be tentative, open to review and change.

Application of this process will be a learning experience for all. The end result hopefully will not only be the issue of an accounting standard, but the formation of a sector that has interested, educated users who have trust in the accountability of entities in the sector.

APPENDIX

The research questions asked by Khumawala and Gordon (1997) were:

1. Are individual donors more concerned about financial position and the measurement of assets and liabilities than they are about measurement of revenues and expenses and the statement of activities?
2. Do individual donors express a preference for any particular timing for the recognition of temporarily restricted contributions as revenue?
3. Do individual donors consider footnote disclosures (about joint cost allocations) as useful as the statement of activities and information about expenses as a percentage of total expenses?
4. Do individual donors want information about accounting policies?
5. Do individual donors who receive nonfinancial information on service efforts and accomplishments consider it more useful than the financial statements?
6. Are individual donors who receive SEA information with the financial statements more satisfied with the information provided to them than donors who receive only the statement of financial position and statement of cash flows?

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COMMENTS ON PAPER

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Thanks Ken for some very insightful comments about an extremely important area, and an area that I believe is very fruitful and interesting for researchers. I must admit, as a researcher into public sector accounting standards for the last decade I am very much struck by the similarities between the public sector position in the early to mid 1980s and the NFP position now, especially in relation to the lack of guidance on accounting issues, the lack of interest in accounting issues other than those that affect the private sector, the lack of standardisation between different types of entities in one jurisdiction, let alone in Australia. I hope that some of the experiences in the public sector accounting standard setting process can be used to advance the accounting in this sector.

More specifically though, I would like to comment on your 3 building blocks.

First of all, the coordinated approach. What you reminded us was the fact that standard setters will not start from the premise that the not-for-profit sector is unique. They will need convincing of that, and one of the best ways is to co-ordinate the approach between preparers, users, professional accounting bodies and standard setters. I think no where has that been more evident than in the history of public sector accounting. Initially the AARF and the profession had to be dragged screaming into the debate in 1983, and only formed the PSASB when it was obvious that the accountants at the time in the Commonwealth had begun to develop their own standards. Even when the PSASB had been formed it was only after the Treasuries around Australia co-funded the Board to the tune of ½ million dollars every three years that the accounting profession became serious about the development of standards. Even so it was a very lengthy process before the standards were issued, and longer before they were implemented. So, I think Australian history tells us that we need a coordinated approach, otherwise the standard setting process will once again be dominated by the private sector standard setting process. I think this seems to assume even more importance now when we realise that we now have the one accounting standard setting body in Australia. The priorities of the not for profit sector are not going to be automatically assumed, the case will need to be put forcefully to the standard setters.

On the second research area, that of users and their needs, who are the users, what do they want and why do they want the information is an extremely important area. In the public sector, this type of research has not been done in a concerted manner, anywhere in the world. Even though we have accounting standards, the empirical research is still lacking. As Ken has pointed out, standard setters, using their private sector mentality, assume that if there are users for private sector financial reports, there must be users for public sector reports/not for profit reports, and that those users and the uses they put the financial

information will be roughly equal. So, on this point I have entire agreement with Ken. Empirical research is a number one priority for the sector.

What I have more question marks about, is the method of achieving this. I am addressing the conceptual framework question here. Australian standard setters have already gone down the route of one framework, that decision was made in 1983 when public sector standards were developed with one framework, even though protests were made against this. This creates a tension then for the future direction of research. Given this, I doubt if the not for profit sector could mount an argument for their own conceptual framework. Standard setting is political. So, how far will it be useful to go down the track of 'ideal being', I would question. Maybe a wiser strategy would be to be pragmatic, and accept that standards will be developed within the one conceptual framework and work towards development of a standard/s for the not-for-profit sector. Maybe the two can work hand in hand, but I think the approach to the standard setters must be very concrete. I agree it should be empirically based, but question whether pragmatically it will be.

The third area is the area of performance information. I think that this is where the real advances have been made in the public sector. I don't want you to think that all of the accounting problems have been solved, indeed they haven't and the recent G4 +1 paper on accounting for non-reciprocal transactions is testimony to that. But the introduction of accounting standards, has raised accountability issues onto the agenda of many agencies, and has enabled some real advances to be made in performance measurement. Those advances could not have been made without the bedding down of the accounting concepts. I think of the development of local government performance indicators which are supplying information on management and provision of services and the benchmarking if that is appropriate and desired. So, what I am saying here, is that this performance agenda has only arisen after the accounting has been bedded down. In the public sector there has been a reasonably long time lag from the development of standards, their implementation and then the use being made of this information to manage the organisations.

So, in summary about the research issues that you raise, I agree with all three of your priorities, but would be really interested to hear a debate today, on the second one of these, the conceptual framework question, because this will dictate how we move forward in the sector. And that is the political question, how far will we compromise because we need to move forward.