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ACCOUNTING INFORMATION AND NON-PROFIT RELIGIOUS ORGANISATIONS

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PhD Thesis

DEPARTMENT OF ACCOUNTANCY
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Vol I

CONTAINS

PULLOUTS

VOLUME 1

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Abstract

The accounts of non-profit organisations (NPO's) have been the subject of increasing amounts of research and pronouncements by official bodies in recent years. Much of the research to date has been addressed to the improvement of external accounting statements of NPO's and is therefore normative in approach. There have however been a number of recent suggestions that this normative approach has not taken sufficient account of the realities of the NPO environment and that research has proceeded as if NPOs were nearly the same as organisations in the profit seeking sector of the economy (PSOs).

In an attempt to redress this balance and to provide an insight into accounting in the context of the NPO, this study has attempted to describe accounting information, particularly external financial reports, and its users in five organisations from one part of the NPO sector, churches. The study is essentially descriptive and seeks to approach NPO sector accounts with as little PSO sector bias as possible. The study is also inductive in approach in that it seeks to generate hypotheses for testing in later deductive research.

The use of a descriptive approach has necessitated the development of new techniques, particularly in the analysis of accounts, and has demonstrated the use of questionnaires and interview techniques in a descriptive accounting study.

The empirical part of the research, carried out in five case studies, consists of three distinct areas: a study of external financial reports, their content, structure and context; a questionnaire survey of users of external financial reports; and finally interviews with a selected number of users of accounts.

The main findings and hypotheses generated by the study fall into fifteen major areas. Some of these relate to accounting information in general: that accounts are models and that users employ an information search procedure in reading accounts.

However, most ideas and hypotheses relate specifically to the NPO environment: consolidation issues, balance sheet construction, absence of expert users, non-decision uses for accounts, lack of

fund accounting, the budgeting process as a key vehicle for allocating funds, understanding of accounts by users, pressure for changes in accounts and measurement bases in use. These ideas and hypotheses for further research arose from key observations in the study and give rise to a number of areas for future study in the context of information and NPOs.

The research has yielded a number of new insights about the accounting reports of churches suggesting that the structure and content of the reports are closely contingent on the economics, structure and funding of church organisations and that there are several common patterns in the diversity of accounting statements found, especially in balance sheet construction and use of fund accounting.

The study of recipients of accounts has given some detailed information about how accounts of NPOs are used by 'external' and 'internal' users and provided a useful profile of users. This profile is useful in helping to rank the relative importance of users of accounts and also shows an apparent lack of expert users of accounts, there certainly being no identifiable group of expert users. This part of the study also identified only slight pressure from users for changes in accounting reports.

Although the study of users also identified little decision use for accounting information there does appear to be a widespread interest in accounting information, probably for monitoring purposes.

Among the practical recommendations from the study are that: NPOs should give a clear description of how their accounts are structured; there should be clear disclosure of the measurement basis used in the accounts; budgets would be a useful addition to accounting reports; and an attempt ought to be made to provide an overall movement of funds statement.

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Part 1 Introduction and Literature Review

Chapter 1 Introduction

The accounts of non-profit organisations (NPO's) have been the subject of increasing amounts of research and official pronouncements in recent years. Much of the research to date has been addressed to the improvement of external accounting statements of NPO's and is therefore normative in approach. There have however been a number of recent suggestions that this normative approach has not taken sufficient account of the realities of the NPO environment (eg Herzlinger and Sherman 1981) and that research has proceeded as if NPOs were nearly the same as organisations in the profit seeking sector (PSO) of the economy.

In an attempt to redress this balance and to provide an insight into accounting in the context of the NPO, this study has attempted to describe how accounting information, particularly external financial reports, exists and is used in five organisations from one part of the NPO sector, churches. The study is essentially descriptive and seeks to approach NPO sector accounts with as little PSO sector bias as possible. The study is also inductive in approach in that it seeks to generate hypotheses for testing in later deductive research.

The recent suggestions in the literature that accounting must be studied in context (eg Accounting Organisations and Society v8/3) has had a significant influence on the conduct of the research which fits into this category. The methodology adopted in the research may give some insight as to how accounting may be studied in context.

The empirical part of the research was carried out in five church headquarters organisations in the UK, each of which may be regarded as a case study. The results are therefore not widely generalisable but it would not have been feasible to extend beyond these five cases due to a limitation of resources.

Following a review of the literature in the areas of NPO accounting and accounting information (chapters 1-4) and a description of some data gathered about the churches element of the NPO sector (chapter 5), the empirical part of the research is in three distinct areas: a study of external financial reports,

their content, structure and context; a questionnaire survey of users of external financial reports and finally interviews with a selected number of users of accounts who worked within the organisations.

The study of external financial reports from a descriptive viewpoint, reported in chapters 6-8, entailed the development of a suitable descriptive framework and this is used in the detailed analysis of each of the five accounting reports studied. This exercise has yielded a number of new insights about the accounts, in particular about their structure and content, which have implications for the preparers of accounts and has also produced a number of hypotheses for further testing.

The questionnaire survey, reported in chapters 9-14, was conducted to discover who are the users of accounts, what uses they make of accounts and what opinions they have of the accounts they receive. The questionnaire, in pursuance of a descriptive approach, was restricted as far as possible to enquiry about actual uses of actual accounts and did not seek to identify the total possible uses of accounting information in church headquarters. The survey results include a profile of the users and their uses for and reading of accounts, some of the background beliefs of users, details of perceived understanding and recommendations for changes in the accounts. This survey is the first of its kind in the NPO area in the UK and although limited to a small sector of the NPO environment, its conclusions and structure provide a useful basis for the development of future research on users and uses in the NPO area.

The final section of the empirical work is the interviews with 'internal' users of accounts. The subject matter of these semi-structured interviews was the total financial information available in the organisation and so captured such management accounts as were produced as well as external financial reports. The extent of interviewing varied between the five churches but interviews were based around a common pattern. The interviews reveal a pattern of use for accounting information which has not previously been indicated in the literature and also suggest that

the key mechanism for resource allocation in these NPOs is the budget procedure.

In the first part of the study the literature review covers the literature relevant to the study with the remainder of this chapter being concerned with an overview of the literature related to the general research problem and methodology. The next chapter deals with the literature describing the non-profit organisation, economics of the NPO and the users of accounting information in the NPO. Chapter 3 discusses some of the accounting problems of the NPO sector identified in the literature and in Chapter 4 there is a brief survey of some aspects of communication theory and information economics as they relate to this area.

1.1 Synopsis and overview of literature

During the past twenty years there has been a growing interest in the accounts of non-profit organisations (NPOs). This interest is apparent in the literature of accounting and falls into at least three groups: problems of accounting practice; problems of interpretation and use of accounting information; and problems of concepts, standards and guidelines for reporting. There is considerable overlap between these three areas and of late there seems to be more concentration in the journals on the latter two aspects. The recent interest has probably had a number of sources but three stand out: the interest generated in the USA by the New York City bankruptcy; a number of charity 'scandals' in the UK and the realisation by charities and other NPOs that accounting standards such as SSAP's and FASB standards may actually be inappropriate for NPOs.

In the area of practical problems the major works are textbooks such as Henke (1980), Hay (1980), Gross and Warshauer (1979) and Kerrigan (1969) which are designed to explain to students and practitioners how NPO accounts work. These "how to do it" books take a pragmatic stance and whilst they may be geared to particular groups of organisations eg governmental (Kerrigan), most attempt to at least cover practice in all the organisations that the authors see as falling within the non-profit category.

Whatever the author's stance may be with regard to current theoretical status of non-profit accounting the reader is adequately carried through fund accounting, fixed asset accounting, budgets and encumbrances and the many other problems which one meets in day to day accounting in NPOs.

The literature also contains certain works which are aimed at developing solutions to practical problems faced by the NPO. Performance evaluation, particularly in government organisations, has had a number of studies eg Dunn (1976), Selby (1978), Brace, Elkin, Robinson and Steinberg (1980), Sizer (1979). There are also occasional studies of individual organisations' approaches to accounting eg Potts (1977) re a television station, Belshaw (1974) re Oxfam, and to specific practical issues eg Ashford (1981) on balance sheets, Lindhold (1970) on PPBS in churches. Finally there are a few practically oriented studies eg Bryan (1980), developing a financial reporting model for trade and professional associations and Ellis (1973), developing management oriented accounting reports for churches.

Problems of interpretation and use of accounting reports of NPOs can be found in writings on the fringes of the accounting literature eg Moyle and Reid (1975) and Moyle and Cowley (1975) in compiling National Income Statistics relate the problems of obtaining and using accounting data for their purposes. The National Council for Social Service (1969) in looking at the future of charitable activity note the lack of comparability among charity accounts. Various research studies also identify this problem area such as Bird and Morgan-Jones (1981).

The third problem area, that of developing concepts, standards and guidelines for reporting has the largest share of the NPO literature and is the main topic of concern at present in the U.K. and North America. This area is one which is involving all the branches of the accounting profession: the practising accountant and auditor, the professional institutes and the academic community. Undoubtedly there is much more interest in NPOs in the USA and Canada than there is in the U.K. and Australia at present but interest in all these countries is

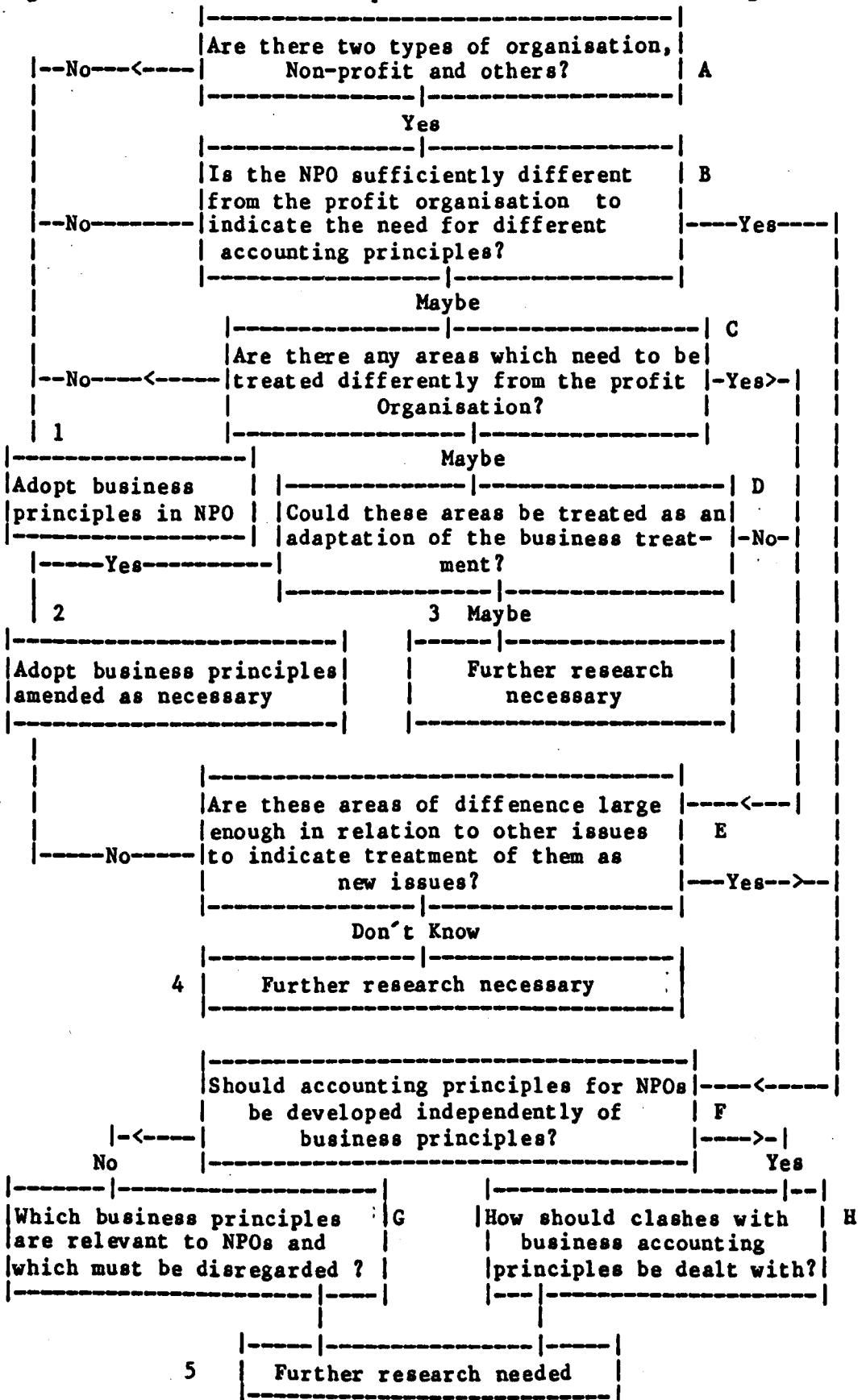
increasing slowly.

A major reason for this is probably the greater involvement of the auditing profession in the U.S.A and Canada with the accounts of NPOs. The major NPOs are in the government sector and in the U.K. this has traditionally been an area served almost exclusively by the government accounting profession with its own professional body (CIPFA). The existence of private medicine in the USA and Canada has led to the development of NPOs which are effectively in the private sector and subject to private sector audit and criticism.

It is very difficult to summarise the debates on concepts standards and guidelines as each author takes a slightly different stance. It seems clear that there are several common elements in the debate : should there be more guidance for financial reporting in NPOs? (see Anthony 1980b); should NPOs adopt accounting principles and standards used by business? (see for example Pearson and Gray, 1978); are NPOs sufficiently different from profit oriented organisations to indicate that differences in accounting are needed? (Anthony 1980a) and so on. Rather than try to produce a long list of these elements, figure 1.1 is an attempt to draw together these elements in a decision tree form.

The decision tree shows the various decisions needed to identify the extent to which separate accounting principles from the profit seeking organisations (PSOs) of the economy need to be developed for NPOs. Thus if there is no observed difference between the way NPOs and PSOs operate, are funded and organised then there is no need for any difference between PSO and NPO principles. If there are differences which are sufficiently serious to warrant different NPO accounting principles then there is still the question of whether these need to be developed separately from PSO principles and how clashes between principles will be dealt with.

Figure 1.1 Decision Tree Representation of NPO Accounting Problems



Different authors begin at different points on this tree and they follow different routes. Anthony (1980a) for instance appears to start his discussion at conclusion box 2 (op cit p84) and goes on to explore boxes E,D,C and B. However in his study for the FASB (Anthony 1978) he covers most of the decision nodes given in figure 1.1 and goes further into discussion of some of the possible conclusions outlined in the figure.

Alongside the analytical approach of Anthony's FASB study are the normative reports by such bodies as the Accountants Advisory Committee (1974) and by individual authors such as Gross (1973), who was incidentally a member of the AAC. These reports make a suggestion about the form and content of accounts of NPOs with a view to influencing current practice. There are also official pronouncements of AICPA (1974), FASB (1981), ICAEW (1981), CICA (1980a) and others which are based on research studies, opinions, hearings or a combination of these. Such pronouncements are again intended to assist treasurers and accountants of NPOs to prepare accounts on a common basis. The bodies concerned recognise a wide variety of practices exist and are apparently responding to pressure to assist with standardisation of NPO accounts.

There is evidence that these pronouncements owe some of their form to political influences as well as to research (for example exemptions were made to the FASB Concepts No 4 for churches following political lobbying) and are thus subject to the same sort of pressures as are standard setters in the PSO. There is however less obvious lobbying as pressure groups of accountants involved in NPO accountin are less well developed than in the PSO sector.

There have been research studies in the area of accounting practices of NPOs and most of these have produced as a conclusion some sort of normative view of the accounting standards or practices which should be developed. Among these studies are that by Traub (1977) who studied the accounts of 150 private foundations in the USA, that by Bird and Morgan-Jones (1981) who studied the accounts of 85 charities in the U.K. and that by Burrows (1980) whose study was of Labour Union accounts in the

USA.

Current attempts at developing standards, concepts and guidelines have encountered some opposition, particularly in the USA, and there are strong opinions held on the central issues. Whilst some of these contain issues which are or purport to be technical, much of the debate is not about developing answers to technical problems (eg the form of fund accounts) but about whether the issues should be recognised in the non-profit sector and whether the non-profit sector should be recognised as a sector at all. In this study it is not proposed to engage the debate at this level but to attempt to provide some evidence about accounting and information in one small group of NPOs in order to discover who participates in the organisation and to what extent. Also it is proposed to gain some insight into how the organisations operate, how the accounts reflect organisational activity and what part accounting information has to play in the organisations' existence.

This research should help us to see whether NPOs do have significantly different features from PSOs and if so how these features are to be found in and influence the decisions made by the organisations, and the information and accounting reports produced. The study will deliberately not attempt to compare NPO accounts with PSO accounting principles but will rather seek to explore whether a knowledge of the existing situation in NPOs can help us to understand why the present features of NPO accounts exist.

Mautz (1981) suggests, in relation to the difference between government and business accounting, that in order to make progress with the problem the questions for focus should be:

"Is the general reporting framework used for profit seeking enterprises appropriate to the financial reporting of government units?"

Are the needs of the users of state and local government financial units the same as the needs of independent investors in profit seeking enterprises?"(op cit p 53)

The broad question Mautz is discussing is question B in figure 1.1 and his breakdown above suggests two areas for discussion: the question of appropriateness of the accounting framework or model to the organisation; and the question of usefulness of the information model for users or participants.

The first of these is a technical accounting question: how well do business accounting systems actually model what is going on in an NPO. For a long time accountants have not recognised the accounting system as a model or an extraction from reality (Mephram 1980) but once this is realised then it must be recognised that the model is useful only if it reflects reality. Thus a model of an aircraft might perform as a surrogate for a land or sea vehicle under certain conditions but it is an inappropriate overall model for a car or a cargo vessel. In the same way the business accounting model may perform adequately in an NPO under certain circumstances but may be inappropriate as a complete model. One of the underlying assumptions of this study is that the extant NPO accounting model may be different from the extant PSO accounting model and accordingly the study will, among other things, attempt to describe the extant NPO model.

The second area which Mautz raises for discussion is an organisational and behavioural one: what use do accounts have for users? Do users in NPOs really need the accounts for the same purposes as investors in profit oriented environments and so is the analogy that investors and donors require similar financial information really valid? Again one of the main objectives of this study will be to look at users and information needs in

NPOs.

There are at least three areas in the literature in which a study of accounting and information in NPOs should improve understanding: the needs of users and uses to which accounting information is put; how accounting information affects the organisation and what uses there are for internal accounting information in NPOs. It is evident from the literature that there has been some investigation of users in NPOs such as Skousen et al (1975) who studied users of University and College accounts in the USA. This however presents a very incomplete picture and as Herzlinger and Sherman (1980) point out, still very little is known of the needs of users of accounts in NPOs (even less than is known about business accounts users).

It is proposed to extend this study to include participants in the organisation (ie all members who receive accounts) and not to study just those who report use of accounts. This should therefore include people who may not directly use accounting information but on whom the accounting information system may have some indirect effect. The literature on the area of users is discussed in chapter 2.

Although there have been reports about particular organisations eg Belshaw⁽¹⁹⁷⁴⁾ (on Oxfam, there has been no research in the NPO field (or even in a profit context) aimed at investigating accounting in operation in an organisation (Burchell^{et al}, 1980) although there are a few studies of particular aspects of accounting in business such as budgeting (Hofstede 1967) and resource allocation (Bower 1970). In certain organisational literature on decision making

some categories of NPO have been studied such as education in connection with extensions to the "garbage can theory" (March and Olsen 1976) but such studies have focussed on the decision making process rather than the role of accounting information.

Most of the NPO accounting literature cited above concentrates on the published financial accounts of NPOs eg Bird and Morgan-Jones, Traub and Bryan, and little reference is made to the significance (if any) of internal or specialised accounting reports or of the use of the external accounts made by internal users (but see Anthony and Herzlinger 1978 p95-6). Whilst it is interesting to speculate on the reasons for this (see section 2.3) this study cannot obtain a complete picture of the relationship between accounting information and participants unless both internal and special purpose accounting is included. This area is discussed further in section 2.3.

The approach taken by much of the research to date has been to analyse published accounts of NPOs and to critically analyse them from the standpoint of the business model. This approach is sometimes explicit eg Traub (1977), and sometimes implicit in the criteria used in evaluation eg Bird and Morgan-Jones (1981). It is in this comparative analysis that the problem issues of NPO accounting have arisen most clearly but it is an approach which has perhaps inadvertently led to pressure for NPOs to simply adopt the business model rather than first to try to understand the strengths and weaknesses of NPO accounting in situ. In adopting a descriptive approach to accounting and information in the NPO it is hoped that this bias can be avoided.

It is recognised that there is much common ground between accounting in business and non-profit accounting and that much might be gained from a common approach to problems (see Anthony 1978 p23). Common approaches however indicate that both business and non-profit sectors may borrow from each other and that in neither should the accounting system automatically be assumed to be "better". How one system should be judged against another is a matter for further discussion. In the profit-making situation the field of information economics has tried to address this question and this will be discussed further in chapter 4.

This overview and the following more detailed review of the literature is at least in part grounded in the whole of the NPO literature but it must be emphasised that this study is to concentrate on only a small part of the NPO sector. The size and complexity of the sector will be discussed in chapter 2.1 and it will become apparent just how wide a variety of sizes, structures, funding methods and objectives there are. Despite this, the sector is widely regarded as a fairly homogeneous group for accounting purposes (see FASB Objectives (1980), CICA, Gross⁽¹⁹⁸²⁾ and Warshauer¹⁹⁷⁹) even though there are a number of pronouncements from the AICPA and ICAEW which indicate different treatment for different sections of the NPO sector (see AICPA guides and FASB concepts No 4 (1980)). This study does not aim to produce results applicable to all NPOs but as will be shown later (section 1.3.1), the area of study chosen, the religious organisation, has similarities to other NPOs, in particular to trade unions and some national charities.

1.2 The Research Problem and Setting

The analysis of the literature in the previous section has suggested that there is a need for a descriptive study to be undertaken of a part of the NPO sector to help us to explain how accounting information at present produced is used and how it fits into the general organisational pattern of the NPO. The very diversity of the NPO sector, described in more detail in the next chapter, means that any descriptive research must be confined to a small section of the sector and the non-profit religious organisation has been chosen as the area of study.

Several questions which this descriptive study needs to address were indicated in the previous section:

1. Who are the participants in the organisation, how do they participate in the organisation and to what extent?
2. How and to what extent do the accounts of the organisation capture or reflect the organisation's activity?
3. How are the accounting reports and information used by the organisation's participants? Do participants use accounting information not formally presented (ie informal information)?
4. What effect does the information system have on the organisation and its participants?

As the study is to be a descriptive one it will not be concerned with testing hypotheses. Instead the study has one of its main aims to generate hypotheses for testing in the future. It is realised at the outset that it would be easier to test hypotheses but it is felt that at the present time the literature does not give rise to any hypotheses sufficiently well developed for testing.

There are two distinct modes of research, inductive and deductive and a descriptive approach is in the inductive mode. Buckley, Buckley and Chiang (1976) give details of both inductive and deductive research and say :

"the inductive researcher searches for truth and reality and avoids the imposition of his own theories and opinions. It is this spirit of open enquiry which distinguishes induction from deduction" (p22).

They stress that both inductive and deductive research are present to some degree in all research but that the essential difference is that inductive research is trying to find the answer to a question whereas deductive research is trying to confirm or reject a proposed answer to a question. Buckley, Buckley and Chiang see the inductive approach as being more open-ended than deductive research which may limit the extent to which discovery may be made.

The general background to this research project described above is one of uncertainty about what is actually happening in a specific accounting environment. Therefore even though it might have been possible to formulate a number of hypotheses for testing, the inductive mode would seem to be more appropriate than the deductive mode. As we have seen, one of the key results which is expected from the research is production of hypotheses which can be used for deductive work in other areas of the non-profit field.

Buckley, Buckley and Chiang suggest that once a problem has been defined and a research mode selected the researcher needs to select an appropriate methodology for his research consisting of a strategy or strategies, domain or domains and techniques. The strategies available are: opinion research, empirical research, archival research and analytic research. The domains chosen depend on the strategy specified and the techniques used on the domain chosen.

Opinion research is concerned with finding out peoples' views or judgements concerning a research problem. Opinions are peoples' interpretation or views of reality and these may be collected through either individual or group domains using various techniques such as Delphi, questionnaires, interviews and brainstorming (group) sessions. This form of research has been used widely in accounting research, and studies in the area of discovery of users and user needs have relied almost exclusively on this strategy (see Skousen et al 1975 and Lee and Tweedie 1975 & 1976)

Empirical research is intended to produce data about actual

events on a first-hand basis rather than through other peoples' viewpoints. There are three domains for empirical research: case studies, field studies and laboratory studies. Buckley, Buckley and Chiang distinguish between these three domains by the presence or absence of experimental design and control. In case studies neither experimental design nor control are present resulting in no attempt to manipulate or structure the research setting whereas laboratory studies would attempt to structure both the experimental design and control. Field studies are where the researcher explores the study area knowing what he is seeking and how he intends to collect the data but is still unable to control the environment as in an experiment. In each of these domains observation is a key informal technique and this can be undertaken as a participant or non-participant, obtrusive or non-obtrusive observer.

Archival research is concerned with the examination of recorded facts and has three domains: primary, secondary and physical. Primary evidence is original documents and files, secondary is the reporting and summary of this primary evidence and physical evidence is that evidence which is stored in the environment. Several formal techniques are possible with archival research among which are content analysis and sampling. The final research strategy of **analytical research** is a method of examining a research problem with formal logic to determine conclusions.

In order to collect descriptive data about the operation of accounting in an organisation, opinion, empirical and archival strategies are indicated as we need to discover what accounting information is produced (archival) how it is used (empirical) and what receivers think of it (opinion). Accordingly in this study it is intended that the three strategies of empirical, opinion and archival research are adopted. It is unlikely that analytical research will yield any results in relation to the research question without further empirical results on which to base hypotheses. Within the empirical research strategy, the case study is the chosen domain as will be explained below.

The basis for the study is a lack of in-depth empirical knowledge

of NPOs. There is an abundance of opinion research lying behind many of the normative research studies, opinions and promulgated standards of accounting for NPOs although much of this research has not been documented in the studies eg Anthony (1978).

Pure archival research in accounting would confine the research to the hard data available in the form of final accounts, bookkeeping records and minutes. This sort of evidence is readily available for NPOs and has been used widely used in other research studies (eg Traub, 1977 and Burrows, 1980). The research study envisaged is however wider than this and will involve at least some study of behaviour of participants and its relationship to the accounting system. Here then archival research is seen to be of only limited value though it will be used in analysing the accounting statements produced. The research under this archival strategy will aim primarily at establishing the composition and content of accounting reports in order to relate this to the users and perceptions found under other strategies.

Opinion research elicits peoples' opinions about particular aspects of a research question and involves the use of value judgements. The areas of interest in this study are however more concerned with collecting data about actual behaviour than with opinions about how people behave or about why they behave in a particular way. Buckley, Buckley and Chiang comment that "this type of (opinion) research can never come to grips with reality, with what is happening "(p44). However there are certain areas where opinions of recipients are of interest eg background beliefs about accounts, changes in accounts. In these areas opinion research is the only strategy available and so will be used to some extent in the study.

So although empirical research is the preferred strategy of the three discussed above, the study will be using both opinion and archival research in addition. Empirical research is aimed at analysing actual behaviour and seeking reality. This strategy seems to fit most closely the aims of the research suggested earlier in this chapter.

The particular domains within the empirical strategy which most closely fit the research questions are case studies and field studies. The inductive nature of the research makes any domain using experimental controls problematic to use because we are not yet in a position to identify the parameters of the experiment. Such experimental research as has been undertaken in the NPO field for example studies to test different forms of consolidation of municipal accounts by Patton (1978) and Ramanathan and Weis (1981), but this appears to have had problems with establishing a suitable experimental environment (see chapter 3). Because of this difficulty in establishing experimental controls the chosen domain will be case studies and the material for all the three strategies will be organised into case studies.

The type of entity on which the main empirical research will be focusing is the headquarters of religious organisations and the reasons for this are discussed in the next section (1.3). These organisations have only a small number of full-time employees and infrequent meetings of participants. It will be difficult with this group of subjects to use any research domain which lacks at least a little formal design as there is a danger that either the research will become very protracted or that important elements will be missed out altogether. Despite this and the problem of time constraints inherent in research it is proposed that the case study approach with a structured design be adopted.

Empirical research and particularly case studies, although appearing the most suitable, does however have some deficiencies and these are listed by Buckley, Buckley and Chiang:

1. The research is limited to the present and is deficient with respect to past and future.
2. It is time consuming compared with other strategies.
3. Only a small sample can be studied, restricting generalisation possibilities.
4. There are deficiencies inherent in any observer.
5. Systematic biases attend the observational modes.
6. It is difficult for an observer to develop powers of observation.
7. Observation can itself become an agent of change.(p 45)
8. It is difficult to draw parameters around the problem

Against these weaknesses need to be set the strengths of the method:

1. It is the method best suited to analysing behaviour.
2. It is suited to fact finding, to seeking reality.
3. It provides a rich context for research.
4. The research requires the observer to get involved in the situation.(p 45)

Case studies and the related field studies have not been widely used in accounting research although the experimental type of research has been used on certain NPO accounting problems as indicated above. Buckley, Buckley and Chiang note that there is a tremendous opportunity for research in this area and this is supported by Hagg and Hedlund (1979). Hagg and Hedlund offer defences against two of the major criticisms of case studies: lack of statistical validity and inappropriateness for testing hypotheses. The first of these is of particular interest to us but both defences will be discussed.

The statistical invalidity of cases arises from the unlikelihood of one observation from a population being representative of the population as a whole. On the other hand if there are general laws pertaining to all phenomena of a given nature then they should be detectable in all cases. It is usually possible therefore to demonstrate a known theory eg in the laws of mechanics, with reference to one or two cases or experiments. If however there is no known theory it is tempting to try and deduce one by the use of large numbers of representative samples, an approach fraught with difficulties of selecting data to collect and making assumptions about relevant interrelationships. Hagg and Hedlund argue that the case study method does not have these problems of choice of variables and difficulties with interrelationships because of being able to obtain an interpretation of what is happening more directly.

Hagg and Hedlund further argue that even if there is a theory which needs to be tested, often the best way of doing this is through an atypical case rather than a representative sample of the phenomena under consideration. Pondy (1977) expressed similar views in his paper on extreme cases. Hagg and Hedlund note that as social reality is dynamic then perhaps generalities can only

be found in terms of change processes and that further these are best studied in the case study situation.

In relation to inappropriateness of case studies for hypothesis testing, Hagg and Hedlund agree that there is some truth in the argument but suggest that qualifications are needed to it. Case studies have a comparative advantage over other research strategies in generating hypotheses but in some circumstances they may be useful for testing as well such as where in depth investigation is needed. In some cases the richness of the hypothesis may demand an equally rich (i.e. case study) testing ground. They also suggest that where the theory is dynamic the process of theory building-hypothesis testing-theory revision may be ineffective due to lack of time for proper testing. In situations where the resultant hypothesis is intended to affect the study area, testing of hypotheses becomes even more difficult.

Hagg and Hedlund also argue that in practice the perception of scientific activity as a stepwise regression of hypothesis formulation and testing may be inappropriate. The two stages certainly overlap and perhaps may not be separate steps at all. Even one case may be compared with other work and does not simply rely on itself for validity or as to conclusions. From the viewpoint of Popper, scientific progress is the continuous refutation of earlier theory and therefore conclusions based on one case can be progress, especially if they refute earlier theory. Cases can therefore be used for theory development and they add to the general body of knowledge.

Finally in the Hagg and Hedlund article there are a number of suggestions about the conduct of case studies:

- 1.The reasons for and implications of the choice of case studies should be clearly and explicitly stated.
- 2.The boundaries of the system being studied must be made explicit and critically appraised.
- 3.The researcher must retain an element of distance from the case situation.
- 4.There must be one or more general frames of reference to which observation can be related.
- 5.The case study should be constantly related to knowledge outside itself.

6. There should be a constant checking of facts, impressions and hypotheses against other peoples' ideas.
7. The researcher's values should be made explicit in the checking process.

These suggestions about case studies are germane to this research and will be borne in mind throughout the study. The next sections in this chapter will therefore attempt to examine the choice of subject area and cases for field study, the boundaries and dimensions of the cases to be studied and the perceived general frames of reference and researcher's values.

1.3 Background to the Case Studies

1.3.1 Choice of cases for study

In choosing an area for study four main characteristics have led to the choice of religious organisations: they are part of the non-profit area, they are not unique organisations in the non-profit sector, they are in several senses significant and they are readily accessible to the researcher.

As will be amplified in section 2.1 the church or religious organisation is cited as a non-profit organisation in many works about non-profit accounts (see for example Anthony (1978) Bird and Morgan-Jones (1981)). Religious organisations may be constituted legally in a variety of ways: registered as companies eg Church of England Diocesan Boards of Finance, created by trust deeds or Acts of Parliament eg Church of Scotland, or simply be unincorporated institutions governed by a constitution eg Church of the Province of Kenya. In addition, depending on national and state law, they may also be registered as charities ¹(in England and Wales but not Scotland) or non-profit corporations (in Canada). A summary of the British position is given in ICAEW auditing guidelines (1981). Their basic legal form can therefore be very similar to a PSO but a PSO cannot register under a charity or non-profit corporation act or receive tax exemptions. Religious activities are regarded as charitable activities and even where charities are not registered, as in Scotland, the recognition of charitable activity may give exemption from the payment of tax and certain other reliefs (Craigmyle book on charitable giving).

Religious organisations are on the whole concerned with three or four objectives: caring for adherents, promulgation of their creed, defence and representation of their creed and assisting others outside the creed (see Conway 1975). Funds for these objects might come from trading type operations and from investments in bonds, stocks and property but on the whole they result from donations or assessments on members or member bodies.

1. Note that almost all religious charities in England and Wales are exempted from registration with the Charity Commissioners and from submitting accounts.

Most religious organisations operate nationally either as federations, centralised hierarchies or some combination of these which results, at least in appearance, of their being a central headquarters and branches of that headquarters.

Some of the foregoing characteristics are common to other NPOs. Trade Unions and many charities have a similar branch and headquarters structure to religious organisations and similarities in respect of federation vs hierarchical structure. The mainly fund-raising approach of financing in NPROs is common to many other NPOs such as Trade Unions, local authorities and charities. Other similarities between religious organisations and other NPO organisations are: the non-profit objective (no distribution to owners); importance of service provision; the management structure; the style of election to office and the assets with which an organisation is charged to manage involve similar management problems (eg large religious buildings are similar to works of art and other community property).

The foregoing descriptions are not based on any one piece of literature but are gleaned from a number of sources eg trade union, local authority and church accounts, studies of churches such as Rudge (1976) and Mayfield (1963) and studies of charities such as the National Council for Social Service (1969) and Bird and Morgan-Jones (1981). Whilst it is fairly easy to obtain such a general picture of the NPO sector it is far more difficult, especially in the U.K. and USA (Hansmann 1980), to produce any complete statistical description of the NPO sector as a whole or of the religious section in particular.

Attempts have been made in the 1970s to collect statistics on the non-profit sector for instance by Moyle and Reid (1975) and Moyle and Cowley (1975) (in relation to national income statistics), by Austin and Posnett (1979) and to a more limited extent by Pearson and Gray (1978), but each found that information was not readily available and made only approximate estimates. Moyle and Reid included in their totals universities and colleges, friendly societies, trade unions, housing associations, charities and other NPOs. Using statistics collected from various sources Moyle

and Reid produced the following estimates for the 1970 income and expenditure for England and Wales:

<u>Organisation</u>	<u>£M</u>
Universities and Colleges	287
Trade Unions	56
Friendly Societies	47
Housing Associations	18
Charities and others	1,009
	<hr/>
Total	1,417
	<hr/>

Austin and Posnett re-estimated some of these figures in 1975 and the following figures emerged:

<u>Organisation</u>	<u>£M</u>
Universities and colleges	457.8
Church of England	86.3
Registered Charities	3,615.0
	<hr/>
Total	4,159.1
	<hr/>

They believed that their estimation of the charities figure in particular was more accurate than Moyle and Reid due to the incorrect assumptions on which the latter's figures were based.

The figures are of course not strictly comparable due to the effects of inflation. Austin and Posnett did not however estimate the figures for trade unions, friendly societies, and housing associations even though some of these figures are readily accessible. Pearson and Gray listed estimates of income of Local authorities, charities and central government in 1978 as follows:

<u>Organisation</u>	<u>£M</u>
Local Authorities	15,000
Charities	800
Central Government	39,000

A comparison of these figures with previous figures demonstrates that these are clearly only very rough approximations and quite different from previously cited ones.

Table 1.3.1 Some Statistics for the Non-Profit Sector in the U.K.**CHARITIES**

Number registered in England and Wales at 31/12/80	136,048
Cash and securities held by Official Custodian 21/12/80	£372.6m

Source: Report of Charity Commissioners 1980

TRADE UNIONS

Number registered in Great Britain at 31/12/80	461
Number of Members at 31/12/79	13.2m
Gross Income for 1979	£234.6m
Total Assets at 31/12/79	£320.3m

Source: Certification Officers' report 1980

EMPLOYERS ASSOCIATIONS

Number registered in Great Britain at 31/12/80	181
Number of members (including unregistered) at 31/12/79	293,103
Total income of 315 associations for 1979	£55.6m
Gross Assets of 315 associations at 31/12/79	£44.8m

Source: Certification Officers' report 1980

CHURCH OF ENGLAND

Number of active members 1978	1.8m
Number of full time clergy 1980	11,235
Number of benefices 1980	10,610
Number of Dioceses 1980	43
Total Income of P.C.C.s 1978	£77.4m
Estimated Income P.C.C.s 1979	£91.5m
Total Income of Church Commissioners 1980	£59.3m

Source: Church of England Yearbook statistical
supplement 1981.

Church Commissioners Report and Accounts 1980

CHURCH OF SCOTLAND

Number of Members at 31/12/80	953,933
Number of Ministers at 31/12/80	1,450
Number of charges at 31/12/80	1,536
Income of Congregations 1980	£24.6m

Source: Reports to the Church of Scotland Assembly 1981
Abstract of Accounts of the Church of Scotland 1980

In an attempt to produce more up to date information various sources have been consulted. None of these sources is completely reliable or comprehensive even for a particular section of the NPO sector. The reasons for this are varied but probably result from the fact that very few people are actually interested in statistics for the sector. There are no comprehensive registration practices for charities, trade unions or other NPOs although a large number of charities, trade unions, friendly societies and religious organisations are registered with one or more registrars. It should be noted particularly that Scotland has no charity register and that certain charities in England and Wales, whilst benefiting from tax relief and rates rebates, may not be obliged to provide annual returns to the Charity Commissioners. Table 1.3.1 has been produced to give some indications of the figures available.

From these rather varied sources, table 1.3.1 shows how the overall situation can be approximated (dates are the year statistics relate to):

Table 1.3.2 Overall Summary Statistics for U.K. NPOs

<u>Organisation</u>	<u>Approximate Income</u>	<u>Number of organisations</u>
(U.K. Gross Domestic Product	£193,488m	n/a)
Universities and Colleges	£1102m	105
Trade Unions	£370m (1982)	442
Employers Associations	£ 77m (1982)	299
Housing Associations	n/a	2,658
Church of England (Parishes + Dioceses)	£150m (1980)	10,660
Church of Scotland (Charges)	£ 25m (1980)	1,500
Charities	n/a	135,000
Local Authorities (England and Wales)	19,211m (1981)	n/a
Wages salaries and Capital consumption of Non-profit bodies	£2,179m (1980)	n/a

Interpretation of these statistics is fraught with problems as the activities of religious organisations may be included in the statistics as religious (Church of England and Church of Scotland), as charities (eg Salvation Army) or excluded completely (eg Roman Catholic church). The Church of England statistics included above summarise local, regional and central work. Other "church" activity (eg schools and colleges, religious houses) is excluded from these church statistics but may be included elsewhere such as in education statistics or charity statistics.

Despite these difficulties it is clear that though the NPO sector (excluding Government) is a small sector of the economy in income terms it is nevertheless significant in terms of its touching the lives of a very large number of people. Two deficiencies of all statistics about the NPO sector are the amount of free, unaccounted for or subsidised resources in use by NPOs and the omission from the figures of substantial amounts of fixed assets held by the sector for use or safekeeping. These could be very significant if valued in money terms but are very difficult to value and may also have very specific uses. If it were possible to include in the figures a value for these two items the significance of the NPO sector could be much greater than the figures portray.

Within the non-government, non-profit sector religious organisations do not appear to feature very significantly in terms of income against unions, universities and charities. The difficulties of measurement, omission of voluntary help and of fixed assets, and organisations excluded from the statistics serve to reduce the statistical significance further. However in terms of influence on and presence in society, religious organisations still play a significant part in the economy and in society as a whole.

Despite having shown that at least in some sense non-profit religious organisations (NPROs) are significant as an area of study these organisations can only be a fruitful research field if they are readily accessible to the researcher. Due to the

fragmented nature of religious organisations it is proposed that the study concentrates on only one or two levels of NPROs: the regional and national levels. This would mean a possible case study of some 150 to 200 organisations in Great Britain. These include the Headquarters of the main churches (Anglican, Methodist, Presbyterian, Catholic, Salvation Army) and the regional organisations of the main churches (Dioceses or regions) together with the national headquarters or federation offices of the smaller religious organisations.

One of the most important factors influencing whether these organisations can be studied is their physical accessibility to the researcher. Although these organisations are spread throughout Great Britain there are a number of significant headquarters in Central Scotland. About 20 of the possible headquarters are within easy reach of Glasgow (8 Episcopal, 8 Catholic and 4 Independent). The other main concentration of headquarters is in London and not within easy reach for regular trips and meetings with participants. Out of the possible organisations five have been selected for detailed study, three from Scotland, one from London and one from northern England. The five churches have been chosen to represent three different traditions (anglican, presbyterian and methodist) and two different levels of organisation (regional and national). The concentration on Scottish churches has been made for economy reasons.

The other factor involved in gaining access to a particular organisation is the researcher's acceptability to the organisation. As the researcher has worked as an accountant in a religious organisation for a number of years this problem is less severe than for someone not having such a background. Accordingly problems of access from the point of view of the researchers' acceptability are not anticipated in religious organisations as they might be in other areas of the NPO sector such as trade unions.

1.3.2 Boundaries and dimensions of cases for study

The NPRO has certain boundaries which can be determined ab initio. These are the legal, theological and organisational

boundaries which surround the organisation. There are however certain boundaries to the organisation which can be discovered only by detailed study of the organisation : how far does the influence of the organisation extend ; what is the extent of external influence on the organisation ; what is the importance of the local level of the organisation and so on. It is anticipated that these boundaries will be able to be set as the study progresses. Certain areas are clearly outside the boundaries of the central organisation eg accounts of the local organisation of the NPRO, except in so far as they form a key part of the decision making process at the HQ. The extent to which congregational (ie local) accounts influence the regional or national bodies will be an interesting phenomena in itself.

It will be necessary to keep the boundaries of the case study continually under review in order to keep the study within acceptable limits of time and breadth. The question of the extent of the organisation in the NPO context has been discussed elsewhere in the literature and may be a significant part of the research itself (see Bird and Morgan-Jones (1981) on the inclusion of branches in the accounts of charities).

1.3.3 General frames of reference

In view of the inadequate nature of previous research in this specific area of accounting in NPOs it is not possible at the beginning of a research project to specify with certainty those frames of reference which will be use in the research. An indication of possible frames of reference can be given however. The questions given in section 1.2 show that the research will be concerned with the behaviour of people in organisations and the relationship of accounting information to the underlying reality of the organisation. It seems reasonable to suggest therefore that the following frames of reference may be relevant:

1. Decision-making literature, probably paying only scant attention to the scientific methods of decision-making but looking more at the behavioural aspects of decision-making and particularly at decision-making in organised anarchies (garbage can model of March and Olsen (1972)).

2. Information systems literature as it discusses the design of information systems and its relationship to an organisation's structure and function.
3. Information economics literature as it helps us understand the costs and benefits of producing accounting information.
4. Human information processing literature especially as it relates to the use of accounting information.
5. Accounting literature in both the NPO and business in order to validate and/or criticise the results.

Later in the review of literature each of these frames of reference will be discussed more fully. The NPO accounting literature will be discussed at length as it is a rich area of interest.

1.4 Research Techniques

Buckley, Buckley and Chiang (1976) note that the research techniques connected with case study work fall into formal and informal groups. The formal techniques are intended to "extend (the) natural powers of observation" and include questionnaires and interviews. Informal techniques rely very much on the power and presence of observation in the situation.

The non-profit religious organisation has certain features which limit the possibilities for use of informal techniques. In these types of organisation meetings are often not held in a few central locations but tend to be in several locations. This is matched by the many places where action can take place, unlike a factory or business where activity tends to be concentrated on only a few sites. In these circumstances opportunities for direct observation of activity are likely to be limited and even where direct observation is possible, access may be limited due to its location. Accordingly this study places more reliance on formal interviews and questionnaires than would be usual in a case study.

Questionnaires and interviews are used to discover how wide and intense is the readership of accounting information amongst participants, what are their uses for accounts and something of their perceptions about accounts. The questionnaire technique is necessary as interviews with users are impossible when they are normally only together for a short AGM and where many people are present. The questionnaires are of necessity highly structured and although similar ones are used in several organisations they are slightly different for each organisation because names and organisational forms vary. The questionnaires have been sent mainly to the recipients of accounts who attend the AGM and more details of the questionnaire design and contents are given in chapter 9.

The interview is a key data gathering technique amongst internal users of accounts and this was supplemented by participant observation in two of the organisations. Interviews were initially formally arranged but certain more informal contacts

have developed from this, mainly in nearby locations.

In addition to interviews and observations a certain amount of archival research has been undertaken. This research has concentrated on the structure of the external financial reports and their inter-relationships with other financial reports. A detailed understanding of how the accounts are prepared and how the accounting records are kept has been interesting in itself and it throws light on the way in which participants are involved in the system, particularly in the setting of budgets and the control of expenditure.

In addition to the case studies and as a prior step to some of the comparative work between the individual case studies it was possible to collect background information about other national and regional religious organisations' external financial reports. This was collected in the form of actual published or unpublished annual accounts and by using questionnaires and interviews. The main purpose of this work was to collect a background information base to be of assistance in identifying areas which might be probed in the questionnaires and case study work.

The nature of the research is such that statistical techniques, other than very basic summaries of variable categories and association tests, did not play much part in the analysis of results. Computer analysis and summarisation of questionnaire data were indicated as the study progressed and the data was processed using the SPSS and SCSS suites of statistical routines.

1.5 Main Findings of the Study

As this study is descriptive, much of the empirical work in part 2 contains new information about accounting information in churches. There are however a number of interesting findings in the study and these are briefly summarised in this section.

Church headquarters are organisations in which outputs and results cannot, on the whole, be measured using accounting numbers. Their activities in education, legitimizing and giving grants need, of necessity, to be evaluated using subjective means and not in terms of 'sales revenue' or 'profit' (see chapter 5). Accounting information is nevertheless important as it enables measurement of the inputs of financial and non-financial resources and assists in the control and allocation of these resources.

Acquisition of funds by church headquarters is largely by local churches meeting requests from the regional or national headquarters with little objection or debate (chapter 10). In some instances, the allocation of funds to projects is influenced by donor wishes and leads to the establishment of restricted and endowment funds. Allocation of generally available resources to projects within the churches may be the subject of negotiations between managers, normally at the budgeting stage.

In this environment, the study has identified little decision use for accounting information, and only in the area of 'committee work'. There does however appear to be a widespread, though low level, interest in accounting information, probably for monitoring purposes. In the questionnaire study (see part 2, section 2), very few respondents reported not reading any of the accounting reports. On the other hand only a small number of respondents reported reading all the accounts which suggests a lack of 'expert' users (chapter 10).

It is also clear that the structure and content of churches internal and external accounting reports are closely contingent on the economics, structure and funding of church organisations. These environmental factors are closely related to the aims and objectives of the churches which are described in chapter 5. Part

of the reason that church accounts show close relationship to their environment and lack of uniformity is undoubtedly the lack of regulation of accounting reports.

The study gives, in chapter 7, an indication of the varied approaches to accounting followed and goes on to suggest that there are common patterns in this diversity, especially in balance sheet construction and use of fund accounting. It is suggested particularly that widespread use of fund accounting in church accounts (and other NPO's) probably means that it is a naturally occurring phenomenon and meets real information needs in this environment.

The description of recipients of church accounts gives a detailed profile of users in this previously unexplored area of the NPO sector. This profile is especially useful in helping to rank the relative importance of users of accounts, an area which is discussed in the literature review in the next chapter. The description also highlights the low level of technical understanding of users, even amongst 'internal' users. The major areas of difficulty seem to be with the 'balance sheet' and 'source and application of funds' statement. In addition, the profile shows an apparent lack of expert users of accounts in the churches. There is no certainly no identifiable group of expert users, though many non-expert users reported being content to leave comment on the accounts to others more expert than themselves.

Perhaps surprisingly, the study identifies only slight pressure amongst users for changes in accounting reports (chapter 13). There is some indication that users would like budget and summary information, the former presumably to see what the church intends to do in the coming year and the latter, it is suggested, to assist non-expert users in understanding a set of complex statements. The pattern of reading of the accounts is consistent with users using a search pattern in which a key initial statement is some overall summary of fund movements, a statement not present in three of the five churches, followed secondly by statements relating to a users particular area of interest.

One of the main aims of the study is to generate ideas and hypotheses and fifteen major ideas and hypotheses are suggested. Some of these relate to accounting information in general: that accounts are models and that users employ an information search procedure in reading accounts. However, most ideas and hypotheses relate specifically to the NPO environment: consolidation issues, balance sheet construction, absence of expert users, non-decision uses for accounts, lack of decision use for accounts, fund accounting, the budgeting process as a key vehicle for allocating funds, understanding of accounts by users, pressure for changes in accounts and measurement bases in use.

Some recommendations are made in the study and among the more important are that: NPOs should give a clear description of how their accounts are structured, to assist users understanding; there should be clear disclosure of the measurement basis used in the accounts, if possible not using presently available terms which are used inconsistently; budgets would be a useful addition to accounting reports; and some attempt may need to be made to provide an overall movement of funds statement. Part of the reason why this latter statement is necessary is undoubtedly to assist with users appreciation of the structure of the accounts and further research is needed in this area.

Finally, though not a major finding, the study of church accounts has given rise to the need for a new approach to describing accounting statements, particularly analysing their structure. Such an approach has been developed in chapter 6 and needs to be further improved by testing in other environments.

The remainder of this first section of the study gives a survey of the literature immediately relevant to the study in order to set the background scene for the empirical work.

Chapter 2 The Non-profit Organisation: Participant and User

Within the accounting literature there has been a search for a focus for external accounting reports. This has been refined over the years to a statement that the accounts should be prepared to meet the needs of users for decision-making. This focus has been extended to include NPO accounts and this chapter aims to examine these user arguments more closely. The chapter is divided into four sections :

1. What is the non-profit organisation?
2. The user need as focus: a critical evaluation
3. The users of accounts and participants in NPOs
4. What are users needs for accounting information?

2.1 What is a Non-Profit Organisation?

Before discussing the production or use of accounts in an organisation we must first understand what that organisation is like (more will be said about this link between the organisation and the accounting system in chapter 4). The profit making organisation is fairly well described and analysed in the literature not only of accounting but also of economics and organisations. The non-profit organisation is however less well defined and discussed. It is conceivable that the differences in the solutions proposed by different authors to producing accounts of NPOs (see chapter 3) are in some measure due to the fact that the authors are focussing on different non-profit entities. It is suggested that there are two important questions to be asked about the definition of NPOs:

1. What criteria do we use to separate NPOs from businesses and can we establish a boundary between these two sectors of the economy ?
2. Having arrived at a "non-profit sector" is this sector in fact homogeneous or could it be meaningfully subdivided further?

The first of these questions should be reasonably straightforward to answer but before the second one can be answered satisfactorily there needs to be more discussion on what are the significant or contingency features of organisations for accounting purposes. Accordingly this section will seek only to

answer the first of these questions and give merely an indication of the possible categories within the NPO sector.

The majority of literature in NPO accounting is to be found in North American texts and so this section draws very largely on that literature. In most of the major texts on NPO accounting there are definitions or examples or both of the NPO. A selection of seven of these definitions is given in table 2.1.1. In most of these definitions there are three main ideas: that the major objective is the provision of services; that profit will not be made for distribution to members or resource contributors and that the equity interest cannot be traded.

Anthony's FASB study (1978) aims specifically at identifying the area of the NPO sector where differences from business accounting are likely to exist. He gives a definition of an NPO that includes the ideas of non-distribution of profit to members and non-trading of equity interest. His definition of a non-business organisation (NBO) however goes further than this in excluding from the NBO an NPO that obtains most of its financial resources from operations. Anthony's NBO would therefore exclude an organisation trading but with a break-even aim.

The FASB definition introduces a slightly different idea in accepting that contributors of resources may receive some return though this may not be in proportion to their contributed resources. This departure from the other definitions would allow the NPO to include government organisations (even though these are specifically excluded from FASB 1980) and private non-profit organisations where members may receive some services.

It is clear that the seven definitions cover a wide variety of organisations and this is illustrated clearly by the many lists of organisations quoted as examples in the literature. Three of these lists have been reproduced as table 2.1.2. Whilst these lists illuminate the definitions in table 2.1.1 it is apparent that there are some organisations given as examples of NPOs which do not fall easily into the definitions quoted above eg fraternal organisations, social and country clubs (AICPA 1978) government trading organisations, friendly societies, building societies,

Table 2.1.1 Definitions of Non-Profit Organisations

1. A non-profit organisation is an economic entity that provides, without profit, service beneficial to society and that has an equity interest that cannot be sold or traded. (Henke 1966)
2. Non-profit organisations are defined as enterprises formed for social, educational or philanthropic purposes which normally have no transferable ownership interests and from which the members or contributors do not receive any direct economic gain. (CICA 1980a)
3. A non-profit organisation is an organisation whose goal is something other than earning a profit for its owners. Usually its goal is to provide services (Anthony and Herzlinger 1980)
4. A non-business organisation is a non-profit organisation that obtains a significant amount of financial resources from sources other than the sale of goods or services (p162). In general a non-profit organisation is an organisation (1) that does not operate for the primary purpose of making a profit and (2) whose assets or income cannot be distributed to or benefit members, directors or officers. In the event of dissolution, the proceeds are transferred to another non-profit organisation or revert to the state, never to an individual (p161).
5. The major distinguishing characteristics of nonbusiness organisations include:
 - a) receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to resources provided.
 - b) operating purposes that are other than to provide goods or services at a profit or profit equivalent.
 - c) absence of defined ownership interests that can be sold transferred or redeemed or that convey entitlement to a share of the residual distribution of resources in the event of liquidation of the organisation. (FASB 1980)
6. A non-profit organisation is one that is not used for personal financial enrichment of any of its members or managers and no portion of the money or property of which is permitted to inure to the benefit of any private individual except as a proper grant according to its state approved purposes or as salaries paid for employee type services rendered to the organisation. (Oleck 1974)
7. A non-profit enterprise is, in essence, an organisation that is barred from distributing its net earnings, if any to individuals who exercise control over it, such as members, directors or trustees (Hansmann 1980 p838).

Table 2.1.2 Types of Non-Profit Organisation

AICPA Statement of Position 78-10 (1978)

Accounting principles and practices for certain Non-profit organisations

Hospitals
Colleges and Universities
Voluntary health and welfare organisations
State and Local government units
Cemetery organisations
Civic organisations
Fraternal organisations
Labor Unions and trade associations
Libraries and Museums
Other cultural institutions
Performing arts organisations
Political parties
Private and Community foundations
Private elementary and secondary schools
Professional associations
Public broadcasting stations
Religious organisations
Research and Scientific organisations
Social and country clubs
Zoological and botanical societies

Bird: Research issues in Accounting for non-business organisations (1980)

Central Government Departments
Government trading organisations
Nationalised industries
Water and Health Authorities
Local Government
Universities
Charities
Friendly societies
Building societies
Housing associations
Professional associations
Trade Unions
Pension Funds
Non-charitable private non-profit organisations (eg AA, BUPA)

Anthony and Herzlinger: Management Control in Non-profit Organisations (1975)

Medical and health services
Educational services
Non-profit membership organisations
Business
Professional
Labor
Civic and social
Political
Religious
Charitable
Research organisations
Federal and state government

housing associations (Bird 1980) civic and social membership organisations (Anthony and Herzlinger 1977).

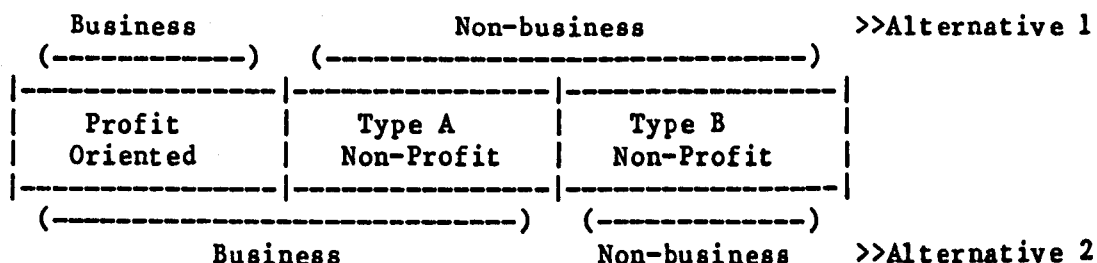
It is also apparent that in some cases whilst the majority of a group eg state and local government units (AICPA) are within the NPO definition there may be some of that group which do not fall strictly within the NPO sector (eg government enterprises) as they may have commercial motives as part of their constitution.

The difficulty of defining precisely which organisations come within the NPO sector is further illustrated by both Henke (1980) and Anthony (1978). These two authors identify a fundamental dichotomy in NPOs based on the source of resources for financing the organisation (a similar split is recognised by Hansmann (1980)). Henke identifies on the one hand the **self-sustaining organisation** which generates sufficient funds from operations to cover current costs and replacement of capital and on the other hand the organisation which needs **outside support** to cover current costs and replacement of capital. These types of organisation are very like Anthony's Type A NPO (resources mainly from sales) and Type B NPO (resources from taxes, donations etc) organisations. Both authors recognise that there are organisations which fall in between these two extremes and Henke goes so far as to suggest that there are two further groups: quasi-profit and quasi non-profit organisations. The existence of these different types of activity within the same organisation is recognised by others. Bird and Morgan-Jones (1981) for instance note that some charities have a subsidiary trading company which covenants its profits to the charity.

The implications of the existence of two sorts of activity is clearly stated by Anthony (1978) who suggests that most of the accounting problems peculiar to non-profit organisations arise in the Type B NPO. These organisations he calls as non-business organisations. Anthony goes on to suggest that there are at least two alternative criteria by which non-business and business organisations can be differentiated. One of these is the profit/non-profit split discussed in the earlier part of this section, the other is the Type A/Type B split based on source of

resources. Anthony relates these two alternatives as shown in figure 2.1.1 (1978 p162).

Figure 2.1.1 The division between business and non-business organisations (Anthony 1978)



Anthony poses these two possible definitions in his FASB study and clearly there is a difference between the two alternatives. Anthony does not however seem to consider the possibility that many organisations do not fall entirely within the Type A and Type B definitions which are really at different ends of a scale. The scale contains a number of possible mixtures of self-financing and supported organisations. If this possibility is allowed for then the line between Type A and Type B organisations becomes less distinct for how do we decide at what level of self financing an organisation becomes type B? Anthony's proposal must therefore be viewed in rather broad terms until such time as we have more theoretical and practical evidence on the NPO financing positions.

However difficult it is to identify the boundaries, it is clear that there are two main type of NPO: the Type A, where the organisation is trading but with a zero profit motive and the Type B where no trading as such takes place. Type A organisations may have different objectives to type B organisations and different sources of funds. In view of Anthony's suggested split in terms of source of income, it is surprising that some research has not been directed to trying to discover the extent to which the funding organisations can be classified into the two types.

For the purposes of this study it is proposed that the definition of an NPO should be based on the three elements identified from the definitions given in table 2.1.1 above and that all three

elements should be necessary for an organisation to be considered an NPO i.e. provision of services, non-distribution of dividend and no trading in equity. Whilst this definition may still leave problems it will at least serve as a benchmark from which to work. It is worth emphasising however that non-profit according to this definition means that there is no profit motive at all: that is if profit is made it is either in furtherance of the broad aims of the organisation or it is purely incidental. This needs to be distinguished from a breakeven aim where the aim is to produce sufficient revenue to break even, i.e. to produce nil profit. Under this definition the breakeven aim is really a special form of business aim.

Hansmann (1980) proposes that there is only one factor which identifies an NPO and that is the non-distributive element. He suggests that potentially all supply and demand situations could be performed by both for-profit and not-for-profit organisations and therefore sees the NPO as simply one form of organisation. He then argues that there are situations in which the NPO is the only form of organisation, due to the non-distributive element in their constitution, which can overcome certain specific market imperfections. These market imperfections, particularly the lack of an adequate performance check and the public good situation are such as to exclude any for profit firm from participating in supply. In the next section we shall go on to discuss the economics of NPOs where a slightly different view of this is taken.

Chapter 2.2 The Economics of the Non-profit Sector

In recent years there has been a growing interest in the formal economic analysis of non-profit organisations (NPOs). The analysis has been at several levels:

1. The macro-economic level where an attempt has been made to understand why the non profit form of organisation exists (Thompson 1980, Lindsay 1980, Weisbrod 1980).
2. The micro-economic level where the focus has been on the way in which individual NPOs operate (James and Neuberger, 1981, Newhouse, 1970). This analysis has been both at an analytical and a descriptive level (Baumol and Bowen 1965).
3. The economic features of behaviour in areas where market forces are not apparent, in particular charitable giving (Alchian and Allan 1974, Arrow 1975).

The focus of some of the economic literature is on matters of macro-economic policy and these are for the most part beyond the scope of this study. The policy matters concern for instance the relative efficiency of government and non-profit sectors in the provision of collective goods, the equilibrating mechanisms of the non-market situation, comparative efficiency of the provision of government assistance to NPOs rather than the government provision of services directly. The first of these matters is of some concern to the study but other matters will be largely passed over.

Our interest in the economics of NPOs is essentially derived from two problem areas:

1. Does the economics of NPOs help us to identify any possible constraints on the production of accounts in NPOs resulting from behavioural or legal consequences of the economics of the sector? One interesting area is whether the emphasis on reporting for stewardship in NPOs is a major constraint on reporting or whether (as Anthony suggests) such stewardship reporting is only of secondary importance.
2. Does micro-economics of NPOs suggest that any particular pattern of financial statement would be particularly appropriate from NPOs in the provision of relevant economic

information?

We have seen that NPOs as defined in the accounting and legal literature have three main characteristics: they do not distribute either surpluses or residues to the people who contribute to the organisation (the non-distribution constraint), their main reason for existence is to provide a service type good (service orientation) and they have no equity interest which can be traded. These three characteristics can apply to both private NPOs and government NPOs and are thus merely a dividing line between the profit and non-profit sectors.

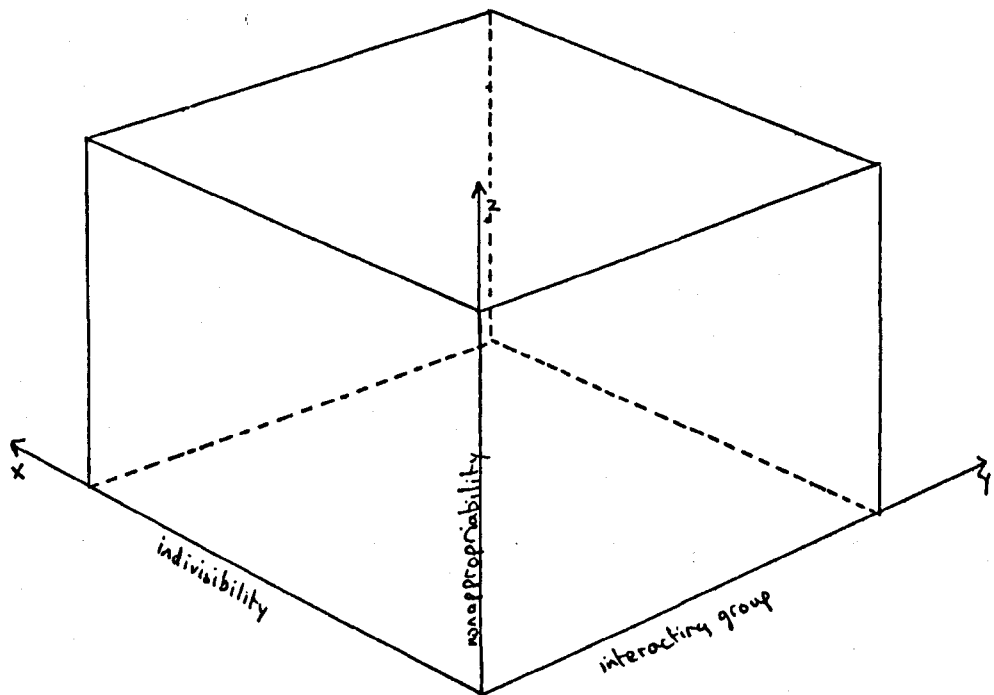
Economics has until recently seen firms as either in the private sector or in the public sector and has discussed provision of either private goods (those goods which only one person can consume) or public goods (those goods which can be consumed by any number of people simultaneously). It is apparent that these definitions of both goods and firms are merely the extreme points on two continua and that in reality few goods are purely public or purely private. Similarly there also exist firms which exhibit some characteristics of both public and private enterprises.

Loehr and Sandler(1978) observe that examples of purely public goods are difficult to discover and they posit a three-dimensional spectrum of possibilities in which to locate goods depending on the goods' degree of (non-)divisibility, degree of (in)appropriability and the size of the interacting group which consumes the benefit of the good. They demonstrate this approach in a three dimensional model reproduced as figure 2.2.1.

Indivisibility is the extent to which the goods are indivisible so that spending on say defence would not be divisible into consumption modules whereas spending on say potatoes could be divisible to individual consumers. Items such as motor cars fall somewhere in between purely divisible and purely indivisible goods as they are consumed in complete units by a number of consumers over a period of time.

Each of the three scales on which goods are rated by Loehr and Sandler is described in their text. The (in)divisibility scale

Figure 2.2.1 The three dimensional model of Loehr and Sandler



recognises that public goods may be less than perfectly indivisible. A public good may be conceived mathematically as:

$$X_T = X_1 = X_2 = X_3 = X_4 = \dots = X_n \dots (1)$$

where X_T represents the total consumption and production of a good and X_i ($i=1$ to n) represents the total consumption by any individual i . In the case of a public good the consumption by each individual is the same as total consumption and consumption by any other individual. Examples of purely public goods are defence and government.

In contrast a purely private good is completely divisible in that any one unit of the good can only be consumed and 'enjoyed' by one person. In this case a mathematical representation would be of a different order:

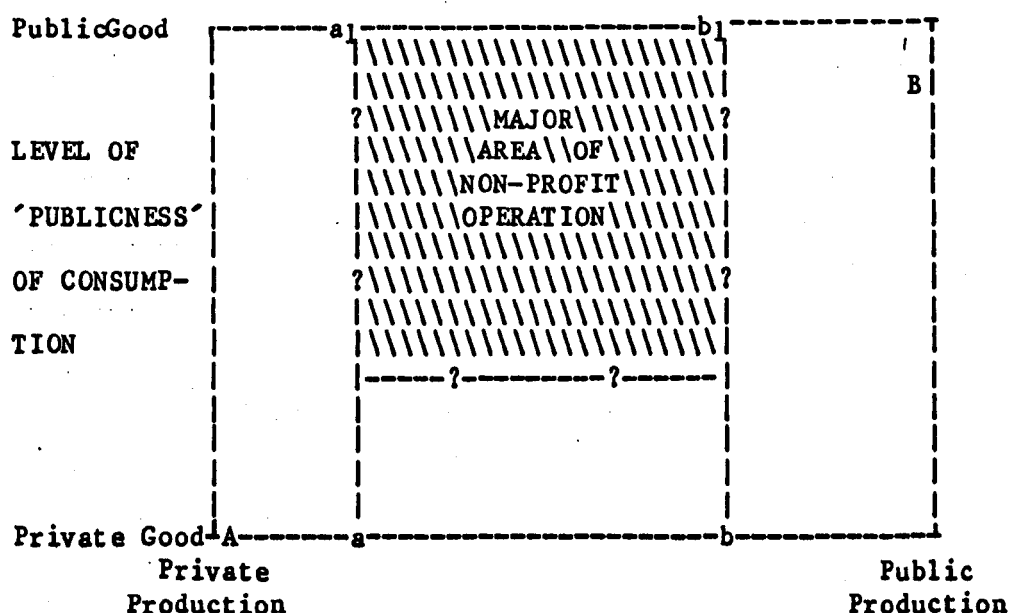
$$Y_T = Y_1 + Y_2 + Y_3 + Y_4 + \dots + Y_n \dots (2)$$

Where Y_i represents the consumption by any individual i and Y_T represents total consumption. For this condition to hold there must be perfect divisibility of the product in contrast to the perfect indivisibility of the public good. Examples of private goods are food and tailormade clothing.

Weisbrod (1980) similarly recognises that there are not simply private and public producers of goods but that there is a range of producers from the purely private to the purely public.

Weisbrod has attempted to produce a scale of 'collectiveness' from 0 to 1 in order to identify where on this private/public spectrum any particular organisation lies. Whilst the proposed index is fraught with problems of construction and interpretation it may nevertheless be a useful analytical tool in thinking about organisations in the area between public and private producers.

If we combine the ideas of a three-dimensional spectrum of public goods with a one dimensional scale of collectiveness we end up with a multidimensional array which is difficult to visualise. Accordingly for the sake of argument let us reduce both goods and producers to a single spectrum and produce a graphical presentation as in figure 2.2.2

Figure 2.2.2 Level of 'Publicness' of Production

Point B in this diagram illustrates a pure public good produced by public (governmental) means and point A illustrates a pure private good produced by private means. There are a whole range of goods and production means which fall in between these two extremes. It is suggested that the 'private non-profit organisation probably falls within the range illustrated by the boundaries $a-a_1$ and $b-b_1$ that is producing a whole range of goods from public goods (information on cancer) to pure private goods (individual medical treatment) but that the major part of the production would be expected in the shaded area. The diagram is not intended to do more than indicate the area of inter-relationships.

One of the key problem areas in the provision of public goods is the 'free-rider' problem. Put simply this means that once a public good has been produced then anyone is free to consume it whether they pay for it or not. Assuming that everyone has their own self interest at heart they will consume it at the least cost to themselves and thus avoid paying as far as possible. People who consume a public good when they do not pay for it are called 'free-riders' and free-riding is an observed phenomenon in many areas (eg television licences). An organisation is unlikely to be able to produce public goods with high total costs unless they

are inordinately wealthy or are able to finance their operation from taxation or are able to eliminate the free rider problem.

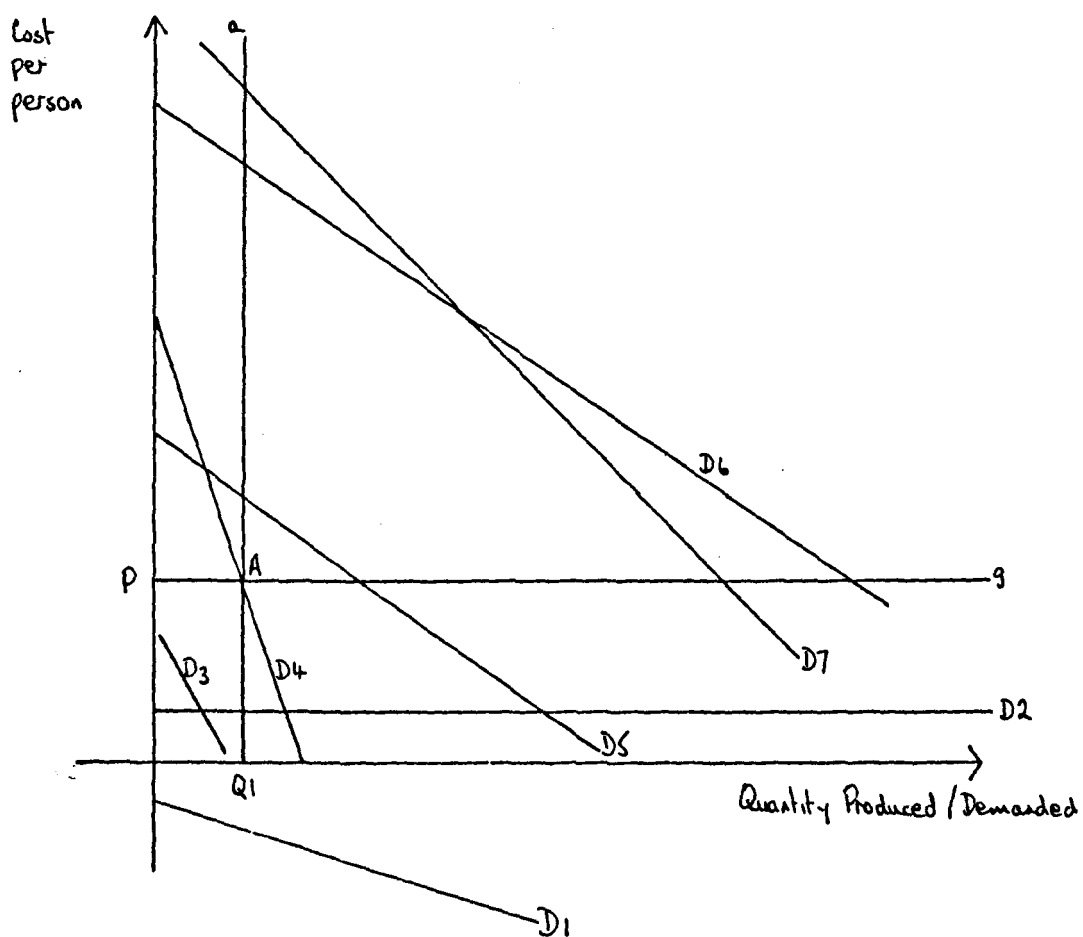
With the presence of free riders in the provision of all public (and presumably a significant number of semi-public) goods it would seem that only governments or very rich producers would provide such goods. In practice however we observe that public goods are provided by a number of organisations which are neither rich nor governmental. Such organisations as Cancer Research, Oxfam, Dr Bernados, trade unions, churches and employers associations illustrate the provision of public goods on a more or less voluntary basis.

Weisbrod (1977) gives a fairly simple illustration of the way in which this voluntary sector might arise. For the illustration, repeated here as figure 2.2.3, Weisbrod assumes that the benefit obtained from a public good is for most people unrelated to the tax paid ie the marginal utility from a public good does not agree with the tax paid. The level of supply of the public good produced nationally (Q_1) will therefore for any given consumer be either higher or lower than the amount demanded at the given price by that taxpayer/consumer.

In the illustration it is evident that at least some of the taxpayers would prefer an output of the particular good higher than the level Q_1 and some would prefer a lower output. The actual point of provision will be decided by political action. The exact mechanism for this is a problem which need not concern us here though it may be decided by majority vote or by a weighted majority decision rule where the weight depends on the force with which the individuals involved bring pressure to bear (Weisbrod 1977 p53). The output supplied will therefore be on D_4 's demand curve.

The interesting part of this analysis is the reaction of the dissatisfied consumer. There are several possibilities. For those who are oversupplied there are basically only three options: emigration, bearing the oversupply and bringing political pressure to bear on the tax/price system or the output controlling system.

Figure 2.2.3 How Demand and Supply of Public Goods may give rise to the Voluntary Sector



The undersatisfied consumer on the other hand has these options plus another three:

- 1.They can form second tier government units to provide for additional demand. This will reduce undersatisfaction of demand but in the local area will not totally remove either the freerider problem or the total undersatisfaction of demand.
- 2.They can attempt to make up their demand by turning to private goods substitutes eg private security where public security is insufficient, sprinkler systems where fire services are inadequate, private medicine as opposed to the National Health service.
- 3.Finally they can begin a voluntary sector. The undersatisfied demand is here supplemented by collective action of people with similar undersatisfaction. This extragovernmental activity provides collective consumer goods as a supplement to the government provision and an alternative to private goods substitutes. This voluntary sector will be faced with free rider behaviour but given the inefficiencies of the alternatives this voluntary solution may be a reasonable second-best solution. Weisbrod notes that it is unimportant whether this collective voluntary activity happens before or after any government provision.

Weisbrod illustrates the voluntary sector provision of public goods but does not explain (in this article) why the non-profit form of organisation exists in this voluntary sector. Hansmann (1980) says more about this but before looking at this article it is worth developing Weisbrod's analysis further to explore this a little further.

Suppose that in figure 2.2.3 consumers 5,6 and 7 had been undersatisfied at the provision of Q_1 at a price of P . In this case they would have remained with demand curves which begin at axes formed by a, A, g . They thus face another public goods decision with its attendant free-rider problem and so private producers will not come into the market (assuming still that the public good costs more to produce than the marginal revenue from

any one customer). In this situation, if the consumers are going to find any way of satisfying their demand then it is clear that some form of organisation other than governmental or private is going to be required.

One way in which the consumers 5,6 and 7 are going to be able to satisfy their demand is to cooperate and pool their revenue. The additional amount of public good which will be produced will be that resulting from the sum of their marginal prices such that the total demand curve intersects the total cost curve. The individuals could then either employ a private firm to produce the good for them or provide it as a cooperative. There would however be an incentive to keep away from the profit making firm as any cost savings which would be thereby obtained would accrue to the cooperative rather than the private firm and either reduce the cost of the public good to the individual members or increase the amount of good supplied. This extension of Weisbrod's analysis therefore seems to suggest that in the private provision of public goods the form of organisation which will predominate is that where profit will not accrue.

This approach assumes 'economic self-interest' on the part of those who feel that the public good has been underprovided. It should be noted here however that the public good may itself be a 'non-self interest' good such as foreign-aid, university education, in which case the economic self interest approach would be more like a method of seeking out efficiency.

2.3 Accounting for the Needs of Users

Research studies in the non-profit accounting area eg CICA (1980a), Traub (1977), Anthony (1978) and accounting texts eg Henke (1979), spend some time looking into the needs of users of accounts. This study will also look at the needs of users but first it is helpful to examine the background to this exercise and to ask the question: why are users so important?

The "user-need" arguments have arisen during the past thirty years and are now taken almost for granted in the business and NPO accounting literature. Bird and Morgan-Jones state:

"The 'Corporate Report' (1975) adopts the "basic approach that corporate reports should seek to satisfy, as far as possible, the information needs of users: they should be useful" (paragraph 1.1). We also adopt this basic approach." (p131)

The CICA study similarly comments:

"The objective of financial information is to provide users with information to make decisions." (p5)

Similar statements of purpose can be found in Anthony 1978 (P40) and FASB Concepts no 4 (Para 10) and they are implied elsewhere eg AICPA Statement of Position 78-10 (1978) para 9. In each of these references the overall emphasis of the study is on the external financial reporting of the organisation and the orientation and use of these reports by the external user.

In 1962 Sprouse and Moonitz (AICPA) stated that:

"Accounting supplies much of the comprehensive and defensible information that management needs to control and administer the resources in its charge effectively and productively. It also supplies the data that management needs to fulfil its responsibilities to report to owners, creditors, government and others with bona fide interest. In turn these owners, creditors, government and others rely on accounting reports to assist them in determining and evaluating the performance of management and the business system."

This statement contains a bias that accounting supplies management with information for control, information to pass on to others for stewardship purposes and for performance evaluation. There is an emphasis here on accounting for internal and external management purposes. A similar position of including

both internal and external reports is taken by the American Accounting Association's ASOBAT report of 1966 where after defining accounting as: "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of information" (p1) the report goes on:

"the objectives of accounting are to provide information for the following purposes:

1. Making decisions concerning the use of limited resources, including the identification of crucial decision areas, and determination of objectives and goals.
 2. Effectively directing and controlling an organisation's human and material resources.
 3. Maintaining and reporting on the custodianship of resources.
 4. Facilitating social functions and controls."
- (ASOBAT 1966 p4)

This statement is expanded later in the report where it is explained that the first objective extends to stockholders, creditors, individuals, government and so on and the second refers to internal management's use of accounts. The third objective covers the managerial or fiduciary function of management and involves the interest and intervention of society in order to define the function. The final objective is seen as involving fraud prevention, taxation, regulations, management-labour relations and so on.

The ASOBAT statement therefore includes a broad range of users of and a wide range of uses for accounting information. The objectives include use of information for control, stewardship (or accountability) and social purposes as well as for decision-making. The FASB is however now concentrating almost exclusively on the external financial report and accordingly recent pronouncements from the FASB such as Concepts No 1 (1978 for businesses) have reduced these objectives to a single decision-making objective:

"financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions " (Concepts No 1 para 9)

This FASB objective, in concentrating on financial reporting, not only omits internal control objectives but also the stewardship aims which were a clear part of the ASOBAT study. If stewardship is not seen as involving any decision then it is possible that stewardship and decision-making objectives might diverge and the stewardship objectives may not be met by decision oriented reports. However the reason for the FASB now concentrating on a single objective may be that it is possible to see stewardship as a decision purpose. In particular, stewardship reporting may relate to the long term decisions of whether the present management is doing its job or ought to be replaced and whether to remain a member of the organisation.

In a PSO with quoted shares, information relating to these decisions is probably compounded into the share price and thus regarded as decision oriented information. Where an organisation has no shares or no quoted shares 'reporting for stewardship' may serve this long term decision purpose. Although stewardship and decision objectives will be treated as separate for the most part of this study there appears to be a case from this short discussion to treat both as being decision purposes.

'Decision-usefulness' is a term which has two distinct aspects. It is actually a short form of saying "to satisfy users' need for accounting information to assist in decision-making". Any critical appraisal of the term needs to look carefully at the two sections: 'user needs' and 'decision making'. These are sometimes confused in the literature and the terms can be used synonymously (Laughlin and Puxty (1981)).

Laughlin and Puxty state that the only justification for meeting 'user needs' for accounting information is that by doing so total social welfare will be increased. They go on to assert that in an imperfect market it is possible that total social welfare may be reduced by meeting user needs for information. As illustrations of the possible situations in which total social welfare may be decreased, they give three examples: a misuse of power by a union which results from having information (though the example they give is not only outside the information context but is of

doubtful relevance); the research and development situation where lack of ability to exploit research findings by retaining private information could lead to the lack of incentive to engage in research and finally the arbitrage situation where a firm is able to make a profit in the market place from exploiting private information and in so doing improves the efficiency of the market.

A different aspect of being guided solely by user need criteria is found in the non-profit literature. A major source of discussion in this area is the need for consolidation of fund accounts into one statement so that the accounts may be better understood by users (see for example Gross and Warshauer (1979) who propose the 'grandmother test' for identifying the level of complexity of accounts and Anthony (1980a)). Herzlinger and Sherman (HBR 1980) demonstrate that this approach of simplification of accounts for users can actually present a grossly inaccurate representation of the nature of the financial position and events and presumably act so as to reduce total social welfare if less than optimal decisions are based on the abbreviated accounts.

If following user needs can result in either an increase or decrease in total social welfare then there should be a point or points at which total social welfare will be optimal. At this stage we have no certain way of measuring total social welfare and so identify this point or position. It can only be concluded that the extent to which user needs will be met will be determined by some political process. Part of this political process is in evidence at a macro level in the debates surrounding the formulation and setting of accounting standards and legislation governing accounting information.

If there is a political process operating at the macro level it is clear that there may also be political processes in operation which help determine the form and structure of accounts within particular organisations. Tinker and Lowe(1980) postulate that an organisation remains within a set of feasible production alternatives (f-sets) only by management's continued

manipulation of the organisation to keep it within the boundaries of production possibility. One of the ways in which management may induce participants to remain with, join or leave the coalition is by the provision of more or less financial information, for example for union negotiations, share issues, bank lending applications, funds drives etc. In these circumstances, and in the absence of any external controls, the organisation's reporting system may well be influenced largely by the objectives of management (see Bird and Morgan-Jones comments on the manipulation of deficits).

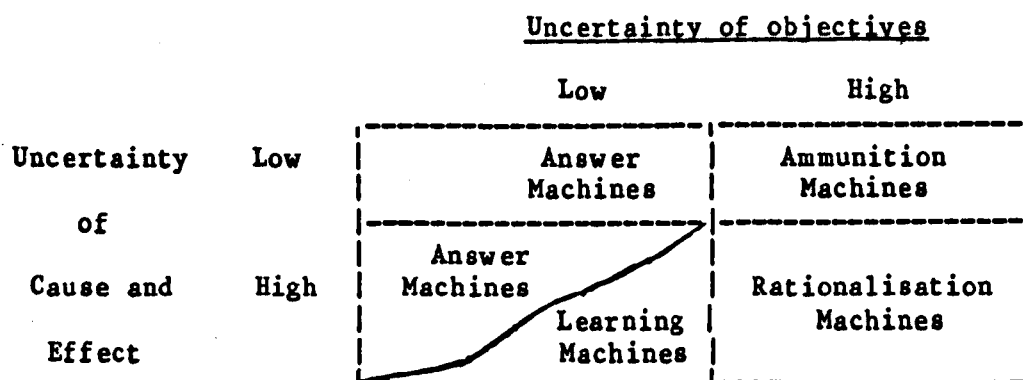
Though there has been some research on the perceived needs and wants of users of financial information in both profit and non-profit organisations there has not, as far as can be ascertained at present, been any research as to whether these needs are actually perceived by the organisation, whether the needs are met and how an organisation proceeds to recognise, meet or deny these needs. This point will be referred to again when discussing decision-making in organisations and the part played by accounting information in those decisions.

The second aspect of the decision usefulness criterion is the "decision-making" element. As has already been noted the ASOBAT study listed at least four reasons why it saw that users need accounting information and that decision-making is only one of the needs. The four needs given in the ASOBAT study have been added to of late by researchers involved in the behavioural aspects of accounting. Gambling (1977) for example suggests that accounting meets "satisfaction" needs about an organisation and can have a magic or mystical quality about it. Accounting information may also be used to justify or legitimate decisions already made (Bower 1970, Meyer and Rowan 1978) rather than as an input to the decision process.

Burchell et al (1980) note that the relationship between decision-making and accounting has rarely been examined critically and they suggest that this relationship can take on a number of different roles depending on the level of understanding of objectives and cause and effect. This they portray, in their

view not too satisfactorily, as in figure 2.3.1 below:

Figure 2.3.1 Effect of uncertainty of Cause and Effect and objectives on form of information system (Burchell et al fig 3)



With low uncertainty of both cause and effect and objectives the decisions are of the answer-machine type soluble by algorithm and might be what Simon calls "structured decisions". Where objectives are clear and uncertainty over cause and effect high, the accounting system might be expected to provide assistance through decision support and enquiry systems. Burchell et al see that in this situation data access facilities, ad hoc analyses and 'what-if' models etc are available to help identify and predict the effects of uncertainty but that the accountant has devised systems which do not model the uncertainty but absorb it by the extension of the answer machine approach using risk analysis and probabilistic methods.

Uncertainty over objectives with relative certainty of causation produces a conflict between interests, values, principles and perspectives. Here the political process becomes important and accounting can begin to be used as an ammunition machine. This involves perhaps selective use and dissemination of accounting information by parties to further their own ends. Finally where there is high uncertainty of both cause and objectives the accounts become rationalisation machines. Burchell et al go on to examine the 'extensions to computational practice' and the 'ammunition machine' aspects in more detail.

The analysis by Burchell et al is based on accounting within an organisation but if external accounting information is used in

similar decision situations eg bank lending decisions, then some of these ideas could be extended to the production of external accounting information. The external information of one organisation can be inputs to another organisation's internal decision-making system.

There is also support in the literature for the relevance and importance of other objectives mentioned in the ASOBAT study which have been overshadowed by the emergence of the decision-usefulness objective. In particular Rosenfield writing in 1974 sees stewardship accounting as one of the main justifications for preparing external financial reports. He quotes a wide range of sources in support of his stand (arguing in passing that stewardship should really be called accountability). He states:

"An objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are responsible."(p126)

Whilst this attitude may be out of favour at present it is still a belief which is widely held in accounting circles though as we have seen above, this may simply be one form of decision making use.

2.4 Participants and Users

The argument as to whether the accounting information produced should satisfy the needs of users has been discussed in the previous section. Even if user needs are not of paramount importance in determining the focus for accounting information it is important in any field study research that the researcher is aware of any suggestions in the literature as to who is likely to be involved in using or preparing the accounts of an organisation and of any models which are proposed for their inter-relationships. This chapter tries to identify users of accounting information in NPOs.

There are a large number of lists of users of accounts of NPOs in the literature and these may be found in any number of texts eg Henke (1966 p87/8), Bird and Morgan Jones (1981 pl33-6), Anthony (1978 ch2), Traub (1977 ch3), FASB Concepts no4 (1980), but there appears to have been only one specific study of the users of NPO accounts, that by Skousen et al for the National Association of College and University Business Officers (NACUBO) in 1974. This study looked at users of college and University accounts. Bird and Morgan Jones have looked more closely at the needs of one group of users of charity accounts but this is by no means a comprehensive study. Neither of these studies is directly comparable with the work of Lee and Tweedie (1975,1976 and 1981) on private shareholder usage and understanding.

It is doubtful whether lack of empirical study has hampered the identification of users of accounts, indeed it is quite easy to create a very ample list of actual and potential users, but there has been little empirical work to discover the relative importance of users and whether users have in fact the characteristics assumed for them in the literature.

The CICA study on financial reporting for NPOs lists seven groups of users of general purpose financial statements: grantors, donors and members, directors and operational management, business, government, employees, recipients of goods and services and society at large. The study compares these seven groups of users with similar groupings from the studies by Anthony (1978),

Skousen (1974) and the AICPA (1978) (see CICA study, table 2-1).

In order to present a wider picture than this the CICA table 2-1 has been extended in this study to produce table 2.4.1 to include Traub, Bird and Morgan Jones, FASB Concepts No 4 (1980) and Pearson and Gray (1978). The table has been based on the CICA breakdown though it could have been based on any other general pattern. There are three significant conclusions to be drawn from the table:

1. Not all users are mentioned by every author

This is indicative of the variety of organisations which can be classified as NPOs and the fact that users tend to be contingent on the particular group of organisations in the forefront of the author's mind. In the study of actual recipients of accounting reports by Skousen there was considerable variety of users within the colleges and universities surveyed. The group of users highest on the response level was 'boards of trustees' and even then only 89% of respondents reported that they sent their reports to boards or trustees.

There is no doubt a position to be taken that even if in one situation actual users differ from the suggested general pattern, the general pattern includes potential users as well and so ought to be considered as the appropriate theoretical basis. The problem with this argument in practice is that it may be too costly for an organisation to prepare accounts to satisfy the needs of potential as well as actual users. The mismatch of actual users and potential users needs to be born in mind when generalising from one specific area, such as colleges and universities, to the general NPO framework: insignificant users in a particular area under study may be very significant in other parts of the NPO framework. Traub for instance omits 'business' users from his study of foundations as being insignificant whereas they are regarded as key users in the Skousen study. On the other hand users who, in the general model, are not regarded as significant, eg Traub's 'other foundations' group of users, may be of key significance in a specific area.

Table 2.4

PERCEIVED AND ACTUAL USERS OF PUBLISHED FINANCIAL ACCOUNTS

CICA Study	Skousen et al	FASB (Anthony)	AICPA (78-10)	Traub	Bird Morgan-Jones	FASB Concepts	Pearson & Gray
NPOs	Universities & Colleges	Non-business organisations	NPOs	Private Foundations	Charities	NPOs	NPOs
Grantors, Members Donors	Foundations, Alumni	Resource Providers	Contributors & Constituent Organisations		Donors	Resource Providers	Electorate, Shareholders, MPs Ratepayers
Directors and Operational Management	Boards of Trustees	Governing Bodies	Trustees or Directors	Board of Directors or Trustees	Internal Management	Governing Bodies	Local Authority Councillors, Trustees
Business	Banks and Financial Institutions	Investors and Creditors	Creditors and Potential Creditors		Creditors	Resource Providers	Creditors Banks & Invest. Analysts
Governments	Federal and State Govt Agencies	Oversight Bodies	Government Units	Government	Government	Oversight Bodies	Charity Comms Compt. & Aud Gen tax authorities
Employees	Faculty Members	(employees elsewhere)	Employees		Employees		Employees and Unions
Recipients of Goods and Services	Accreditation Officers and Students		Beneficiaries	Grantees Colleges and Universities	Recipients of Services	Constituents	
Society at Large		Constituents (incl. members)		General public Colleges and Universities	Charity Commissioners		Consumer orgs General Public
Oth. foundations							

2. The method of grouping users

Although the groupings used in table 2.4 are based on the CICA study it is interesting to note that different studies use different criteria for groupings. The CICA study has grouped the users into headings which roughly follow contractual or legal relationships: "grantors, donors and members" having a similar loose fund providing status compared with "business" which has a more contractual type relationship. The FASB study on the other hand is much more an economic-decision view with users grouped into four main headings: resources providers (including bankers, employees, and grantors), constituents (including recipients of goods and services), oversight bodies (including government and governing bodies) and managers.

3. Users having multiple roles

Finally it must be realised that these user groupings are by no means mutually exclusive. An employee may be a donor, grantor, member and taxpayer and society at large may contain potential members, directors, creditors and grantors. This considerable overlap can make analysis of a particular user's needs quite complex particularly in a small organisation where this overlap situation is more likely to occur. In these circumstances the 'user' becomes one role which a participant may take on and any participant may have a number of user roles.

The studies cited above either postulate or investigate the information that is likely to be needed by each of the user groups. This topic will be discussed in the next section of this chapter but before moving on to this it will be useful to explore a little of how different participants relate to each other. Mosso (1979) developed two models showing the interlinking of three groups of participants for a not-for-profit entity and four groups of participants for a government entity. These models together with the business model from which they are derived are reproduced as figures 2.4.1 to 2.4.3.

The three models attempt to show the differences between business and non-profit enterprises in relation to the decision points of the revenue (or funding) decision and the control decision.

In his brief analysis Mosso shows that the decision structure of the government organisation is far more complex than in a business and he argues that accounting must respond to this as a serious challenge. This conclusion comes not from simply discussing the sorts of participants but from analysing one aspect of their inter-relationship. It should be noted that the two NPOs modelled do not contain all the participants which are noted by the sources shown in table 2.4.1. If additional participants are added then a participant model such as that shown in figure 2.4.5 is much nearer to the real situation.

Mosso suggests (p 5) that there may be an overlap between some participants as has been noted above and this is also suggested in Bryan's work (Bryan 1980) when he adapts Mosso's model 3 to produce a participant model of a not for profit trade and professional association (figure 2.4.4). If this overlapping of participants is extended to cover the participants/users shown in table 2.4 and figure 2.4.5 then we have a possible model of participants' inter-relationships given in the series of Venn diagrams as shown in figure 2.4.6.

This final model has been developed for two reasons: first because it is in this arena of participants that any broader social significance of accounts is likely to be found and secondly that if any discussion is to take place about general purpose financial statements it needs to take place in the context of the total participant environment which therefore needs to be understood. The possibility of a wider role for accounting than decision-making has been discussed in section 2.2 and it is worth noting that the sort of models of participant groups envisaged by Lowe and Tinker (1976) are not dissimilar to the models developed in this section.

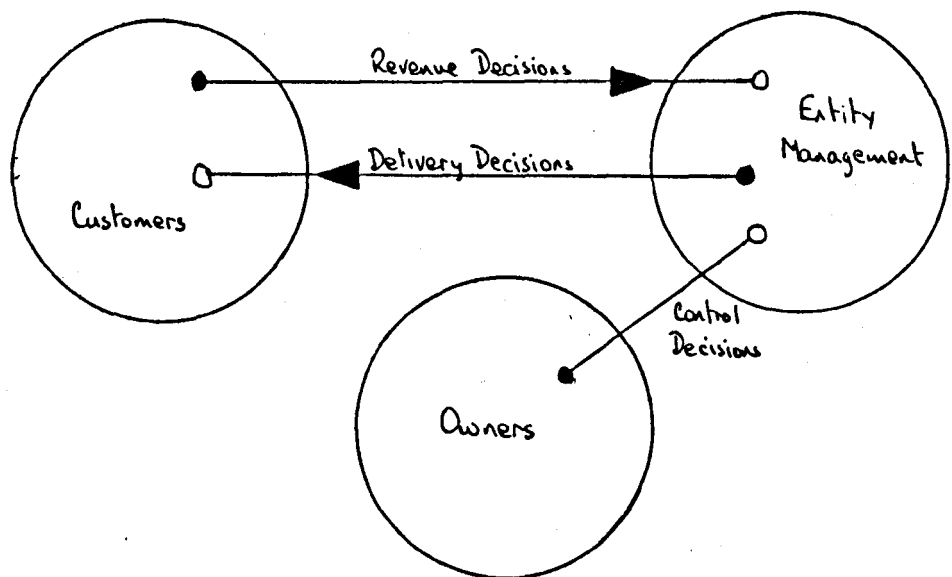
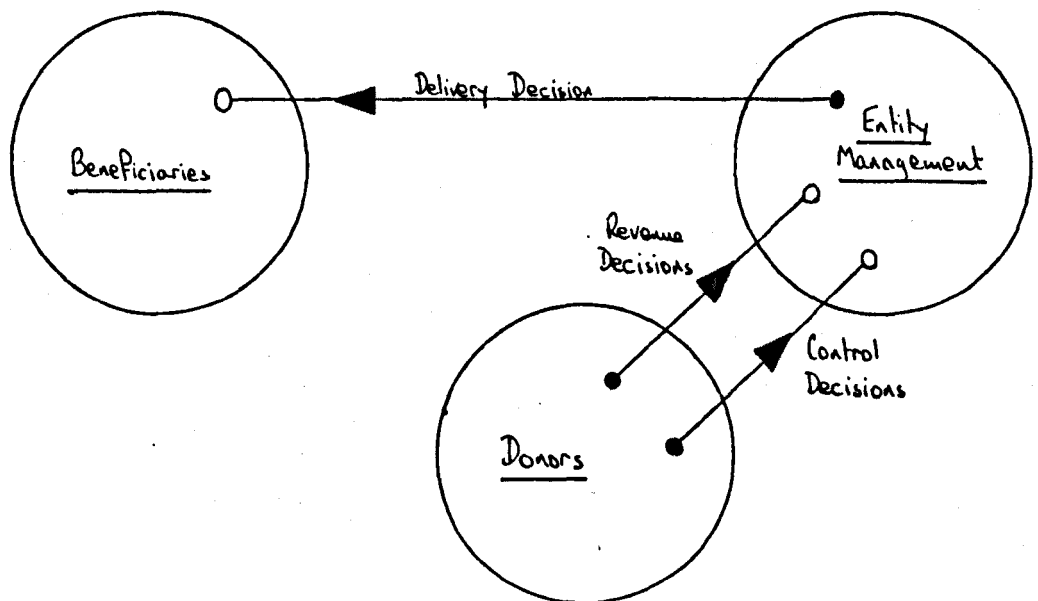
Figure 2.4.1. Business Entity Participant Model (Mosso 1978)Figure 2.4.2 Private Not-For-Profit Entity Participant Model (Mosso 1978)

Figure 2.4.3 Government Entity Participant Model (Mosso 1978)

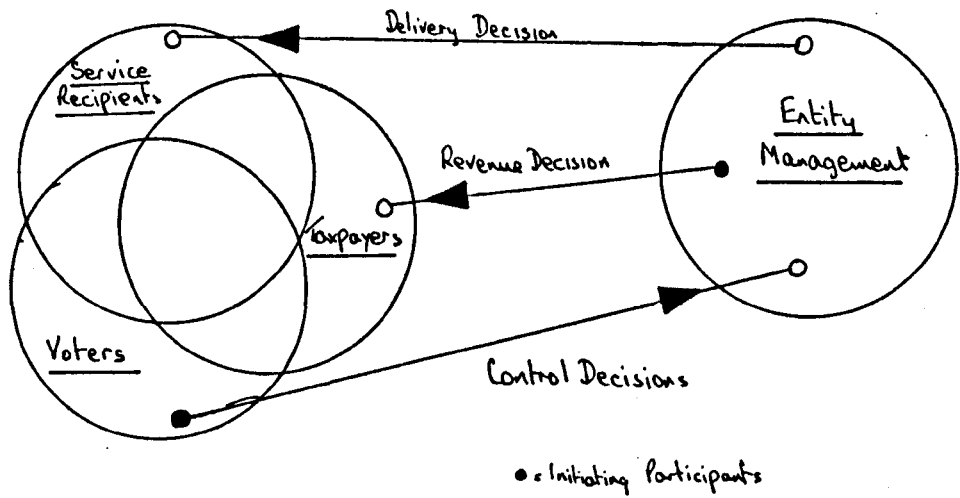


Figure 2.4.4 Not-for-profit Association Participant Model (Bryan 1980)

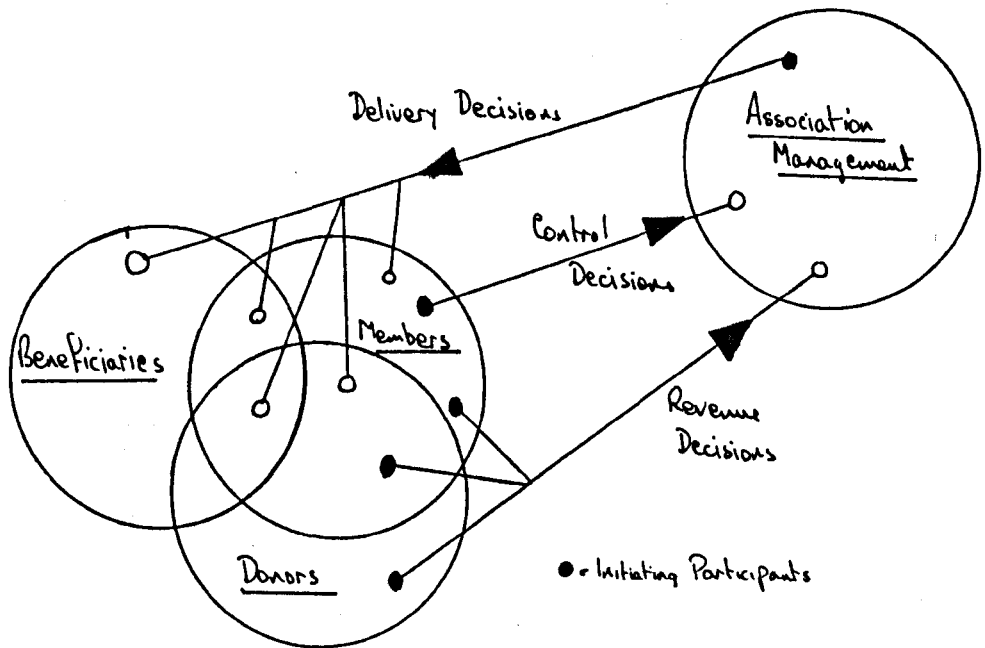


FIGURE 2.4.5 PARTICIPANT MODEL FOR NON-PROFIT ORGANISATIONS

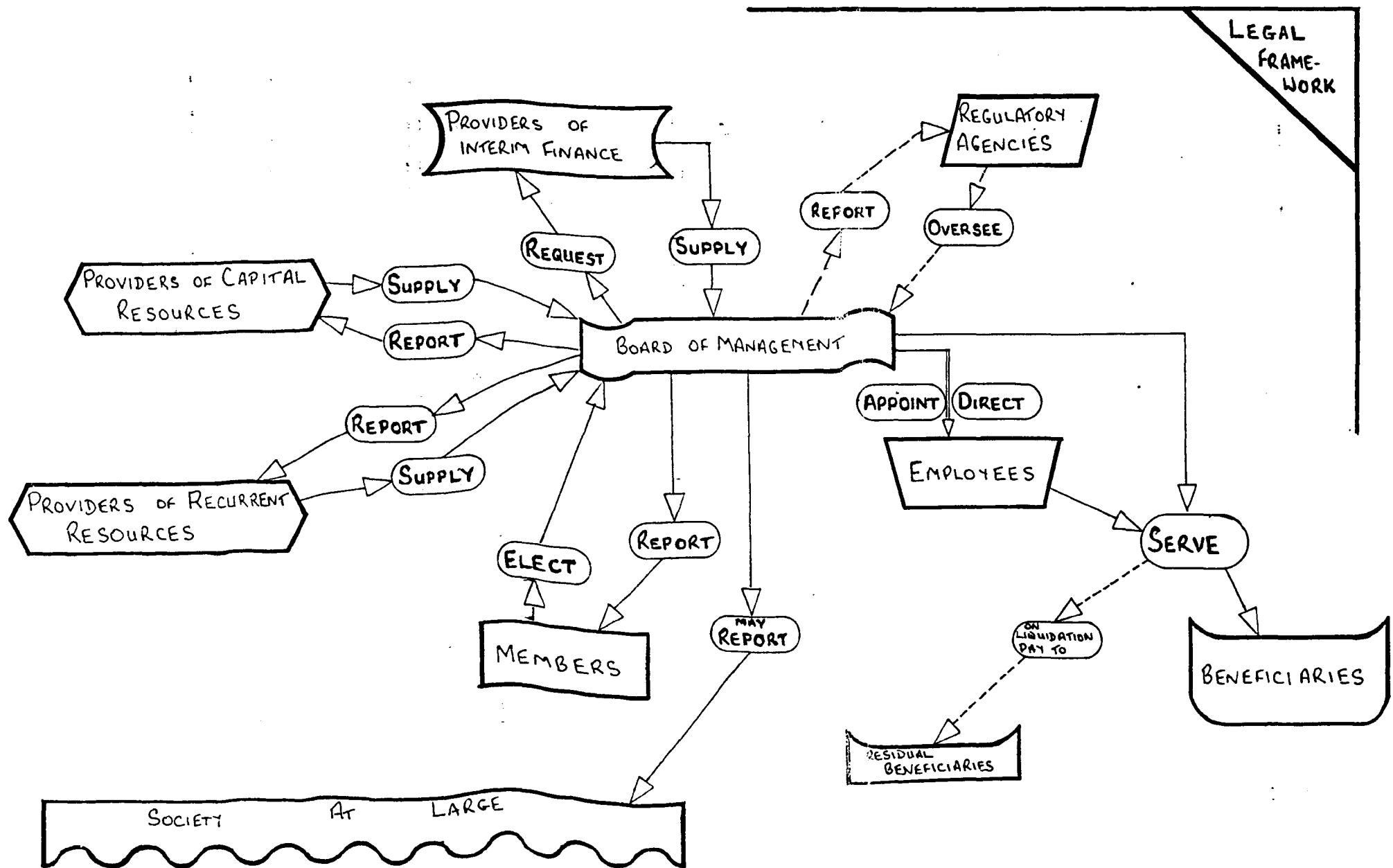
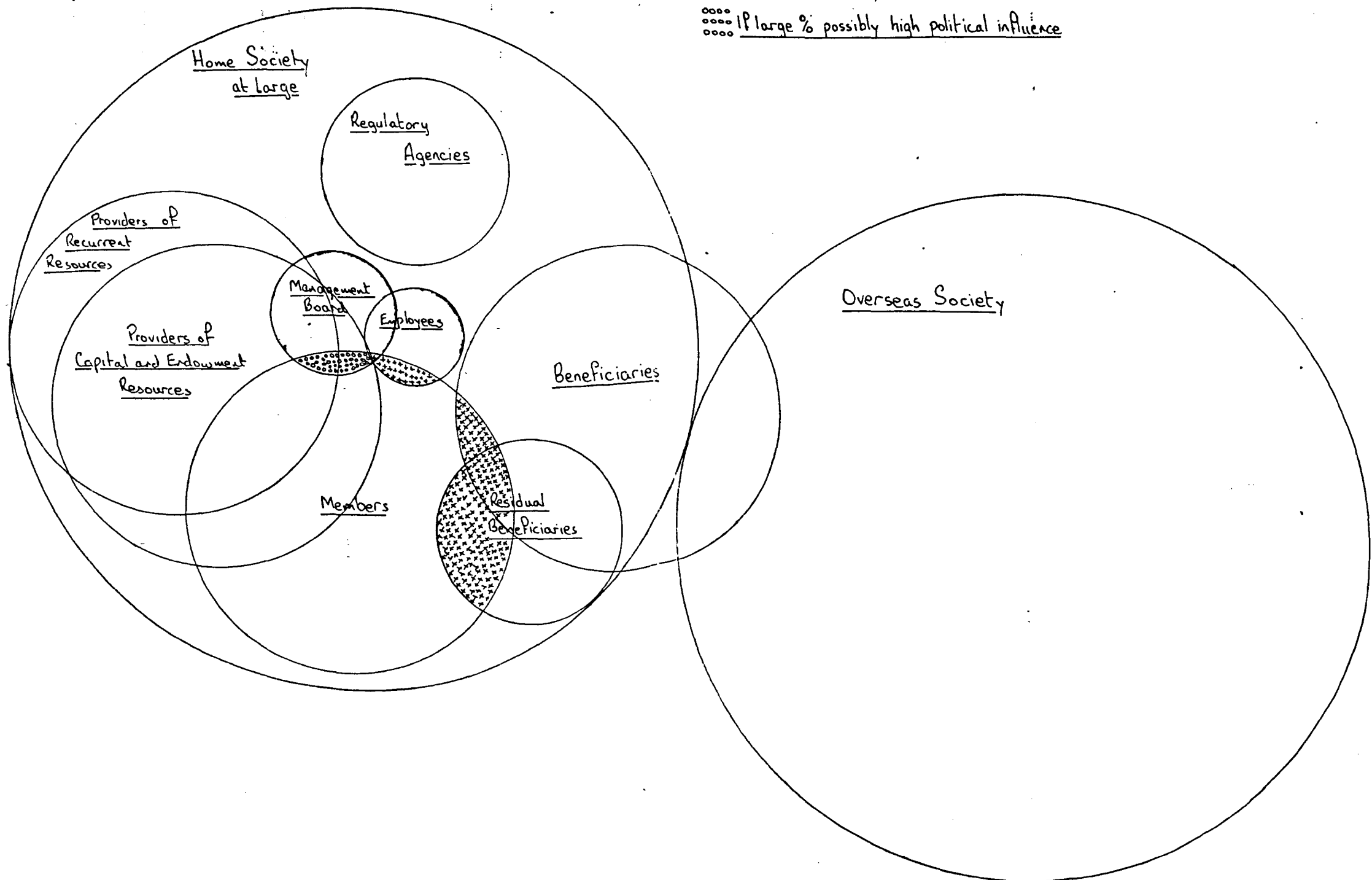


Figure 2.4.6

PARTICIPANT MODEL PLAN - NON-PROFIT ORGANISATIONS

Internal, External and specialised users

The various studies which discuss users emphasise that they are mainly interested in the use by external users of external accounting reports eg Anthony (1978), FASB Concepts No 4 (1980). The FASB Concepts No 4 follows Concepts No 1 (1978) for businesses (Para 28) in narrowing the focus of general purpose financial statements to

"providing information to meet the common interests of external users who generally cannot prescribe information they want from an organisation. Those users must use the information that is communicated to them by the organisation. The most obvious and important users fitting this description in the non-business environment are resource providers such as members, taxpayers, contributors and creditors".

This definition is very close to the FASB's definition for business organisations except that the list of important users covers a much wider range than simply resource providers (c/f Concepts 1 para 24).

The FASB studies and concepts were directed towards the external financial reports of an organisation, but for the purposes of a study of the role of accounting information as a whole in the NPO this approach leads to three omissions from the list of users: internal users of external accounts, internal users of internal accounts and the use of specialised and general purpose accounts by specialised users. Anthony (1978) excludes all three of the groups from his study although he does include governing bodies (not management) as significant users of external accounts as it seems as if, as a practical matter, the governing bodies do not exercise their right to prescribe the financial information which they wish to receive (Anthony 1978 p42). The CICA study also argues that directors and operational management may obtain much of their information from external accounts but that nevertheless external accounts are not sufficient for day to day management (ch3 para3).

Skousen et al however, after finding that internal users did receive external accounts, exclude the internal users' boards of

trustees' and 'university administration' from the study of users of external accounts. This exclusion of internal users by Skousen et al and the concentration of other authors on non-internal users of external accounts is based on the assumption that management have the ability to obtain further financial information from the organisation in whatever form they like. The implication of this is twofold: first that management can, if the need arises, prepare a completely separate set of accounts for internal purposes and secondly that the internal users of accounts know exactly what information they need.

Anthony (1980a) suggests that management could prepare detailed fund statements for internal use and should provide business style accounts for external use. It is clear however that preparation of such separate internal accounts may in fact be expensive and the preparation of general purpose accounts (GPAs) for internal and external use may be a cost effective alternative. There has been no research to date which looks at this in detail. If in fact GPAs are prepared to meet internal and external user needs it could explain the complexity of NPO accounts which is often commented on in the literature (see for example Anthony 1980a p84 and Herzlinger and Sherman 1980).

If internal users are going to indicate what accounting information they need in order for the accountant(s) to produce that information either they must be able to state what information they need or the accountant must be aware of the sort of uses to which the information will be put. Without further research it is not clear whether internal users know what information they need or whether accountants are deliberately or knowingly providing information for internal users. This together with the foregoing paragraphs suggests that the link between internal users and external financial reports has not been fully explored and so for the purposes of this study both internal and external users of accounts will be studied.

The specialised user of specialised and general accounts is deliberately excluded from almost every study. There has been no empirical research of the specialised needs for accounting

information which may be faced by NPO accountants and so it is very difficult to do other than to speculate on the nature of their needs. Anthony (1978) agrees that these special needs must be met, often for legal reasons, and goes on to suggest that special purpose reports should be prepared according to GAAPs to the extent that it is feasible to do so.

The only logical problem with the exclusion of specialised user needs is that if these specialised needs are extensive and the needs of all other users are of minor significance in comparison (or perceived to be so by either the Board of Management or the accountant) there is the possibility that the cost of meeting these (minor) external user needs specifically may be in excess of the perceived extra benefits obtained by external users over using the accounts already produced for other purposes. As there are at present no formal accounting standards for NPO accounts based on external user needs there appears to be no conflict between specialised and external accounting.

No research has been identified on whether the existence of specialised reporting requirements actually influences the form of the external accounts. It does seem logical to speculate however that if an organisation such as a trade union or a church has a very comprehensive specialised report to complete such as that required by the Trade Union Certification Officer (see Certification Officer of Trade Unions Annual Report 1978 and 1979) or the Church of England Statistical Office (see supplement to Church of England Year Book 1981) then its accounts will be very largely influenced by the specialist report needed. This will be especially the case in the absence of any external accounting requirements.

This exclusion of the needs of other users and lack of empirical knowledge about their relationship to other user needs is understandable in the light of the focus of the literature but it does mean that the present study will be breaking new ground in trying to assess the significance of these factors in the total role of accounting.

2.5 The Needs of Users

Introduction

Having identified the users of accounting information found in the literature and examined the reasons behind and problems with the user arguments this section proceeds to examine how the needs of users have been identified in NPOs and what conclusions this has produced in terms specifying the needs of the users identified for accounting information.

In several of the works on NPO accounting the needs of users and the implications for accounting data needs are described in detail. This section will look at four of these studies, each of which discusses these matters in some detail: Anthony (FASB 1978), CICA (1980), Bird and Morgan-Jones (1981) and NACUBO (Skousen et al 1975). The only empirical study of these is the Skousen one, all the others being of an normative nature although undoubtedly based on experience of and interviewing by the authors.

The approach of the Skousen study, once users had been identified, was in three stages: determine the decisions made by actual users; determine the criteria used by users in making these decisions and finally determine the accounting data needed to satisfy the quantitative decision criteria. This empirically based research produced for the first stage a matrix of decisions made by users which is reproduced as table 2.5.1. For the second stage a list of criteria by decision was identified (table 2.5.5) and for the third stage a list of data needs of users was produced (table 2.5.6). The study found that accounting needs were not being met by the then current reports (p80-83) and that the current pronouncements did not match perceived user needs developed from the study (p90).

Other studies proceeded along similar lines but omitted the empirical research (at least from the reports) though Bird and Morgan-Jones carried out a very limited survey of some users feelings about the accounting reports they received from charities and what they would like improved. These studies tended to omit the criteria stage and to postulate user data and

accounting needs directly from the decisions made by users. There appears to be in these studies an awareness that needs are not simply based on decision-making models but may include needs for 'information' or 'monitoring' uses (CICA para 19). An attempt has been made to summarise the decisions and other uses by user as found in the Bird and Morgan-Jones, Anthony and CICA studies in the same format as the Skousen study and these are given as tables 2.5.2-2.5.4. The conclusions about needs for financial information which result from these users is given in table 2.5.7.

The Reasons why information is needed

Tables 2.5.2-2.5.4 are an attempt to summarise what is said in the texts. They are simplifications of what the authors actually say as in some cases it is not easy to assess exactly what use or decision need of the user is in the mind of the author. A particular problem is deciding what recipients' or beneficiaries' needs are for information in the CICA study. One paragraph from the CICA study states:

"(Recipients of goods and services) personal need for services may determine the extent of their interest in information about an organisation's financial affairs. For example, if they depend on an organisation for health services, they want to assess the likelihood of its continuing to operate.

Recipients...may also want more detailed information... to assess the fairness of charges or fees although in practice such information may not be made available to them."(CICA Chapter 1, para 16&17)

These paragraphs do not state the decision involved (unless assessing fairness of charges is a decision) but there is an implication that it concerns the willingness of recipients of services to place their dependence on the organisation concerned, particularly where there is a choice of organisation supplying a specific need such as medical services advice or financial assistance.

Table 2.5.1 Users and their decisions (Skousen et al)

DECISION	CREDIT	GIFT	APPROPR- IATION	CONTRACT OR GRANT	MATRICU- LATION	ACCRED- ITATION	REVIEW
USER							
Banks and Financial Institutions	X	X		X			
Federal Government Agencies		X		X			
State Govt Agencies & Auditors			X				X
Foundations		X		X			
Accreditation Officers						X	
State Budget Officers			X				
Alumni		X			X	X	
State Coord- inating Councils			X				

Source: Skousen et al Table 3

Table 2.5.2 Users and Uses of Financial Reports of Charities

Decision	Credit- worthi- ness	Gift	Cash Avail- ability	Remune- ration (Ees)	Fairness of Charges	Public Account- ability	Stewar- dship Control	Over- view
User								
Donors		X						X
Members							X	
Government services						X		
Creditors	X							
Employees			X	X				

Source: Compiled from Bird and Morgan-Jones pl33-6

Table 2.5.3 Users and Uses of Financial Reports of Non-Business Organisations (Anthony)

(The decisions and users are not easily classifiable)

Decision	Credit	Provision	Policy	Control	Wages	Inform-	Over-
User		of	setting		Negot-	ation	sight
		resources			iation		
Governing bodies			X	X			
Investors & Creditors	X						
Resource Providers		X					
Oversight bodies		X			X	X	
Constituents (& Employees)					X		X

Source: Anthony FASB p42-44

Table 2.5.4 Users and Uses of Financial Reports in Non-Business Organisations (CICA)

Decision	Credit	Salary	Contrib-	Policy	Control	Regula-	Inform-
User	Decision	Nego-	ution	making		tory	ation
		tiation				Duties	
Grantors & Donors			X	X			
Directors & Management				X	X		
Business	X						
Governments			(X)	X		X	
Employees		X					X
Recipients							?(X)
Society at Large				X			X

Source: CICA study Chapter 1

Despite these difficulties, there is a great deal of similarity between the various studies in the decisions envisaged to be made by users of financial reports. The only apparent exception is the

Skousen study which includes the 'matriculation decision' and the 'accreditation decision', both of which are equivalent to the needs expressed for recipients of services. The accreditation decision is one which does not occur in other studies but refers to the work done by accreditation officers in pronouncing on the fitness of a particular college for attendance. This decision is therefore closely related to the matriculation decision though it does have some elements of a performance audit.

Due to the exclusion of the employee user group from the Skousen and Anthony studies, the salary negotiation decision is omitted from these studies. Similarly exclusion of all internal users from the Skousen and Bird and Morgan-Jones studies leads to an omission of internal decisions in these. Other differences between the studies are due more to terminology and the rigour of defining the actual decision than to an underlying difference of approach. Having identified the possible differences between the studies a summary of the perceived decisions for which information is required by external users is as follows:

1. The credit decision : should businesses or banks either extend credit or give loans to an NPO. Whether this decision is of importance depends very largely on the type of organisation because some organisations, such as churches and fund-raising charities, rarely need credit of any magnitude. Others, such as local authorities and governments, use loan finance widely to fund capital projects and cash flow. In the Skousen (1975) study 61% of the colleges and universities stated that accounts were sent to banks, the highest percentage of external users to whom reports were sent, and this produced significant interest in this particular user group in that study. It is important to stress however that without further empirical evidence it is impossible to identify the relative importance of this or any other user group.
2. The gift or appropriation decision : any decision about whether, when and how much to contribute to an NPO by an individual, a group or an organisation. The level of need for financial information can vary greatly as Bird and Morgan-

Jones suggest (p133) with individuals giving to organisations in which they are interested and corporate donors taking a 'broader view'. In some NPOs such as local authorities, there may be no opportunity for a provider of resources to make a decision about supporting an NPO except by deciding to move out of an area or to change one's vote at the next election (Weisbrod 1977 p56). Bird and Morgan-Jones look in detail at some of the information needs of some corporate donors and grant-making trusts. The gift decision has been the subject of other research which is discussed further in the section on charity economics (chapter 2.2)

3. The Contract decision : the decision to purchase goods from an NPO. In the context of the Skousen study this decision was related to fees paid for education but it could also cover hospital fees or a decision to purchase goods or services from a charity trading company. Many NPOs do not have a contract decision at all although there may be a dependence decision.

4. The dependence decision : any decision to apply for assistance from or to become otherwise reliant on an NPO. This is an amalgamation of the matriculation decision of the Skousen study, the employment decision of the Bird and Morgan-Jones and CICA studies and the argument in the CICA study about recipients need for information. This decision is not exactly the same as the contract decision discussed above though it is related to it. This decision may have two distinct elements: whether to become dependent on any organisation (and this may be a matter of obligation or lack of alternative rather than choice) and then which organisation to become dependent on. In some cases there be no possibility of choice in either of these elements and in both cases financial information about the organisation may have little part to play in the decision.

5. Control decisions : the decisions which are necessary to ensure that the organisation continues operating in accordance with its aims and constraints. This aspect is present in the Skousen study as the review decision, in the Bird and Morgan-Jones study as public accountability (by the

Charity Commissioners) and stewardship (by the governing body). In the CICA study it is seen as control (by directors and management) and regulatory duties (by governments) and finally in the Anthony study as control (by governing bodies) and oversight (by oversight bodies). In each of the studies two levels of control are implied: the macro-level usually involving state or government oversight and the micro-level where control is by individual management. It could be that in a multi-level organisation this 'micro-control' is exercised at intermediate levels (eg congregation, presbytery, synod and general assembly).

6. The planning decision : this decision is connected with setting goals and policy at any number of levels ranging from internal management to government. It is a decision which may involve several users of information but chiefly those directly concerned with management or oversight of the NPO or its environment (tax planning etc).

7. The wage negotiation decision : This is specifically mentioned in two studies: CICA and Bird and Morgan-Jones and it is included as a note in the Anthony (1978) study. It involves the decision by employees on how much wage increment to request. Anthony includes a reference to employees but then regards the information needs of employees as being similar to members.

Alongside these seven decision needs are such terms as 'information need for personal purposes' (CICA). This represents a general information need without any immediate decision objective. Though this is only hinted at in the four studies cited above this idea of information for monitoring purposes does appear elsewhere in the literature (see Feldman and March 1981).

The criteria of the decision

The Skousen study makes a logical approach to discovering which information is required for a decision by developing, using questionnaires and interviews, the criteria which users employ in each of the decisions. Unfortunately details of the responses to the questionnaires are suppressed by the summary style of the

Table 2.5.5 Decisions and Their Criteria (Skousen)

Decision	Credit	Gift	Appropriation	Control	Matriculation	Accreditation	Review
Criteria							
Overall Reputation	X	X	X	X	X	X	-
Goal Congruence	-	X	X	X	X	X	X
Financial Stability	X	X	X	X	X	X	X
Revenue sources	X	X	X	X	X	-	-
Resource Transferability	X	X	X	-	-	-	-
Human Resources	X	X	X	X	X	X	X
Stewardship	X	X	X	X	-	-	-

Source: Skousen Table 4

report. Table 2.5.5 gives the criteria which were produced from the survey and each of these is described in some detail in the report.

Three of the criteria identified, overall reputation, goal congruence and human resources, are primarily non-financial criteria whilst the other four, financial stability, revenue resources, resource transferability and stewardship are primarily financial. The table 2.5.5 gives an approximate indication of which criteria are involved in each decision but the relative importance of the criteria undoubtedly varies from organisation to organisation and from decision to decision. In the Skousen study the level of discrimination of some of the criteria is given:

Financial stability	- 'not extremely discriminating'
Revenue sources	- 'considered important by many users'

Human resources	- 'relevant' to all decision areas'
Stewardship	- 'important criterion for several decisions'
Resource Transferability	- 'important'

In discussions later on decision theory (chapter 4.3) it will be seen that this level of importance is a key factor in deciding the extent to which particular accounting information should follow decision criteria. The lack of empirical evidence about perceived and actual use of financial information in decisions both in NPOs and in the business sector should be noted. Research in the behavioural accounting and information literature seems to suggest that more information will be requested even if it is not needed for decision-making.

[Note here that there is apparently no discussion on whether these decisions will need a constant level of information or whether at certain times there may be a need for a high level of information input (eg in the event of a new person taking over the job). If the high level of input is needed only occasionally then to what level should the information production be geared? It may be possible here to suggest how this could be investigated by use of three questions: would decisions be made without the information? would decisions be improved by the information? and would the decision be made regardless of the presence of information?]

The Financial information seen to be needed

The four studies then produce, in a variety of formats, the information needs which their defined external users have. The most complete list of these needs is given in Skousen's table 5 reproduced as table 2.5.6. Although the Skousen study is empirically based it is difficult from the way the results are presented to gauge the relative importance of each of the related needs.

The other three studies have produced considerably generalised categories which describe the nature rather than the content of information needs. The CICA study gives five categories, Anthony four categories and Bird and Morgan-Jones at least four categories (but then go on to suggest a fairly detailed set of

Table 2.5.6 NACUBO study : Summary of data needs

A. Needs related to Total Financial picture

B. Needs related to Statement of Financial Position

1. Separation of normal balance sheet items into restricted, unrestricted and board designated.
2. Summary of debt obligations of the institution, including timing of repayment and debt service requirements

C. Needs related to flow requirements

1. Net balance of flows
2. Restricted funds additions recognised prior to expenditure.
3. Programmatic Data.
4. Projections.
5. Comparison of Budget with actual figures.
6. Cost Data a) variable b) fixed

D. General information needs

1. Historical trend data
2. Data disclosing the quantity and quality of human resources.
3. Impact of inflation on the viability of the organisation.
4. Specific identification of donors.
5. Qualitative feature of data: a) timeliness b) comparability c) understandability

Source: Skousen et al Table 5

Data Needs by nature

(restatement of above table by categories of table 2.5.7)

Nature and objectives of organisation	: D2, D4, C4
Performance	: C1, C5, C6, D3
Overall financial status	: A, B, C1, D1, C2, D5
Compliance with legal requirements	:
Plans for the Future	: C4
Standardised accounts	:
Cost of services by programme	: C3

Table 2.5.7 Information needs from three studies (plus Skousen)

	Bird and Morgan-Jones (charities)	Anthony FASB (NPOs)	CICA (NPOs)	Skousen et al (Colleges)
Nature and Objectives of Organisation	-	-	X	X
(Management) Performance	-	X	X	X
Overall Financial Status	X	X	X	X
Compliance with legal Requirements	X	X	X	-
Plans for the future	-	-	X	X
Standardised accounts	X	-	-	-
Cost of services by Program	-	X	-	X
Administration Costs	X	-	-	-

Source: Bird and Morgan-Jones(p133-8), Anthony FASB(p48-53),CICA(pl8)

accounting and auditing guidelines for charities). These broad categories are summarised in table 2.5.7 and in order that the Skousen study can be compared with this the Skousen table 5 is restated as in the terms of table 2.5.7 in the lower half of table 2.5.6.

Perhaps the most interesting feature of Table 2.5.7 is the fact that not every item occurs in every column. It is only possible to speculate about the reasons for this and it is suggested there are at least two possible reasons: differences in the organisation studied or in the mind of the authors and differences in users between organisations. The Bird and Morgan-Jones study and Skousen study concentrated on different types of NPO in different continents (U.K. and U.S.A. respectively) and the Anthony and CICA studies were in different countries (U.S.A. and Canada). If organisational differences are a key factor then this suggests that there may be contingency factors involved and

that care needs to be taken in generalising from one situation. The contingency factor would also be indicated if the users of accounts were significantly different between one organisation and another.

Conclusion

This section has looked at the approach of four studies to the derivation of information needs of users. It has examined and summarised the results of the studies and compared and contrasted the approaches. The resulting lists of information needs show differences which could be the result of the methodology of the studies or from the contingent nature of information needs. The need for this research study to cover the literature on information processing and information economics has been demonstrated.

Summary

In this chapter we have looked at several important aspects of NPOs: what they are, what underlying economics seems to apply to them, who are the users of financial information and what are the needs of those users. We go on in chapter 3 to examine the accounting problems of the NPO sector before returning in chapter 4 to a closer examination of the information and communication literature.

Chapter 3 The Accounting Problems of the NPO Sector

3.1 Introduction

There are a number of differences of opinion as to the extent to which business and non-business accounting differ but there is little dispute that there are differences between the two 'sectors' and there is general agreement on the points of difference. Gross and Warshauer (1979) give five basic areas of difference: cash versus accrual accounting, fund accounting, treatment of fixed assets, transfers & appropriations and contributions, pledges and non-cash contributions. Whilst they emphasise that there are 'only these five areas' it is evident from other literature that there are more problem areas than this.

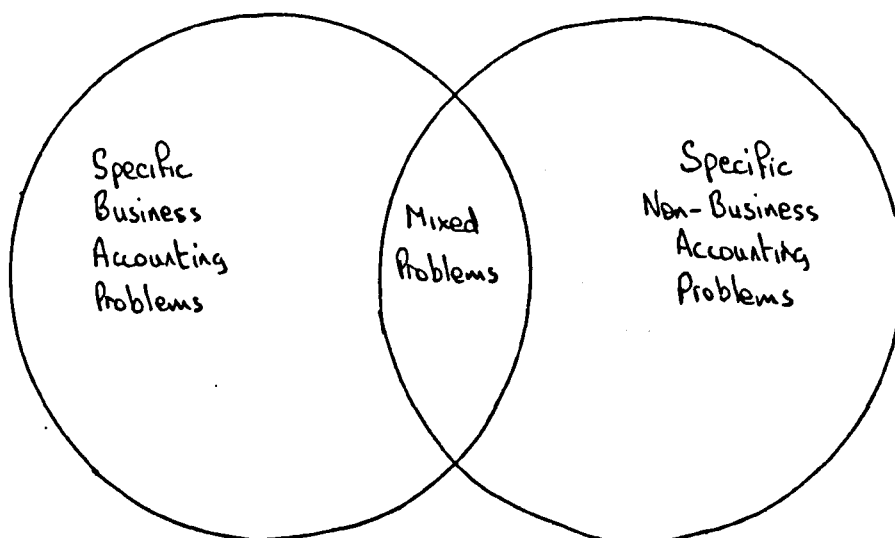
Anthony's FASB study (1978) raises the accounting problems as issues. He includes issues which fit into each of Gross and Warshauer's categories together with several additional ones: accounting statements necessary (issues 4,5 and 8) and the consolidation issue (issue 7). Anthony also notes in his introductory discussion that there is a problem of terminology and accordingly defines terms for his study. In addition to these eight issues, two more problem areas of NPO accounts are referred to in the literature. The first is the difficulty of performance measurement (Selby, 1978) and the second a lack of comparability between accounts of NPOs (National Council for Social Service, Moyle and Reid).

Whilst these are the problem areas most often cited in the literature, there is no doubt that there are other accounting problems in NPOs which are omitted from the literature because they also occur in the profit-making environment and no difficulty is seen in using the same solutions in both environments. It seems then as if accounting problems can occur which are either specific to the profit environment (eg dividend treatment) or specific to the non-profit environment (eg donations) or which are not specific to either environment (eg expenditure bookkeeping). These latter types of problems probably split into two categories: those where a joint solution presents no problem in implementation (eg double-entry bookkeeping) and

those where a solution may be applicable to one environment but not to the other (eg fixed assets and depreciation). It may be appropriate to locate the problems in the Venn diagram shown as figure 3.1.1.

In figure 3.1.1 there is no intention to suggest the extent of interlocking problems but simply to demonstrate this as a possible interpretation. Quite obviously if the area of interlocking problems is large then there may be substantial pressure to search for a common business/nonbusiness solution whilst if it is small the pressure will be considerably less. Views on the size of this interlocking area apparently vary with Gross, Anthony and others supporting use of common principles throughout the common area whilst Herzlinger and Sherman and others urging caution in taking this stance.

Figure 3.1 Business and Non-Business Accounting Problems



Before moving on to discuss the accounting problems in detail it is helpful to explore the reasons why these problems have come to the attention of the accounting world. There appear to be three main causes:

1. Practitioners i.e. auditors and accountants working in the NPO sector, on transferring from the business sector find they are unable to use their business accounting models in the NPO sector. Their contact with the NPO sector brings them face to face with the some of the differences between the two sectors and highlights the consequent accounting problems. There are two possible solutions to the conflict situation which arises: make the NPO adapt to the business model (this is a form of 'functional fixation') or adapt and develop suitable accounting principles and practices to fit the different circumstances of the NPO.
2. Researchers in seeking to analyse and interpret the accounts of NPOs have used a business model as a starting point for their analysis. This approach has been taken explicitly by some (eg Traub, Bryan) and implicitly by others (Bird and Morgan-Jones).
3. Users of financial statements on a cross-organisational basis (National Council of Social Service, Moyle and Reid) have isolated particular problems such as lack of uniformity and difficulty of interpretation and comparison.

In this chapter we shall examine briefly six of the major issues of NPO accounting that have been raised in the literature. Four of the above ten areas identified in the literature have been excluded from specific discussion: performance measurement; comparability of accounts; transfers, appropriations and contributions; and pledges and non-cash contributions. The performance measurement literature has little relevance in the religious organisation environment, although it is very important in other areas eg local authority services.

Comparability of accounts is a severe problem in certain areas of the NPO sector eg hospitals and trades unions, where inter-organisation comparisons are made. In these areas attempts are made to prepare comparable information, usually by the imposition

of a format (see for example the annual reports of the Certification Officer for Trade Unions). In other areas, and particularly the one which is the subject of this study, comparability is not apparently a user need of prime importance. The matters of transfer, appropriations and contributions and pledges and non-cash contributions are ones which are covered to some extent in the sections on accounting statements necessary and cash versus accrual accounting (measurement bases).

Table 3.1.1 Six Problem areas of Non-Profit Accounting

1. Cash versus accrual accounting	section 3.2
2. Fund Accounting	section 3.3
3. Treatment of Fixed Assets and Depreciation	section 3.4
4. Accounting Statements necessary	section 3.5
5. Consolidation issues	section 3.5(part)
6. Budgets	section 3.6

3.2 Cash versus Accrual Accounting (including revenue recognition)

The difference between cash and accrual accounting as illustrated by Gross and Warshauer (1979) gives the impression that there is only one definition of accrual accounting: that of accounting for the transaction as opposed to accounting for the cash received. This is exemplified in their showing adjustments needed to the cash accounts at the period end for creditors and prepayments in order to create a record of transactions for the year. Henke (1966) sees the basis of accrual accounting as a record of changes in resources for the year (p39). To complicate matters further Anthony (FASB) introduces the question of accounting for encumbrances (future commitments).

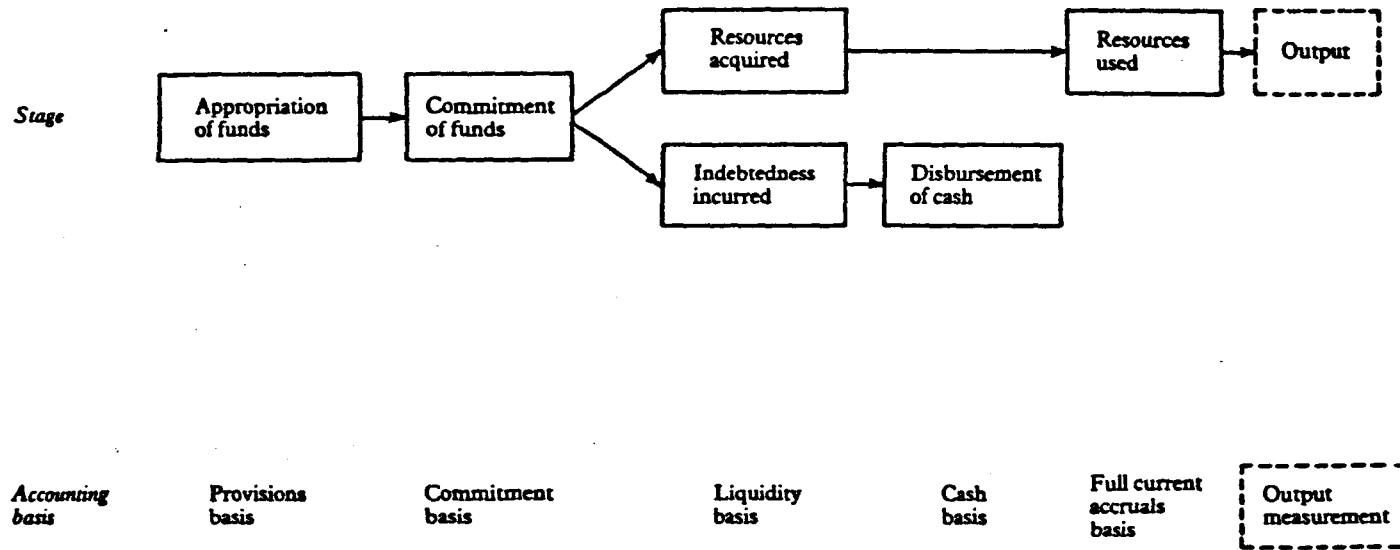
The overall question at issue is at which point should events be recognised in the financial statements. There are at least five possible recognition points for events related to expenditure:

1. The point at which a binding commitment is made to do something (COMMITMENT BASIS)
2. The point at which a contract is signed for performance (CONTRACT BASIS)
3. The date or dates of the execution or performance of the contract (PERFORMANCE BASIS)
4. The date or dates on which cash is transferred under the contract (CASH BASIS)
5. The date on which resources are used up (ACCRUAL BASIS)

Rutherford (1983) recognises these different bases describing them as: Provision, Commitment, Liquidity, Cash and Full Accrual. They are linked together by Rutherford in a figure reproduced here as figure 3.2.1.

Cash accounting is the base number 4 whereas accrual accounting could be either number 3 (Gross?) or number 5 (Henke). Anthony (FASB) recognises the difference in these two accrual bases by the term 'expenditure' for the acquisition of resources ie the execution of a contract for goods or services and 'expense' for the utilization of resources (p80). In business accounting transactions on a commitment basis would almost never be recognised. However in NPO accounts this is quite a common

Figure 3.2.1. Sequence of Events Associated With Revenue Transactions (Rutherford, 1983)



The sequence of events associated with revenue transactions—expenditure

Source: Rutherford 1983
P29

occurrence and is recognised as the 'encumbrances issue'. Encumbrance accounting is a commonly used technique in governmental accounting and is discussed by Anthony (1978) and described in many works on government accounting.

For the purpose of clarity, the terms commitment, contract, performance, cash, and accrual basis will be used for the rest of this study where appropriate to indicate the different bases possible to recognise expenditure. One of the problems in reading the NPO literature is that performance and accrual bases of accounting are sometimes mixed up and both called 'accrual'. It is important to identify the differences. A key difference between these two bases of accounting is that the latter would include depreciation and amortization adjustments whilst the former would exclude them. It is largely because of this distinction that the above definitions have been suggested so that a decision on this particular issue is not preempted before it is discussed more fully in section 3.3.

A further confusion with the terms cash and accrual is that cash-based accounting is sometimes confused with cash bookkeeping. The use of cash bookkeeping is quite common throughout a large part of both the NPO and profit-making sector but conversion to the performance basis is made for financial reporting purposes (ECUSA accounting manual).

Cash based accounting is considered by most writers as an acceptable practice only for very small NPOs and even for these a 'modified cash basis', similar to a performance basis, is recommended (Bird and Morgan-Jones, Henke). The basis recommended for most NPOs is some form of accrual accounting exactly similar to business accounting. The argument for this is that users need an accurate statement of expenses for a particular period and of income on an accrual basis for the same period (see Kerrigan p48, AICPA 78-10 p10, Henke p471-2).

Anthony (1978 p82-85) discusses the advantages of the 'expense' basis as against 'expenditure' basis in the context of whether users need an operating statement (issue 4). The arguments in favour of expenditure (as against expenses) are basically that an

NPOs objectives must be to balance the flow of resources and this is best done in expenditure terms. Other arguments are that restricted funds control, budgetary control and stewardship reporting are best undertaken in terms of expenditures rather than expenses. There is the added argument that in specific organisations the inventories created by expense accounting may be misleading (Anthony 1978) and finally it is said that expenditures can be more accurately measured than expenses. The current basis used in many organisations is performance or expenditure and many people feel that to change would be confusing.

On the other hand the arguments in favour of the expenses basis are that expenses measure the cost of producing services in a particular period and this is meaningful for decision-making especially price setting and resource allocation. Proponents of the expense basis further argue that rather than making control easier, expenditure-based reporting can lead to unwise spending because unappropriated funds may be used for expenditures even if these are not needed. This is a behavioural argument about the budgeting process rather than about the expenditure method and could just as easily be a criticism of encumbrance accounting rather than the expenditure basis.

In these arguments Anthony has explicitly noted that 'expenditure' arguments follow the flow of resources or funds flow approach and the expense arguments the cost determination or operating statement approach. 'Expenditure' is by its very nature a funds concept and 'expense' is an operating concept: each is measuring a different aspect of the same thing and the aspect which is chosen as important determines the nature of the statement which is preferred. The question left to decide is not which basis of accounting should be included in the operating/income statement but what sort of movement statement (cash flow, funds flow, operating statement) more clearly and accurately serves the needs of users of the statements.

Encumbrance or commitment accounting is an aspect of accounting which is peculiar to government accounting but may be found in

some form in other NPOs eg the recording of grants allocated but not paid. The main argument in favour of encumbrance accounting is that in government accounting where management can change at the end of each year, the encumbrance method allows the management of that year to be held accountable for its spending decisions even though the actual cash will not be paid until a following financial period. This form of accounting is legally supported in government accounting in many countries. Anthony points out that this is the most conservative basis of accounting and that any organisation using it is unlikely to ever get into cash flow difficulties. It is not a method of accounting which has general normative acceptance although it is described in government accounting texts.

Encumbrance accounting is a significant departure from business accounting and its opponents stress that it is therefore unacceptable unless compelling reasons can be shown for keeping it. They state that encumbrance accounting may be an important control mechanism but that it is a matter for internal rather than external reporting. Encumbrance accounting is still open to manipulation and even in cases where it is operated it does not always extend to all aspects of the organisation.

Although encumbrance accounting as a regular reporting procedure is peculiar to government accounting aspects of it can be found in the business model from time to time. Under the convention of conservatism, business financial reports are expected to show as a note to the accounts any significant 'contingent liabilities' which exist at the balance sheet date.

As with all the other issues in the Anthony study no conclusion is drawn but the arguments stated show again that although there are technical issues involved, the answer to the question "should encumbrance accounting be used?" depends on the form of statement which will be most useful rather than the technical issues.

3.3 Fund Accounting

Fund accounting is regarded by most writers as being one of the main differences between business and non-profit accounting.

Kerrigan's (1969) book on accounting principles and practices of governments and other non-profit organisations is called 'Fund Accounting' and it is impossible to discuss the contents of all but the smallest NPO's accounts without reference to it (Kerrigan (1969), Henke (1966) chaps 6 & 7, Gross and Warshauer (1979)).

Fund accounts are widely found in practice (Bird and Morgan-Jones (1981), CICA state government study (1981), Traub (1977)) and they are built into the systems used in governments in the USA, Canada and the UK, recommended for certain other NPOs in AICPA industry guides and recognised in auditing guidelines on NPOs in the U.K.(ICAEW).

A fund is defined as:

"an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein which are segregated for the purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations".
National Council on Government Accounting (NCGA) Exposure draft p2).

There are a number of different types of fund which can be used eg the NCGA specifies eight types for government accounting in the USA: general funds, special purpose funds, capital projects funds, debt service funds, special assessment funds, enterprise funds, internal service funds and agency & trust funds. Bird and Morgan-Jones (1981) list a whole array of fund names used in charities but follow the CICA (1981) study in suggesting a six-way grouping of funds: unrestricted funds, designated funds (by board), endowment funds (donor designated), restricted funds (donor designated), building and equipment funds and custodian funds.

The main reason for the existence of many funds is the necessity of controlling streams of money with restrictions for their use. This sort of problem does not as a rule occur in most business accounts where generally all funds generated are freely available

for use by management interchangeably. There are occasions where this is not the case such as where solicitors are entrusted with clients' monies and here special rules akin to fund accounting are employed. The differences in the NCGA (government) rules and the CICA study (non-profit) arise from the different flows of funds in the government and other non-profit sector organisations. Other authors suggest slightly different fund groupings but these do not have a great deal of significance for our discussion here (see Ellis, Henke, Gross).

Even within fund accounting there is a great deal of variation in the rigour with which fund accounting is used. In Government organisations there may be legal reasons for operating fund accounts whilst in other non-profit organisations the fund accounting may be operated as a matter of convenience. Certain authors suggest that fund accounting is sometimes used in order to deceive or at least hide the effects of what is really happening in an organisation (Bird and Morgan-Jones (1981), Gross (1977)).

Perhaps the key problem which users find with fund accounting is that it produces fragmented accounting statements. This problem is well stated in Anthony's FASB study (1978) as issue 7:

"Do users need a single aggregated set of financial statements for the organisation rather than separate financial statements for each fund group?..."

Anthony gives the arguments for and against aggregated financial statements as being:

FOR: 1. That users are interested in the overall financial position of an organisation and that the funds basis makes for a fragmented and difficult to understand view. He quotes a Coopers and Lybrand study in relation to taxpayers' and security investors' difficulty with many page reports (1976) and a study by Davidson et al (1977) which argues that as commercial organisations can produce meaningful consolidated accounts so why cannot government units? He notes creditors also like to see the overall position.

2. That a consolidated financial position is similar to a business organisation's accounts and that users of business accounts would understand this better than fund accounts.
3. That fund accounts open up more possibilities of manipulation by charging costs to different funds depending on which is able to bear it.
4. That transfers between funds give the impression of double counting because transfers appear in the same place as income.
5. That restrictions are not accurately reported resulting in a blurring of the fund accounting and suggesting that there may be no real need for fund accounting.
6. Program spending may be fragmented between funds and so overall results cannot easily be obtained.

AGAINST:

1. That there is a need to report fiscal or legal compliance by way of financial accounts.
2. That aggregated statements can be misleading in that: they may combine funds which must be legally kept separate; they may combine cash from restricted funds with cash from unrestricted funds and give a false picture; and restricted flows will be shown in the same way as unrestricted flows when they are in reality different.
3. That aggregated statements in fact lose important information which is to be found in fund accounts.
4. That the complexity is necessary to convey the reality of the funding situation. Business enterprises do not have spending restrictions and so have no similar funding complexity to convey.
5. That the defects seen in fund accounting are not inherent to fund accounting but can be overcome by correctly designed reports.

Whilst Anthony in his FASB study presents as far as possible a neutral picture with no bias for or against fund accounting, it is evident from other works (eg Anthony 1980a) that he is in favour of the aggregated approach. Two of his colleagues however argue very forcefully for the opposite approach (Herzlinger and

Sherman 1980). One key element of the latter's argument is that not enough is really known about users needs for financial information in NPOs to assume that consolidated statements are in fact more useful than fund accounts. In particular there is no evidence that there is information overload by giving users so much information. Herzlinger and Sherman base much of their argument on the potential loss of information of aggregated accounts and give a clear illustration of this.

There has been some recent experimental evidence on aggregation of municipal accounts but this is not so far conclusive. Patton (1978) devised a complex study testing the use of consolidated versus nonconsolidated accounts for the determination of bond interest rates of local authorities in the USA. He produced no conclusive evidence that user performance was different with consolidated from unconsolidated accounts but the complex nature of the experimental task (which attempted to include a large number of variables) makes interpretation of the results difficult. Ramanathan & Weis (1981) conducted another experimental test of supplementing collegiate financial statements with across fund aggregations and this produced significant support for the use of aggregated accounts in addition to non aggregated accounts as against non-aggregated fund accounts by themselves. This evidence supports the introduction of additional aggregated statemets but cannot be taken to imply that these should replace non aggregated accounts.

Kerrigan (1969) argues that governments have a strong tendency to 'overdo' the idea of separate funds and makes the valid point that overapplication of fund accounting can be counter-productive, even producing inefficiencies and lack of initiative (p20). This suggests that development of fund accounting needs careful monitoring, a factor which tends to be ignored in much of the discussion which recommends abandonment of fund accounting. Herzlinger and Sherman (1980) conclude their article (p104) by saying: "the weakness of non-profit accounting would be more fruitfully addressed by resolving problems in nonmenclature and quality of accounting information than by converting to the simpler (but increasingly more complex) for-profit standards"

Bird and Morgan-Jones (1981) also talk of the 'indulgence' in fund accounting by charities but it is not clear why there is this indulgence or whether it is always a bad thing. More investigation of the operation of fund accounting in practice certainly seems to be indicated. Herzlinger and Sherman (1981 p101-2) indicate that more investigation of users' need for information is required before definite answers on aggregation can be given. It is clear that this area is a particular non-profit area on which no final conclusion can be drawn at present.

3.4 Treatment of Fixed Assets and Depreciation

The issue of fixed assets and depreciation in NPO accounts is quite complex but is introduced very simply by Gross and Warshauer (1979): "In non-profit accounting fixed assets may or may not be recorded" (p14). The issue has two distinct but closely related parts:

Should fixed assets be capitalised?

Should capitalised fixed assets be depreciated?

Unfortunately not all the literature deals with exactly the same problem. Gross and Warshauer discuss both the capitalisation and the depreciation issue as do Bird and Morgan-Jones, but Anthony in his FASB study (1978) discusses only the depreciation of 'depreciable' fixed assets.

Capitalise or not?

Gross and Warshauer (1979) suggest that there are three possible answers to the first question:

1. Write off the fixed assets on acquisition (this method they see as the direct result of pure cash based accounting).
2. Capitalise the assets.
3. Write off the assets and then capitalise.

They then discuss as a separate issue whether depreciation should be used in the second and third of these cases. The CICA (1980) study also suggests that there are three main methods but links these with the depreciation issue:

1. Capitalise and depreciate.
2. Capitalise only.
3. Immediate expense.

but CICA recognise that there are variations on these three possibilities in practice.

Bird and Morgan-Jones report that there are three methods in use in charities:

1. Capitalise fixed assets on acquisition and charge depreciation on all or some of these.
2. Capitalise major fixed assets (property and plant) and charge depreciation on all or some of these and write off minor fixed assets (motor vehicles, office equipment etc)

to revenue when acquired.

3. Write off all fixed assets on acquisition.

These methods and the CICA study methods are so close to the Gross and Warshauer study as to be synonymous except for the fact that Gross and Warshauer clearly separate the capitalisation and depreciation issues whereas Bird and Morgan-Jones (1981) and CICA put them together. Ashford (1981) also sees the two issues as separate ones. It must be noted that if depreciation is regarded of vital importance then the capitalisation issue could be regarded as settled in advance.

The CICA study recognises four of the five advantages of immediate expense which were recognised by the Accounting Advisory Committee study (CICA p25):

1. Easier bookkeeping (omitted by the CICA study)
2. Easier to understand for non-accountants
3. Fund balance is reduced and thus the likelihood that the reader will conclude that the entire fund balance is available for current use is lessened (this would happen if the accumulated fund included both fixed and current assets).
4. Relates the expenditure for fixed assets to plant fund contribution (in the Income and Expenditure account)
5. Relates the charge for the fixed assets to the period when purchase was made.

Gross and Warshauer (1979) also mention the first three of these advantages viewing them as simplicity and clear indication that fixed assets (or their resultant fund balances) are of no value in meeting day to day cash commitments. With regard to the latter point, Bird and Morgan-Jones note a similar argument is advanced that assets may not be available for realisation (to meet other commitments) and so write-off makes the position clear.

Despite these advantages the weight of opinion is that fixed assets should be capitalised and several reasons are advanced:

1. Capitalisation demonstrates accountability and shows the resources available to the board for use in carrying out programmes.[AAC, CICA, Gross and Warshauer]

2. Capitalisation presents a more comparable statement of activity from period to period not distorted by huge acquisitions in any one period.[AAC, CICA, see below]
3. Capitalisation allows the allocation of the cost of fixed assets to programme activities over periods benefiting from the use of the assets (i.e. it allows depreciation) [AAC, Gross and Warshauer]
4. Capitalisation is a generally accepted accounting principle (GAAP) and understood by businessmen [AAC, Gross and Warshauer, Bird and Morgan-Jones].

The second of the above advantages may in fact be spurious and created by the particular method of bookkeeping followed by the studies. The AAC and Gross and Warshauer recommend that all income is credited to the (operating) income and expenditure account. This means that donations and grants for capital purposes would all go through the income and expenditure account but capital expenditure would be excluded from the account. Thus when fixed assets are purchased they are represented in the balance sheet by part of the accumulated fund balance, the other part of which represents money free to be spent by the organisation. It is this treatment which gives rise to the third of the advantages quoted for immediate expense of fixed assets.

If a different bookkeeping method is used such as the use of separate fund accounts for capital donations received and capital donations expended then this problem does not arise (see Ashford 1981). Bird and Morgan-Jones also note that the creation of a building and equipment fund representing assets would show the position regarding non-realizable assets more clearly. Finally one disadvantage of the immediate expense method which is cited in the CICA study is that "the contributions collected over several years to finance a capital project taking one or more years to complete may be obscured if they are included with current operating receipts"(p80) This disadvantage has clearly little to do with the immediate expense method unless the bookkeeping allows the inclusion of capital receipts in the income and expenditure account. If these receipt are kept outside the operating statement then the position is much clearer.

It is possible to see in this argument, as in previous ones, that an approach decided on in one area, in this case fund accounting, can result in muddled thinking in another area. Gross and Warshauer in discussing their third method of accounting for fixed assets 'write off then capitalise' do not seem to realise that this is not a different conceptual problem but merely a bookkeeping problem.

The weight of opinion seems to be in favour of capitalisation of fixed assets though it should be noted that a substantial part of the NPO economy does not do so (see Bird and Morgan-Jones (1981) on charities p66 and 75, Rudge (1976) on the Church of England [no balance sheet required]). The reasons for this are not completely clear but include the simplicity aspect already discussed; legal problems eg English parish property may be vested in up to three separate trustees; and omissions of gifts in kind where additional problems of valuation may be encountered. These reasons why assets are not capitalised are on the whole behavioural rather than conceptual. However if capitalisation is to be insisted on then good conceptual reasons are needed. To date, apart from the stewardship aspect, these do not seem to have been discussed in the literature.

Depreciate or not?

The second issue in the area of fixed assets and depreciation is whether to depreciate or not. Anthony's FASB study which had almost nothing to say about the previous section, has a good summary of the arguments relating to "depreciable" assets. As an overview he lists nine possible alternatives for depreciation of these assets and this list is reproduced as exhibit 3.4. We will go on to look at the arguments in favour of and against the use of depreciation but first need to look at the definition of depreciation.

Anthony uses the following definition:

"....the term depreciation is used for any type of charge against operations that relates to depreciable assets" (p135)

Table 3.4 Possible alternative treatments of depreciable assets

- *1. Do not depreciate
 - 2. Record depreciation only when the corresponding grant, contract or user charge includes it.
 - 3. Record depreciation when the governing body intends to use funds from operating activities to replace assets being depreciated.
 - 4. Depreciate when the governing body decides it will replace assets with funds from operating activities if it sets aside a special fund for depreciation.
 - 5. Record debt service charges in lieu of depreciation where assets are acquired by bond issue.
 - 6. Record depreciation for assets financed from endowment funds where depreciation is returned to the endowment fund.
 - 7. Record depreciation on fixed assets to be acquired in the future but do not depreciate currently held fixed assets.
 - 8. Do not record depreciation for assets consisting the organisation's infrastructure but record depreciation on other assets.
 - *9. Depreciate all depreciable assets as in a business.
- * These are limiting cases and the other methods are not mutually exclusive.

Source: Anthony FASB pl37-8

The CICA study takes a similar but more specific stance based on the AICPA Accountancy Terminology Bulletin No 1:

"...depreciation as a means of allocating the historical cost of tangible assets over the useful life of such assets" (p87)

The CICA study notes especially that depreciation is not intended to fund replacement of assets nor to take into consideration increased value of assets. These approaches are interested in the operating effects of depreciation and as such are basically concerned with whether or not an allocation of the original cost (less grants) of an asset should be made to the operating statement each year.

There are also two other uses of the term depreciation which are evident in discussions: one is "a reflection of the diminution of value of the asset due to use or lapse of time" (ICMA terminology

8.336.4) and the other "a charge for use of the asset ". The first of these uses is particularly relevant to the valuation of the asset in the balance sheet. The second of the uses does not have to be an allocation of cost but could be related to it, and this would fall within Anthony's definition given above.

The arguments for and against depreciation accounting in NPOs can be found in several places throughout the literature and reference will be made to Henke (1980), CICA (1980), Anthony (1978), Gustafson (1978), AAC (1974), Bird and Morgan-Jones and Gross and Warshauer. Many of the pronouncements and discussions on depreciation refer especially to government accounting but are usually extended to all NPOs. There are four major arguments for the use of depreciation and five arguments against. Each of these will be discussed briefly below.

Arguments in favour of depreciation

[1] Depreciation is an element of cost in the operating statement

This argument has two strands. The first is that if accounting reports of NPOs are to measure the cost of operations or services then there must be a statement of operations. There seems to be general agreement that the statement of operations is needed in order to measure costs (Price Waterhouse position paper on College and University accounts 1975), in order to facilitate the correct allocation of limited resources (Gross 1977), in order to provide a sounder basis for budgets (Henke 1965) and to provide a sound basis for setting charges (CICA p88 para13, Henke 1965 p49).

The second strand to the argument is that depreciation is a cost of operations (Gross and Warshauer p68, AICPA 78-10 p35) and so if a statement of operations is prepared then depreciation (meaning here allocation of part of the original cost) should be recorded in it. Henke gives this argument as follows:

"fixed assets are, in effect, nothing more than unexpired units of service. As these units expire or are used, they should be accounted for as part of the full cost of services rendered by the organisation. This practice can best be accomplished through the recording of depreciation" (Henke 1966 p 126).

[2] Depreciation is a measure of the consumption of and the erosion of the value of fixed assets

If depreciable assets are capitalised but not depreciated then this does not disclose the true asset position at any point in time. The use of depreciation is one way of achieving this. Henke (1965) states this argument as follows:

"..it can be important to disclose the extent to which contributed capital has been maintained or has eroded. Depreciation accounting is the best device currently known for disclosing this information" (Henke 1965 p 49)
 "..external financial reports.....should disclose information about the consumption of fixed assets as well as the application of appropriable resources..." (1965 p 49)

The foregoing illustrates a stewardship aspect of depreciation accounting. Depreciation in this case is only a surrogate for the main objective which is to reflect the diminution in value of the asset and this explains Henke's use of the term 'best' in the above quotation. A similar argument is found in the AAC report (p27).

[3] Depreciation can be a useful way of raising funds for asset replacement

Henke (1965) quotes this as an argument in favour of depreciation accounting. He postulates that creating an operating deficit could be a supporting factor in soliciting funds for the replacement of fixed assets. Gustafson (1978) makes a similar point that depreciation may be useful in determining the amount of capital funds required each year to maintain a given level of operations and identify the amount of capital outlay for growth. Gross and Warshauer (1979) also suggest that without depreciation the organisation may delude itself into feeling that income can cover the purchase of replacement assets. These arguments are effectively suggesting that depreciation should be used as a surrogate for another measure, replacement provision, and as such only have weight if they are sufficiently like the principle. It is clear that particularly in inflationary periods this link between surrogate and principle is tenuous. It is also not clear whether in fact management do take this viewpoint and whether the lack of depreciation in an organisation does delude management into this way of thinking.

[4] Depreciation accounting correctly distinguishes between investment and operation

Vatter in his book on fund accounting (1947) makes the point that the expense of contributors (in donating money for fixed assets) is not the same as the expense of the fund. To correctly reflect the expense of the fund, depreciation must be recognised and this should not be confused with the way in which the assets were paid for. Similar points are made by Bird and Morgan-Jones (P175).

These arguments, quoted in full by Anthony (1978), are really an extension of the first argument given above that depreciation is an expense in the operating statement. Anthony (1978) quotes

During as making a related point that the purchase of fixed assets is not consumption by the organisation but conversion of one asset form (eg cash) to another (eg fixed assets).

Consumption by the organisation takes place when the organisation uses the asset, not when it purchases it, and in order to record the use depreciation needs to be charged.

It seems from the above that the two major thrusts of the arguments in favour of depreciation are that depreciation is an element of cost in the operating statement and that it is a useful indicator of use of resources for stewardship purposes.

Let us now turn our attention to the arguments against the use of depreciation in NPOs.

Arguments against the use of Depreciation

(1) NPOs key interest is in funding statements and not operating costs

Though this argument comes in different forms, the basic reasoning behind it is that NPOs do not use a statement of operations as their main accounting statement but concentrate instead on the funding aspects: the interest is therefore in expenditure rather than expense. Government in particular is interested in the separate funding of capital and operating expenditures and it records this through fund accounting practices. As depreciation is an expense then to record this in expenditure statements is to mix up two fundamentally different statements (CICA p87). Anthony summarises this argument as follows:

"...in governmental organisations depreciation is inconsistent with fund accounting, serves no useful purpose and may produce misleading results" (p41).

Similar arguments occur elsewhere. The CICA study suggests that even if operating statements are provided, legislators will still be interested in fund statements, not relying on the statement of operations. It should be noted that though the fund statement is seen as an alternative statement to the operating statement these are not mutually exclusive. Businesses have for some years now been encouraged to prepare both fund and operating statements and the fund statements exclude depreciation. Perhaps this suggests that one of the real problems with NPO accounting is that accountants do not specify the conceptual basis for the financial statements, particularly in the U.K. where the Income and Expenditure account is not rigorously defined.

(2) Double Counting

If one were to include depreciation expense in a fund accounting statement it would have the effect of recovering cash to cover some of the original cost of the assets from current donations or revenue (note this may be from operations if there is operations revenue). This could result in the following interpretations:

- (a) Where the resource providers provided funds for both the original capital purchase (either through bond issue repayments or outright donations) and the operating budget they are paying twice for the same thing (Anthony 1978 p142, CICA 1980 p90).
- (b) If a double payment is being made then the extra money provided is either open to be misused by the organisation and thus go beyond the control of the resource providers, (Gustafson 1972 p51, Hendrikson 1977 p422) or it will go to meet the capital requirements of future operations, something which may be inequitable and not optimal in terms of resource allocation (Anthony 1978 p142, Gustafson 1972 p51).

This double counting can occur wherever the funding of an

organisation is based on the meeting of both an operating statement deficit, as opposed to a current fund deficit, and a capital expenditure budget. This suggests that some research is necessary to discover what actually happens in practice and in particular whether resource providers are aware of the problem.

It is suggested in Ashford (1981) that where depreciation is to be recorded in a fund type statement and the funds which were used for purchase of the asset were provided from a donation, the most informative approach is to include in the fund statement both depreciation (being allocated cost of the asset) and an exact equivalent amount of funds used in the purchase (donation) so the fund statement will show that fixed asset expense has been allocated together with the source of its purchase.

(3) Appearance of Deficit

If depreciation is charged and resource providers do not fund depreciation then the results will be growing deficits which would have little meaning. (Gustafson 1972). This treatment could alternatively result in a poor impression being gained of the management when in actual fact it really represents a gradual reduction in the value of the assets of the organisation (CICA 1980 p91). In this latter case the only situations in which management might be considered incompetent is if the 'going concern' concept is a key aim of the organisation and management has failed to put the asset replacement issue squarely before the trustees or fund providers.

(4) Zero Cost

In many organisations assets are acquired at zero cost by gift or by direct capital appropriation. It is argued (see Anthony 1978 p142) that in this case the assets may be depreciable but as they have zero cost they should not be depreciated. The treatment would seem to accord with SSAP4 which states that a government grant towards the purchase price of fixed assets should either be credited to the profit and loss account over the life of the respective asset (which would be subject to depreciation) or be set off against the original cost of the asset and only the balance be depreciated. Bird and Morgan-Jones however comment that donated assets should be capitalised and depreciated - in

apparent contravention of this SSAP.

(5) Other arguments

A number of minor arguments are also put forward: about the problems of calculating meaningful figures (Anthony 1978 pl43); about the users need for depreciation figures (ibid); about the rejection of historic cost as a basis for depreciation (CICA 1980 p91). These are peripheral to the main debate and are not discussed further here.

The depreciation arguments hinge therefore on three basic points: the choice between fund accounts and operating statements as the basis for reporting; the usefulness of depreciation as a surrogate for diminution in value for stewardship purposes and the effect of different methods on the funding decision. Each of these points implies some research need: into the needs of users as to the sort of statement most useful, into the importance to users of an accurate stewardship picture and how best this can be achieved and into the potential effect on resource providers of the inclusion or exclusion of depreciation in statements. This research study will be looking at user needs and the results should be able to assist in this problem area.

3.5 Financial Statements

A newcomer to the financial statements of NPOs can be surprised by the number of statements (AAC p7), the unusual titles of the statements (Traub 1977 table 5.14), the lack of an overall summary (Anthony 1978 pl04/5), the terminology (Anthony 1980a) and the overall volume of information contained. In the light of these facts several questions occur regularly in the literature: should an operating statement be produced? (Anthony FASB issue 4), should a report on the cost of services be produced? (ibid issue 5), should a consolidated statement be produced? (ibid issue 6) and should additional information such as budgets be introduced? (CICA chapter 5).

Unfortunately it is quite difficult to understand the nature of these problems unless one first understands what the present financial statements of NPOs are like. There are several empirical studies of NPO accoounts (eg Bird and Morgan-Jones 1981, Traub 1977, Burrows 1980) and in addition references to the form of NPO accounts are made in other studies (CICA 1980, Anthony 1978) but to date there appear to be no detailed reports of the actual contents of any group of NPOs' accounts. This may be because researchers have been looking for general patterns in order to build a normative framework eg CICA 1980, Bird and Morgan-Jones 1981, or it may be a result of 'functional fixation' (Ashton 1976) of accountants used to business accounts and looking for similar patterns in NPO accounts to their business ones.

Despite the lack of empirical evidence, some details of the form of accounting reports can be gained from the literature. The AAC (1974) for instance says:

"(Fund Accounting) can result in a proliferation of financial statements, often without any summary of the entity as a whole" (p7, emphasis added).

Bird and Morgan-Jones (1981) note that whilst the basic format of charity accounts is the provision of a balance sheet and general revenue account:

"Quite a large number of the accounts also include separate special or fund accounts" (p23).

Traub in his study of foundation accounts notes that there may be from one to seven financial statements included in the accounts and Burrows (1980) in his study of labor union accounts notes that a number of financial statements may be present. The CICA study found that most general financial statements:

"included the following: balance sheet....Statement of Operations....Statement of changes in fund balance and capital...Notes to the financial statements. Some organisations also provided: Statement of changes in financial position; statement of expenses by function or project...; Budget information..." (p30/1 emphasis added)

It is evident that the large number of financial statements found in NPO accounts could be mainly a result of the fund accounting approach, but it is unclear whether the numerous financial statements are necessary for an explanation of the financial situation or are of any use. The normative nature of many NPO studies has undoubtedly led to a search for common characteristics rather than to be purely descriptive, eg CICA has as one of its objectives: "4. To propose a uniform set of accounting principles and reporting practices..." (introduction) and Bird and Morgan-Jones have as objectives : "...to develop and draft recommended principles of accounting and disclosure..." (p1). If a descriptive approach were to be undertaken it would perhaps not only note the large number of statements and their titles but would also probe behind these for a *raison d'être*. In the absence of such an approach only guesses can be made such as that traditional accounting terminology or form of accounts is inappropriate to describe the organisation's activity or complexity.

As the literature is largely concerned with developing a normative framework for financial reporting the approach of most studies is based on preparing financial reports to meet users' needs for information, postulating from this what statements are needed and what the content of the statements should be. What is not apparent is how the form of the current statements in use has come about: is this directly a function of user needs or is it

also influenced by the underlying perceived or real legal and organisational constraints? If the legal and organisational constraints are important then it is unlikely that these will be discovered without an in-depth study such as the one being undertaken.

The statements which various studies and guidelines suggest should be produced are as follows:

1. Balance sheet [CICA 1980, Traub 1977, Bird and Morgan-Jones 1981, ICAEW 1981, ECUSA 1980, AICPA 1974]
2. Statement of operations [CICA, Traub] or Revenue account [Bird and Morgan-Jones, ICAEW] or Statement of Activity [AICPA] or Statement of support revenue, expenses, capital additions and changes in fund balances [ECUSA 1980].
3. Statement of changes in financial position [CICA, AICPA], Statement of Financial Activities [Traub] or Statement of sources and application of funds [Bird and Morgan-Jones, ICAEW] or Statement of changes in cash or financial position [ECUSA].
4. Notes to the accounts [CICA, ICAEW, Traub with respect of grants and grantees, Bird and Morgan-Jones : explanatory notes and statement information]
5. A statement of changes in fund balances [Bird and Morgan-Jones, ECUSA]
6. An auditors report [Bird and Morgan-Jones] - for certain organisations [CICA]
7. A review of the year's activities [Bird and Morgan-Jones] - 'desirable' [CICA]
8. A formal report [Bird and Morgan-Jones] - 'desirable' [CICA]
9. A comparison with budget (supplementary) [ECUSA] or budget information desirable [CICA]
10. An identification of restricted funds [ECUSA]

The AAC (1974) did not produce any general recommendations but its recommendation relating to financial reports for regulatory agencies was that a statement of revenues, expenses and changes in fund balances together with a breakdown by function, a balance sheet and notes be presented. The ICAEW charity auditing

guideline recommends that its four basic statements (1,2,3 & 4) should be varied for small charities where a receipts and payments account and a concise statement of assets and liabilities may be sufficient. It is interesting to note how few studies stated as part of the financial statements that there should be an audit report, though this may well have been implied (eg in the ICAEW's auditing guidelines)

The criticisms about the varied terminology in the studies of actual NPO accounts seems to be equally valid about the variety of proposed statements. Only the balance sheet occurs in all recommendations almost without any difference. The Anthony FASB study does not make any recommendation about the statements which should be produced. Elsewhere however Anthony (1980a) makes it clear that he favours accounting standards and statements similar to business statements. Interestingly enough though he postulates that the balance sheet information may be best presented by the use of two balance sheets (see Ashford (1981)), a departure not only from his 'business' stance but also from other authors with little to say about the balance sheet.

The rest of this section will summarise briefly some of the debate surrounding the issues of which statements should be presented. Only six issues are discussed: the case for an operating statement, the consolidation issue, budget information, cost of services summary, audit report and balance sheet. As far as possible only arguments about the presence or absence of the statement will be discussed as the contents of the statements have been discussed elsewhere. It should be noted that Anthony in his FASB study sees the operating statement and cost of services as part of the same issue.

The Operating Statement

In the FASB study (1978) Anthony describes the operating statement as having these characteristics:

1. It reports operating inflows ie inflows relating to the current period.
2. It reports expenses rather than expenditures.
3. It has a 'bottom line' which has some significance.(p77p)

The CICA study has a similar description (p158) though the definition is extended to say: "It may include the continuity of changes in fund balances"(i.e the opening and closing balances). It is not clear whether in the Bird and Morgan-Jones study its 'revenue account' definition follows this former definition exactly, partly due to differences in UK and USA terminology.

There are five reasons given in favour of including the operating statement:

1. Despite the lack of a profit motive, one objective of the NPO may be to maintain its capital or its operating capability. If this is the case then a statement showing the organisation's operating inflows less operating expenses is equivalent to the earnings statement of a business and should similarly reflect the effect of the year's operations on the capital employed. Support for this argument comes from Vatter (1947 chap IV fn.6)
2. Related to this argument is that the 'bottom line' of an operating statement is said to provide a meaningful indication of the organisation's viability and management performance, even though the 'bottom line' does not have the same meaning as in business. The significance of the bottom line may be in the relationship between income and expenses. Examples of specific bottom line objectives are given by Anthony viz: balanced income and expenditure; smoothing of income; repayment of past deficits; build up of future reserves and in each case the bottom line can be an indication of the performance in meeting these objectives.
3. A further argument given is that the operating statement is very similar to the business income statement and users who normally use business operating statements who may be unaccustomed to using the financial flow statements of NPOs should have no difficulty in using an operating statement.
4. Anthony discusses the desirability of using expenses in preference to expenditures (p82-3) and this can be added to the arguments in favour : that expenses (ie resources used) more nearly reflect activity than expenditures (ie resources purchased).

5. Finally there are a number of arguments related to the need for an operating statement to measure costs in order to set prices which will cover total costs and in order to facilitate correct allocation of resources. These arguments are based on the contention that operating statements are more appropriate measuring devices than the alternative funds flow statements.

Anthony (1978) gives two possible arguments against the use of operating statements:

- a) That the operating statement is not needed because the main purpose of financial statements in NPOs is related to the funding of expenditures and reporting compliance of actual spending with budget. This approach would indicate the use of funding statements only and it is seen as being the rationale behind fund accounting systems particularly those in use in municipal authorities (National Council on Government Accounting (1978).
- b) That there are a number of misleading impressions which could be given by the bottom line such as: the setting of targets such as "break-even" may induce behaviour aimed at meeting the target rather than spending wisely; the bottom line may be a poor indicator of the performance of management who have deviated from the target 'bottom line' for uncontrollable reasons; an excessive surplus on the bottom line could lead contributors to cut support and finally a deficit (or a surplus) does not indicate a decline (or an increase) in the organisation's viability.

Two of the examples which Anthony gives where the bottom line can be misleading are worthy of more detailed study. They relate to the economic relationship between revenue and expenses. The bottom line may be meaningless when the income and expenses have no direct relationship. The income of a church for example is only tenuously related to the services it provides. A further illustration of this lack of direct relationship is where expenditure is constrained by a budget and bears no relationship to the income which may be higher or lower than budgeted eg tax revenues which rise in real terms in a period of inflation. This

lack of relationship implies that in certain circumstances there may be no conceptual basis on which an operating statement, in the form of a business income statement matching related transactions, can be prepared. Effectively the matching principle falls down.

A business operating statement is an attempt to bring together items of income (from sales) and the related items of expense either as direct costs or as allocated costs based on an arbitrary allocation of time or use. The bottom line therefore represents an estimate of excess of income over resources used in producing that income. In an NPO however there may be no generated income in exchange for services rendered (ie sales income) and so a direct equivalent to the business income statement should be : $\text{Income} = \text{NIL}$. Expenses could of course be related to the services provided either as a direct cost or as an allocated cost ie $\text{Expenses} = fx$ and so a net deficit on operations would be produced $= (0 - fx) = f-x$. This net deficit would then be funded by (capital) contributions, in the same way that a business deficit would be effectively funded from retained earnings or contributed capital.

The argument in favour of an operating statement where services are provided without charge could therefore be regarded as inappropriate because the traditional form of the statement with 'income' at the top is upside down. The 'bottom line' is in fact the total of expenses and the income is a reduction of this deficit carried to the 'equity' account.

The debate about the operating statement appears to be about two separate issues: is an operating statement meaningful per se and should an operating statement be included (if meaningful) as well as or instead of a funds statement. The first of these issues is dependent on the nature of the organisations economic reality and the needs of users. The second is dependent on the outcome of the first issue and the ability for the user to appreciate and interpret the differences between the two sorts of statements. Although from the normative viewpoint the issue seems settled, arguments about meaning and relevance still abound in the recent

literature. Even the normative statements seem to allow for departures from one standard: Bird and Morgan-Jones suggest that a receipts and payments basis is adequate for a small charity where this would be a reasonable surrogate for a fuller report.

The Aggregation of Fund Accounts

A major criticism of many NPO accounts is the fragmentation brought about by fund accounting. There is a strong lobby in favour of producing aggregated accounts (see Anthony 1980a, Gross, etc) rather than allowing disaggregated statements and of course there is also strong opinion in favour of continuance of disaggregated statements (Herzlinger and Sherman 1980). Anthony's study defines reporting on an aggregate basis as being when only one balance sheet, one financial flow statement and one operating statement occur in a financial report. Disaggregated or fund statements occur when there is more than one of any of these statements present. Particular features of statements focussed on funds include multiple balance sheets and transfers between funds.

Although Anthony excludes certain items from discussion: explanatory notes, internal fund accounts, the definition of organisations, trust and agency funds and matters of format, he adequately summarises the debate surrounding aggregated statements. This is summarised below.

Importance of Overall Picture

Those in favour of a composite set of accounts argue that an overall picture is necessary for the financial performance to be understood. This is a particular problem where accounts consist of large volumes of information (Coopers and Lybrand and the University of Michigan 1976) and where overall positions of debt or amounts of assets are important issues.

On the other hand opponents of aggregation see that aggregation can be misleading because resources may not be transferrable from one fund to another (eg without special authority in a local authority or not at all in the case of restricted endowment funds) and flows may not be comparable: restricted donations are not available for use in the same way as unrestricted sales

revenue. The cause of these problems may be legal restrictions on the use of resources or donor imposed restrictions. Some proponents of fund accounting see that the method of funding is complex and to try to simplify it too much could cause more confusion (for example see Herzlinger and Sherman 1980)

Relationship to business accounts

Since many important users of financial reports of NPOs - particularly of local authority, hospital and school accounts in the USA - are used to business accounts, the aggregation of fund accounts into business style accounts will accord more with their needs. This is seen particularly to be the case with creditors who need to see an overall picture. A second argument is that businesses also have fragmented operations : associated and subsidiary companies etc, and as they are able to produce a consolidated picture why can't NPOs?

The key arguments against this are that aggregation can be misleading and, particularly in relation to loans and credit, might well be inadequate (see above). The other point which is relevant is that under newly developed standards businesses are themselves being asked to report information in segmental groups (by product or geographical region) and that these may well be analogous to funds type statements. (FASB statement Nol4). Even if business segmental reporting groups are not directly comparable with fund accounting they are intended as disclosures of significant segments. In the NPO fund accounts could be regarded as of significance.

Legal and Spending Restrictions

Proponents of aggregated accounts argue that whilst legal and spending mandates are in existence they can allow management a great deal of flexibility in charging expenditure and thus enable them to produce results which may appear better than the facts suggest. Following on from this there are also indications, particularly in US local government, that restrictions are being increasingly disregarded and thus the importance of fund accounting is less than may be argued. No evidence is given for either of these statements by Anthony but

Bird and Morgan-Jones also note some questionable practices in this regard in charity accounts, particularly with regard to legacies and reserves.

Nevertheless legal and donor restrictions are present and are the main reason for fund accounting. If fund accounting is being misused then the aggregation of financial statements may add to that misuse. If legal restrictions are inappropriate and subject to abuse then the correct forum for revision of those restrictions is a political one, not a discussion of correct accounting for funds

Fund Accounting Arguments

Anthony includes two arguments in favour of aggregation which should more probably be included under fund accounting:

1. That with fund accounting programme reporting is not possible. The implication of this is that if aggregate accounts are prepared then reporting by programme is simplified whereas with fund accounting it is exceedingly difficult.
2. That fund accounting results in peculiar 'plug' accounts such as "investment in General Fixed Assets" to represent fixed assets held in fund accounts. These accounts do not appear in business accounts but that does not mean that there is no conceptual justification for them.

It seems as if both these arguments are out of place here.

In conclusion it seems as if the major arguments surrounding aggregation are the relative meaning which users attach to the aggregate versus the non-aggregated accounts and the necessity of fund accounting to meet legal or donor reporting requirements. One way in which progress will be made in solving this issue is for further research into users attitudes to and use of accounts and this will be partly explored in the proposed study of NPROs. Another possible research area is to try and identify how fund accounts are used in practice: is there a use of fund accounts where they are not strictly necessary (i.e. no restricted funds) and is there any value seen in this 'coffee-pot' accounting by management or users?

3.6 Budget Information

Only the CICA (1980) study considers this issue at length, although the AICPA guide on Audits of State and Local Government Units (1974) suggests that budgets should be included in reports of general and special revenue funds. Both Anthony's (1978) study and Gross and Warshauer (1979) exclude it from consideration as they regard budget information as an internal and not external matter. The CICA (1980) study however believes that budgetary information should be included in external financial reports and discuss the following points (p46/7):

Management Tool

A major criticism of inclusion of budget information is that budgets are a management tool subject to frequent change. They are often inaccurate or incomplete and can be misleading particularly with regard to revenue predictions. Despite this, the CICA group believe that budget information can be helpful for users in assessing the organisations activities and needs.

Highly subjective

Another criticism of budget figures is that they are highly subjective and not verifiable and should therefore not be confused with historical records. The information can however be clearly labelled as a forecast and not confused with historical data in the reports.

Budget/Actual Comparison

Two problems are seen to arise here: that budget/actual comparisons do not really reflect management performance and that the fact of actual/budget comparison being made may result in management taking action to meet the budget rather than do the best for the organisation. CICA do not really comment on the first of these points and they feel that a responsible management would not be influenced in action for the sole purpose of meeting the budget. Before any firm conclusions are reached on this particular point perhaps a further study of 'budget behaviour' by NPO management is indicated?

Cost

The argument that the cost of preparing budget information in a form suitable for publication would be excessive is thought by CICA to be unreasonable as all well-managed organisations should prepare budget information anyway.

Affect on Negotiations

Budgeted information may disclose expectations of future payments and receipts and thereby offer advantages or disadvantages to suppliers, employees and others. It is however also possible that the nature of the NPO environment and absence of a profit motive could negate these problems. In any case a suitable level of aggregation of the budget information can remove any extreme detail.

Though this discussion is quite brief it does raise a number of interesting issues. As with other areas in NPO accounting it is not clear how many organisations do include budgets in their accounts and, if they do, why they have done so and what problems they face. Despite this it is evident that there may be a case for encouraging NPOs to use budgets but that there are fears that doing so might induce behaviour in management which is not in the best interest of the organisation as a whole.

Budgeting behaviour has been subject to investigation in business organisations (Hofstede 1966) and this area might be a fruitful one for further research.

An interesting omission from the CICA study is the whole area of advantages of releasing budget information particularly in relation to fund-raising or advertising the work of the organisation. Bird and Morgan-Jones comment that certain charities do include budgets as part of their annual financial report. If budgets are used in this way then there is a possible organisational justification in that they are being used by management to maintain the organisation's F-set (see chapter 2.3 and Tinker and Lowe 1980).

Chapter 4 Communication and Information Theory and Non-profit Organisations

4.1 Introduction

Accounting information is the main interest of this study and so it is evident that we need to consider what it is, where it comes from, how it is used and what it is used for. In this chapter a brief overview of the literature surrounding information generation, transmission and use will be made. At the very simplest level, accounting information is the output from an accounting information system (AIS) and it is the input used by participants. As such accounting information has many of the characteristics of an intermediate production good.

On its own accounting information has little or no intrinsic value but in use by participant of the organisation it can be valuable and its value is to a large extent gained from the use to which it is put and this use depends in turn on such factors as reliability and uniqueness of the information. We must therefore look closely into the use made of accounting information to identify in what situations and in what ways it has value and what factors are likely to affect that value. In this discussion we shall not repeat the debate already covered about what user needs are (see chapter 2) but will concentrate on the ways information is processed by participants.

Information is an output from an information system and so to understand more about the role of information it will be necessary to look at the systems which produce the information. There is much in the literature on the design of information systems and the factors which lead to the production of a particular system. Depending on one's concept of causality one can believe that the accounting system is contingent upon the organisation and its environment or that the form of the organisation is partially determined by the accounting system or perhaps there is a sense in which both system and organisation are interdependent. Whilst this structural problem is quite interesting and important in the NPO situation it is felt that a further consideration is the behavioural impact of the information system on the organisation and its participants.

Finally in looking at accounting information we need to consider the forces which relate the users "need" or demand for information and the accounting system's production of this information. The literature suggests that there may be a market for this information in the business situation but this has not yet been extended to the NPO situation nor thoroughly investigated in the business situation. In this NPO study this interlinking will be studied carefully as the existence of a market for information may not be able to be postulated as easily as in the business situation.

Before moving on to consider each of these areas it will be useful to look more closely at a working definition of "information" and at a general idea of what an information system is. Chambers (1966) sees information as "something newly apprehended" (p145). He recognises however that "when it is used in connection with choice, information does not refer to everything that is newly apprehended; it refers to signs or signals bearing on the situation in which the choice is to be exercised" (p145). Chambers thus identifies two facets of information: that it is something newly apprehended and that it may or may not have relevance to a particular choice situation.

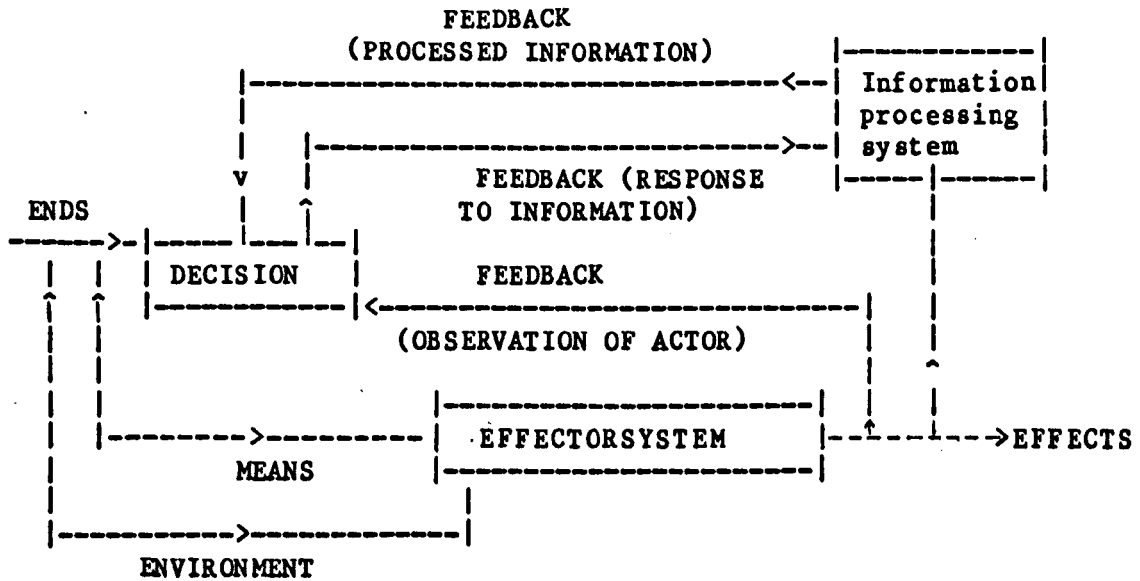
Hendrikson (1977) however confines his view of information to the specific situation defining it as "...data that has a surprise effect on the receiver" (p119). This idea or a slight variant of it occurs in the information economics literature. Beaver (1981) for instance sees the role of accounting information as being to alter the beliefs of the investor, and so information is only information if it has this surprise effect. This "surprise effect" of information is essentially one that can only be defined ex-post in respect of one piece of information at one point in time for one person. In these respects it is related to the economic concept of utility. Because of the specificity of the definition it is very difficult to sum the value of surprise effect information across individuals (each of whom has a different view of the world and a different surprise threshold), across time (because the environment and therefore knowledge is constantly changing) and for classes of data (each of which may

be perceived differently by even an individual user).

Two views of information seem to exist then: that information is simply facts not known before (i.e. information equals data) and that information is only such if it has a surprise effect (i.e. data does not equal information). In essence the first of these views is a supply view and the second a demand view. There are problems associated with taking either view over the other. If an accounting information system (AIS) is to be designed on the basis of the supply view then how can it ever positively identify ex-ante what information will be useful ex-post? On the other hand if all new information is collected then there will be so much information collected that perhaps nothing of value will be extracted (information overload). An additional problem is that the information system may need to meet a variety of demands at any one time and there is almost inevitably likely to be a constant mismatch of supply and demand resulting in either over or under supply depending on the point of view of the user.

An information system is a system existing, usually within an organisation, whose function is to gather data from the organisation and its environment for users. The AIS is usually the major quantitative system in almost every organisation (Horngren 1966 p3). NPOs are no exception to this and a number of studies have looked at the information systems in NPOs eg Conway (1975). An AIS may be very simple or quite complex. It is only one of several systems which may exist within an organisation and although it exists to collect information from the organisation and its environment it is often confined to producing internal information. The recent literature widely regards the AIS as being organised contingent on the organisation and as collecting information which is relevant (or potentially so), storing and analysing it and communicating it on a regular or ad hoc basis to users.

Figure 4.1 An information system with feedback loops for a single actor and decision



Source : Chambers (1966) p161

Chambers, in a single actor decision situation, develops the model for an information system shown in figure 4.1. This model is similar to that postulated in other decision models and is based on rational decision-making ideas. This model is limited in that it refers only to a single use situation and a single actor. Chambers comments that the feedback response to processed information is necessary to prevent entropy developing in the information system and this should keep information relevant and dynamic. If this model is modified to a multiactor and multiuse situation then it becomes far more complex because the feedback to the information system and consequent pressure for changes in information produced now takes the form of an aggregate of many users demands. Thus the dynamics of the feedback which prevents entropy in the information system become a political arena.

One of the areas in which the study of churches will be of value is in determining whether there are pressures for change in accounting information and is so where these originate. This may help us understand whether the AIS is dynamic as in the Chambers model and if so where the change originates.

The balance of this chapter will go on to discuss literature in each of three sections:

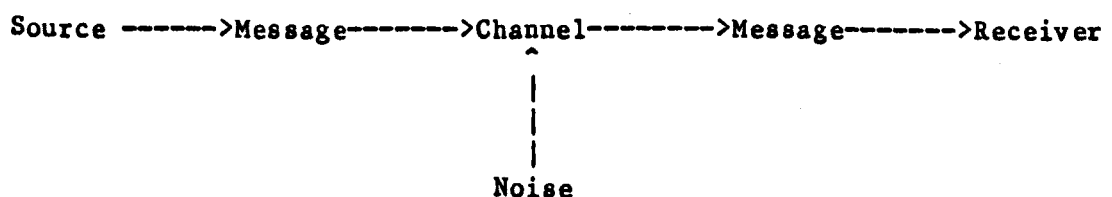
1. Aspects of Communications Theory
2. Information Systems Design
3. The economics of producing and supplying information

4.2 Aspects of Communication theory

In recent years accountants have begun to view accounting reports as information and the provision of such information as being a key function of accounting. This information view of accounting is very closely related to communications theory and so before going on to discuss information theory and information economics this chapter will attempt to provide a background overview of some of the communications literature.

There are a number of approaches to defining and describing communication which are extant in the literature. Perhaps the best known approach is the model of communication developed by Shannon and Weaver (1949) to assist in the mathematical theory of communication. This model, shown in figure 4.2.1, is described by Lin (1973) as taking a 'dimensional' approach to communication. Under this approach several dimensions are identified: a source, a message, a means of sending (a channel) and a receiver. McQuail (1976) adds a further dimension, that of a communication code or language. Several other authors (eg Schramm 1971) have developed this basic model noting that the process of communication also has a feedback dimension through which the receiver can influence the sender.

Figure 4.2.1 The Communication model of Shannon and Weaver (1949)



Lin identifies two other general approaches to communication definition: the process or social system approach, after Heider (1946) and Newcomb (1953) which emphasises the process involved in communication and the functional approach which looks at the functions that communication serves (Shannon & Weaver 1949, Ackoff 1953). Lin further notes there are many other attempts to define communication and that there are a number of research traditions associated with communication: persuasive

communication, group process and cognitive structure, mass communication, political communication and so on.

McQuail (1976) sees Gerkner's (1956) general model of communication as the most comprehensive attempt to describe communication. The model is expressed as follows:

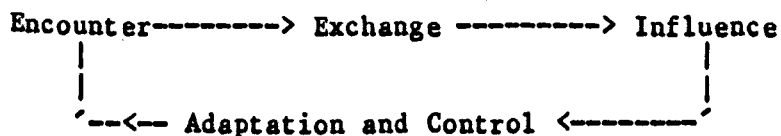
"Someone perceives an event and reacts in a situation through some means to make available materials in some form and context conveying content of some consequence"

but even this model does not take in the breadth of possible definitions of communication as, of itself, the model is focussing on the consequence of the action and ignores the effect of feedback.

With no specific single theory then it is possible to branch out in many ways in discussing communication. In order to ground the present discussion however we shall use a framework suggested by Lin and shown in figure 4.2.2. Communication is here regarded as four phases: encounter, exchange, influence and adaptation and control.

Encounter is the process by which a specific piece of information and the receiver(s) are linked through a particular medium. This phase of communication covers such important topics as the context of communication, the coding and decoding process and the delivery system. In the context of accounting information the encounter would involve the relative understanding of terminology by senders and receivers, the receiver's perception of the accuracy of information in the encounter and the amount of redundancy in the message.

Figure 4.2.2 Lin's (1973) Framework for viewing Communication Literature



The second phase is Exchange, defined as the flow of shared meaning. This represents the effort on the part of participants to maintain shared meaning. The major concern is the message or

meaning contained in the symbols and involves discovering how meaning is developed, what form exchange may take and what function exchange serves. Encounter may or may not lead to exchange but it must be present for exchange to take place. Of interest here is how meaning is developed between the preparers and receivers of accounts and what sort of function does the exchange have (intrinsic and extrinsic benefits).

Influence, the third phase, is the discrepancy between (1) a person's behaviour patterns or attitude toward an object or situation before his participation either voluntarily or involuntarily in encounter and/or exchange and (2) his behaviour or attitudinal patterns after such encounter and/or exchange. As we shall see, the idea behind this influence phase is used in the information economics literature to define information as opposed to data. Here however Lin is suggesting that the influence phase represents the impact, psychological or behavioural of communication and is a major research area in social psychology. Such impact is difficult to measure at either the attitudinal or behavioural level.

The final phase, adaptation and control is the process by which the fidelity of information flow, the efficiency of the message flow and induced changes are achieved or maintained. Control is thus the organisational phase of communication and is necessary to prevent deterioration and disorganisation of the communication flow. This control is achieved by having feedback from receivers and is implemented by dissemination.

With this general framework as a background we shall go on to discuss several areas of interest: the communication relationship, the functions of communication and opinion leadership.

McQuail (op cit p32) describes four communications situations determined by whether the sender and receiver are active (actively involved in the communication process) or passive (not actively involved in the communication process). The four situations are repeated here in table 4.2.1.

In the Active Sender/Passive receiver situation we have an unbalanced situation with the sender using superior power (social or resource) to define the relationship. This would be for example the advertising situation and the propaganda position. It is a situation which may be found in accounts production in certain circumstances eg when accounts are used for publicity purposes. In terms of the Lin model this situation would imply encounter but would not necessarily lead to exchange as there might be little shared meaning. In this situation feedback would have to be elicited eg market research in order for the adaptation and control phase to be active.

Table 4.2.1 Communications relationships (McQuail 1976)

Perspective of:	<u>Sender</u>	<u>Receiver</u>
	1. Active	Passive
	2. Active	Active
	3. Passive	Active
	4. Passive	Passive

The situation where both receiver and sender and active is that such as the bargain, conversation, debate, teaching situation and in accounting where information flow is based on discussion between receiver and sender either internally to the organisation or at AGMs. In such a relationship participants would be equal and symmetrical.

In the third situation, active receiver and passive sender, there is active and positive search for information by the receiver. This would include a whole range of activity from 'scanning' the environment generally to the specific search for a piece of information to solve a problem. This situation implies a good deal of freedom in choosing a personal view from among a number of messages.

Finally there are a group of unstructured and undirected encounters where both sender and receiver are passive. Though these circumstances imply a sort of apathy, they may nevertheless be important and their outcome will reinforce certain meanings and understandings.

Though Mcquail describes these four situations as dichotomous it is perhaps more helpful to view them as four corners of a communication area in which communication can be placed. Each individual sender/receiver relationship could be placed within these boundaries and it should be clear that whilst a receiver may have only one relationship to one sender for any particular communication, a sender might have relationships with a number of receivers.

This basic model posits a number of relationships which might exist between receiver and sender and it may help us to pose various important questions about why people enter into communications (as both senders and receivers), what meaning participants attach to the communication situation and what relationship exists between participants. The answers to these questions will help us to understand the role which accounting reports might have in an organisation.

This table represents a progression from a view where the situation is defined for participants and the only communication possible is action/reaction to a situation where there is complete freedom of participants to interact without any sort of constraint. Along this continuum we can identify a number of possible reasons for communication and four of these are shown in figure 4.2.3. The extreme behaviourist position sees communication as instinctive (Pavlov's dog experiments) whilst the socio-psychological view would see communication as necessary to reduce tension in a relationship or to orient the participant to his environment. In the Social System position, communication is undertaken in order to make choices among options made available by the system and finally in the interactionist view communication takes place in order to change the environment.

From this analysis we can identify a very large number of possible reasons why communication takes place and the meaning of these communications situations. Using a different approach to this Lin also identifies functions of "exchange" and he breaks these down into two distinct groups: exchange for intrinsic benefits and exchange for extrinsic benefits. The breakdown into

Figure 4.2.3 Summary of alternative answers to the main questions posed about the communicative act in terms of the Passive-Active continuum

	Psychological-	- - - - -	- - - - -	sociological
	1. Extreme behaviourist position	2. Social- Psychological Position	3. Social System Position	4. Interactionist pheomenological position
1.Why Communicate?	Conditioning instinct	Reduce tension; orient to environment	Achieve approved goals by approved means	Express free choice;act on the enviroment
2.What is the meaning of a communication situation?	Reaction as determined by the system	An experience of tension or discomfort	A situation of choice among goals and means	An occasion for innovation and creation
3.What is the relationship between participants?	Partial; Mechanistic	Functional; instrumental; holistic	Institutionally defined complementary	Intersubjective; negotiable

these groups is based on deciding whether or not the reason for the exchange has any external benefit or not. Where exchange takes place for its own sake, the information content has no external benefits for the participant but the exchange itself does provide benefits. Lin gives four examples of this:

1. Information relay and verification: where information is sought and verified even though the information itself does not benefit the individual but the possession of it does, possibly in terms of the status of the holder or verifier. The example given by Lin is gossip about a particular individual the knowledge of which might give another individual some status.
2. Interaction ritual: where the main purpose of the exchange is social interaction rather than the information contained of the communication. Cocktail parties, set plays and greeting rituals would be amongst this sort of exchange.

3. Friendship: here again the intrinsic value of the relationship is such that the value of the information communicated may be of little value compared with the function of the meeting. The difference between this and the interaction ritual is that here the ritual element is not so important as roles are less well defined.
4. Play: where interaction is purely for pleasure.

In the area of extrinsic benefits Lin sees exchange as taking place for three reasons:

1. Group identification: where exchange serves as an integrative or a differentiating function. Here exchange may serve to bring together a group and at the same time to differentiate them from other dissimilar groups.
2. Recognition: exchange promotes recognition of one's work, especially in the scientific community.
3. Influence: exchange enables participants to affect one another's attitudes, beliefs, behaviour and so on.

Although Lin takes a different approach to McQuail, it is possible to see in his work a very wide range of reasons why communication takes place depending on which view of communication theory we wish to take.

Chapter 4.3 Information System Design

In this study of non-profit religious organisations we will be interested in three particular aspects of information systems: the descriptive aspect of trying to understand why a particular system has come into operation; the normative aspect which tries to identify the most appropriate and/or optimal system for a particular organisation and finally the comparative aspect which involves investigating the reasons for and the impact of differences between similar NPOs and between NPOs and business entities. The main thrust of the study will be the descriptive and comparative investigation of NPRO information systems but we must bear in mind the need for evaluation of any accounting information system (AIS) in terms of organisational effectiveness (Otley 1980).

In recent years there has been an increasing interest in seeing information systems from a contingency point of view. Under this view the organisation's information system's design is dependent on a number of factors: the environment, technology, form of organisation, use to which the information is put etc (see for example Gordon and Miller 1976, Otley 1980). Contingency theory is an approach which has arisen largely due to the inability to fit the traditional view of AIS design to actual observed systems. This suggests that an AIS design cannot be based on a single blueprint for all organisations but must be responsive to circumstances, particularly of environment and decision style. Otley (1980) however points out that contingency theories have not yet developed to the point of being able to be used to specify the design of appropriate accounting or management information systems despite wide recognition in the literature.

The contingency analyses of the mid 1970s have therefore been seeking to describe and explain the form of AISs found in practice. Gordon and Miller for example postulate a model of three contingent variable groups which affect the form of the AIS: environment, organisation and decision style. The variable groups are not seen as independent but as inter-related as in figure 4.3. Otley refers to a number of contingency studies which include empirical work: Burns and Waterhouse (1975), Hayes

(1977), Daft and MacIntosh (1978) and Piper (1978) and theoretical studies by Gordon and Miller (1975), Waterhouse and Tiessen (1978), Amigoni (1978) and Dermer (1977). Otley sees each of these studies as following a simple linear framework produced here as figure 4.3.1. This linear framework is not dissimilar to the Gordon and Miller framework shown in figure 4.3.1 except that it does introduce the element of organisational effectiveness which Otley considers of vital importance and feels is missed out of most of the studies he cites (Hayes being the exception).

Otley goes on to elaborate on the linear framework but it is worth spending a little time discussing his assertion that "some assessment of effectiveness is highly desirable" (p420) as part of the contingency framework. A contingency framework without an effectiveness element can be a useful tool for the simple descriptive analysis of an AIS. It cannot however be used to ask such questions as "which system is better" or "given the contingencies, can a more effective AIS be developed". It will simply help us to discover which elements of the environment (technology, industry, economic climate) or organisation (hierarchy, flexibility) happen to be the major factors which appear to have caused a system to be as it is. Whilst this descriptive approach may have its uses, eg in identifying the factors which give rise to fund accounting in NPOs, for contingency theory to have any normative or comparative analytic value some means of effectiveness measurement needs to be sought.

Otley recognises that effectiveness measurement is very difficult, but nevertheless includes this in his original and revised contingency framework (figures 4.3.2 and 4.3.3). His revised contingency framework was produced in recognition of the difficulty encountered in evaluating effectiveness of the AIS on its own. He suggests that the total management control package (MCP) is the minimum level at which meaningful evaluation can take place and that even then it may not be possible to isolate the effects of the MCP from other factors or to measure effectiveness adequately.

Figure 4.3.1 A Contingency Framework (Gordon and Miller)

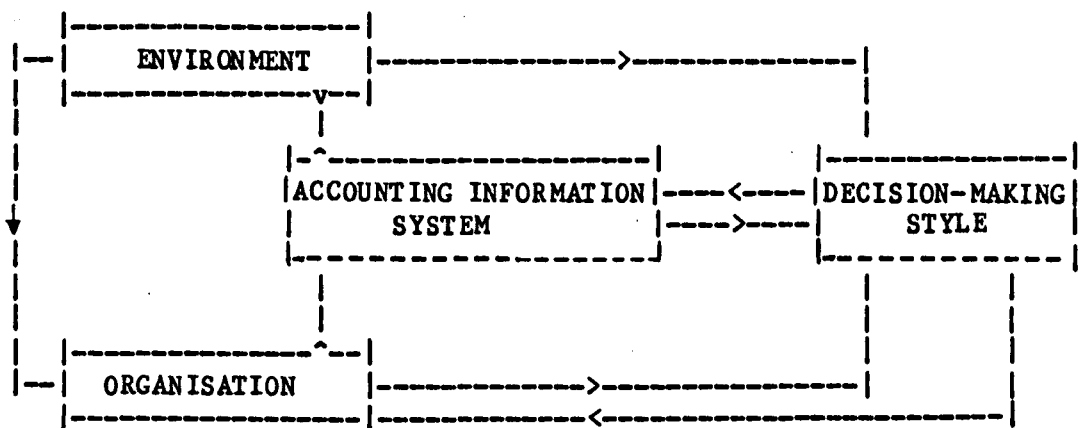


Figure 4.3.2 A LINEAR CONTINGENCY FRAMEWORK (OTLEY)

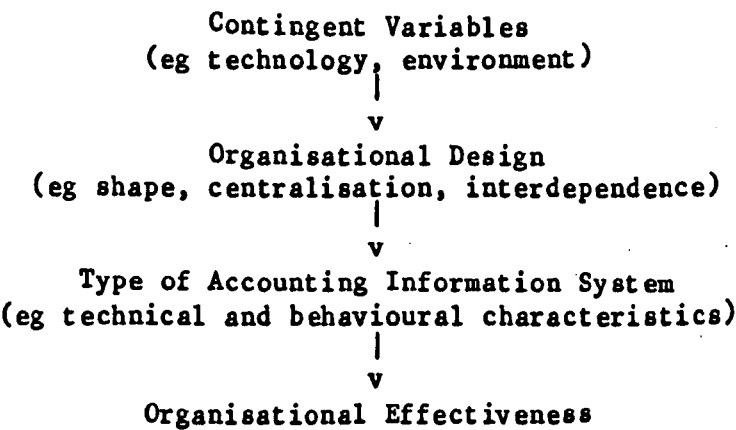
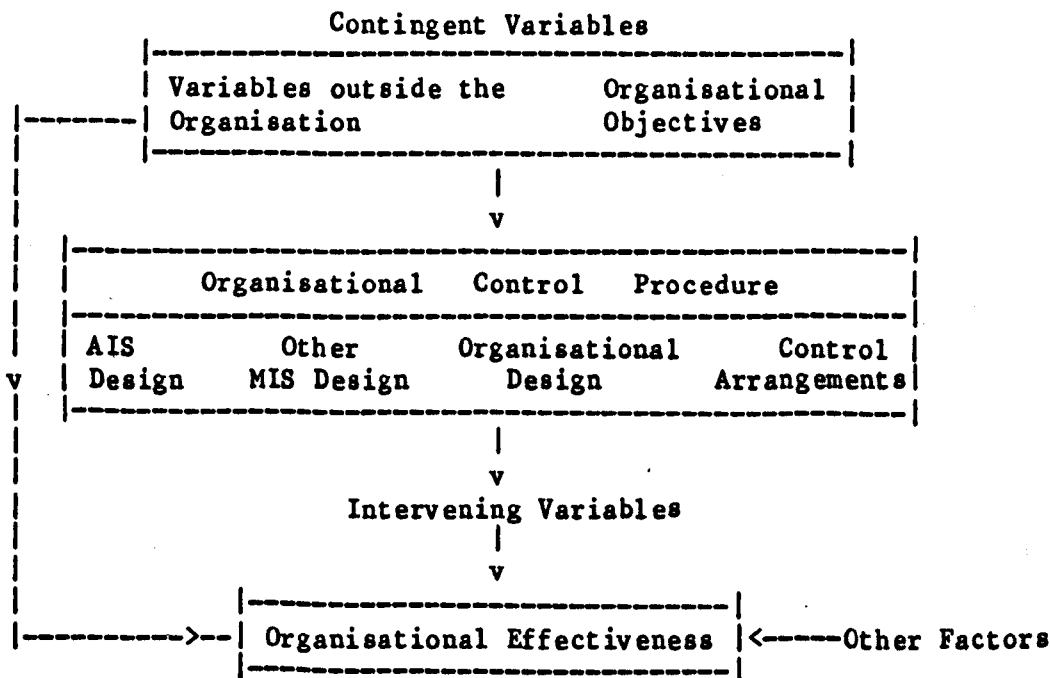


Figure 4.3.3 A MINIMUM CONTINGENCY FRAMEWORK (OTLEY)



There appear to be two problems in this analysis. The first is that the revised model has ceased to be one in which the contingent variables of the AIS are explicitly recognised and the second is that the AIS may not be used solely for control purposes. When Gordon and Miller extracted the three major influences on the AIS they recognised the organisation as a key variable. In Otley's model this still seems to remain so but has simply been omitted from the model by the summing of AIS, MIS etc into an MPC.

If in Otley's model the AIS is extracted for separate analysis then logically one of the key contingent variables is the structure of the other information systems. An excellent personnel information system may for instance mean that the AIS can be less detailed in the area of salaries and wages than would be the case with a poor personnel information system. Otley interprets these as joint design features within the MCP but if the AIS is isolated for study (as is proposed in this study) then the organisational variables become contingent.

The other perhaps more worrying problem with this analysis is Otley's implication that the AIS is used for control only. As has been discussed in chapter 2, there are clear indications that accounting information may have uses other than control (eg reporting to head office or to an oversight body). If this is the case there may be contingency variables which have significant effects on the design of the AIS which have little or no relationship to control but have a significant effect on the organisation of the information system. If these non-control uses of information are of significance then they must be included in the contingency framework either as special contingency factors or as additional aims from the evaluation viewpoint.

Chapter 4.4 Information Economics

The subject of information economics (IE) is concerned with the costs and benefits of providing and seeking information. There are broadly two branches of study which are grouped under the title 'information economics': studies of the market for information and studies of the impact of information on markets, especially the stock market. In both of these areas information economics has been applied particularly to accounting and other information in various commercial settings, especially in relation to the production of accounting information for the stock markets and for research and development. For the purposes of NPOs, where no markets in ownership rights exist, this section will concentrate on the first of the two areas mentioned, that of a market for information.

Studies in IE begin with the observation that information is "data with a surprise value" or "data which is in demand" and consequently see information as being an economic good which has no utility in itself but only a derived value which results from the use to which it can be put. It is of course possible that data or information may have utility to some people in itself eg as an archive or a work of art, but these instances are quite likely to be rare and when they occur move information into the area of private goods.

In the market economy setting IE is largely concerned with the use of information for decision making purposes. Butterworth (1972) sees information systems as being an integral part of the decision problem and indeed IE is sometimes given the title 'decision-theoretic' and Hirschleifer and Riley (1979) see information in the context of overcoming uncertainty in decision-making. Although information clearly does have a value or a utility in relation to decisions, the question must be asked as to whether information has value other than for decision-making. Hirschleifer and Riley for instance discuss the topic of research and development. Information about scientific research and have value in areas such as health improvement or product development in bringing increased utility (and therefore value) but this increased utility is not produced by an improvement in a

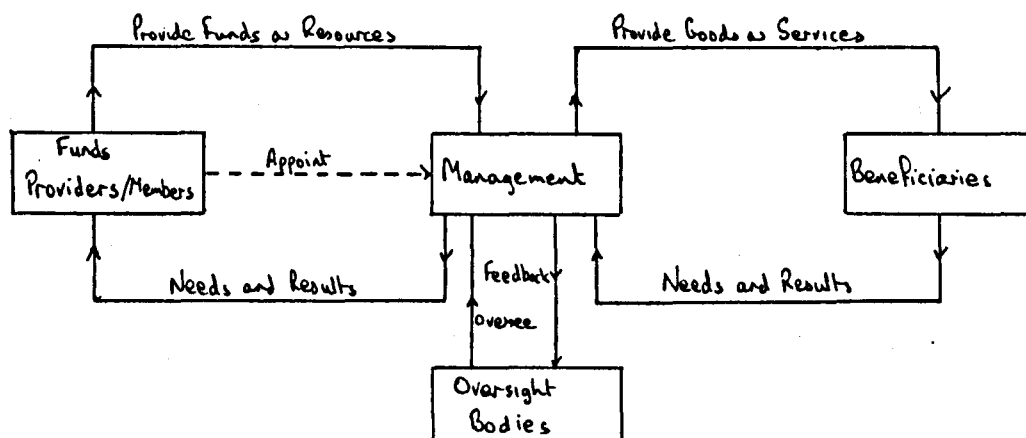
decision but by an improvement in a product or service. it is very difficult to see how this information element could be seen as purely a use in decision-making.

Mock (1971) argues that there are several potential values of information apart from the relevance of information to the assessment of probability estimates of those events which affect decision problems. He argues that the set of circumstances in which information has value include its contribution to learning, appreciation and control and he proposes that information (a message) has at least three potential values: decision, model and feedback and that each of these should be considered in the evaluation of an accounting system. For the purposes of further discussion in this study, the wider potential of derived values will be considered as it is not yet understood what uses there are for accounting information in an NPO.

It is shown elsewhere in the study (chapter 2) that the decision orientation of accounting information has played a significant part in the development of the normative accounting framework for NPOs to date but that this has not been tested empirically and other orientations are possible eg 'stewardship'. This review of the IE literature will therefore not be confined to the decision situation. The potential value of information in NPOs is a very important area of discussion because in the NPO sector resources are scarce and the resources allocated to administration, which included information preparation, are perhaps under the greatest pressure (see Bird and Morgan-Jones (1981) regarding the disclosure of fund raising and administration costs).

In order to set the context for a discussion of information economics perhaps it is necessary to develop a model of the economic process and of the participants in the organisation. An attempt to do this has been made in chapter 2.4 and a simplified model is given below for the present context.

The lines below the participants indicate potential flow of information and the lines above indicate flows of goods and services. A good deal of the model produced in chapter 2.4 has been omitted for simplicity.

Figure 4.4.1. Simplified model of Economic Process and Participants for NPD's.

Source: Figure 2.4.5 (Chapter 2.4)

The information flows in this model can include at least the following uses:

1. Information to resource allocators on the use made of their resources (either input or output data).
2. Information to resource allocators as to the future requirements of the organisation.
3. Information to managers for control purposes.
4. Information from beneficiaries as to the use made of resources or quality of service provided.
5. Information from beneficiaries as to future needs or desirabilities.
6. Information to oversight bodies for policy formulation and regulation purposes.

It is possible that each one of these messages has a decision purpose, an information purpose and a control purpose.

Unfortunately, apart from information to managers, the flows have only a tentative resemblance to the market orientation of much of the IE literature. For example the secondary securities market is one which trades in rights to shares in future cash flows from

organisations. In the NPO there is no market for such rights because there are not likely to be any future cash flows from an organisation, instead the only possible benefits which accrue to a participant arise from such public goods as might be available as a beneficiary to a NPO.

The only possible area where the IE view of the impact of information on future cash flows for an individual might have a similarity with the stock market is in restricted areas such as the trading in government and local authority securities. These are widely regarded in the U.K. as being virtually risk free securities although not so in the USA. The value of information cannot therefore be judged by its effect on the valuation of future cash inflows for the majority of NPOs. The question which therefore needs to be addressed to the IE literature for the NPO is what general guidelines on the valuation of information can we obtain? There are several common threads in the IE literature which, though most are obvious, are worthy of repetition.

Circumstances where information has value

To have any value, information must be of use, otherwise it is merely data. This is an a priori definition but the way in which use is defined varies from author to author. Bird and Locke (1981) see accounting information as being accounting data for which there is a demand whilst Beaver (1981) sees the role of accounting information as being to alter the beliefs of the investor (in an investment setting). Feldman and March (1981) similarly see that information in a decision environment has value if it can be expected to affect choice. Mock's (1971) argument cited above however suggests that there might be value in other uses of information such as education and control. Information then may have value even if it does not satisfy the strict decision usefulness criteria of much of the literature.

Influences leading to search for information

Information is likely to be sought after if its perceived value is greater than its perceived cost. Search for new processes and scientific advance is a clear illustration of this but it should be noted that scientific and processes information will probably

be sought more whilst there are property rights existing in the information produced (copyright and patents laws). In the IE literature these cost and value criteria are discussed in the market context largely in relation to privately available data as opposed to publicly available data. Where private data is sought about a company's affairs Hirschleifer and Riley suggest that its perceived value results from the possibility of the investor making a more accurate prediction of future earnings and adjusting his portfolio holding ahead of the market. The resultant movement in price is seen by Hirschleifer and Riley as a signal to the market that some information exists and the market responds to the signal even if it is unaware of the exact information. This notion does not accord with the efficient market hypothesis in either its weak or strong form however and it is doubtful how it will operate in practice.

In the NPO environment it is more difficult to postulate the circumstances under which information will be actively sought. Two possibilities from the model above are to identify congruence of aims eg a donor seeking information on the work done by a particular charity to discover if his gift would be possibly used by the charity in the way he would desire, and to identify the availability of cash available or grant aid eg a researcher trying to identify the possibility of obtaining a research grant. Whether these situations occur widely in practice is open to doubt as little empirical work has been done in the area.

In a NPO information may also be sought for monitoring purposes, even though there is no immediate decision need. The management may thus seek information on how beneficiaries are utilizing resources they receive in order to review beneficiaries needs for future planning even though management do not foresee any change in the general policy of support for the beneficiaries in question. Resource providers (or representatives of them) may also monitor the activities of management to determine whether they are maintaining an overall operating pattern consistent with the aims of resource providers. Such monitoring activities may not produce any indicators which are at variance with expectations and thus may not induce any action on the part of

the information monitors but the information seeking activity will still take place. The reason for this monitoring is that a decision situation does exist, albeit at the margin of probability.

Disclosure of Information

It may be of benefit to the organisation's management to voluntarily make information available about its activities. Bird and Locke⁽¹⁹⁸¹⁾ argue that in a market situation unfavourable information can drive down the share price and result in an increased cost of capital for the firm, whereas the opposite would apply for favourable information. They postulate that up to a certain quantity the release of information will be perceived to be beneficial to the firm whereas beyond this point no further benefits will be gained and the firm may perceive costs of disclosure. Puxty and Laughlin⁽¹⁹⁷⁹⁾ argue against complete disclosure on similar lines. This sort of argument can equally well be applied to NPOs where the release of information by the organisation can be perceived by its managers to result in benefits for the organisation in the form of increased income or a more assured level of income. These potential benefits are not economic in the same way as the effect on the cost of capital is a firm but may have a significant impact on fund raising costs as a 'plaintiff cry from the accounts' may reduce the need for advertising, suggesting perhaps that there may be economic value in window dressing the accounts, something which has been commented on in studies on both sides of the Atlantic (see Bird and Morgan-Jones(1981)).

4.5 Summary

In this chapter we have looked at three aspects of communication and information theory: some aspects of communication theory, information systems and the economics of producing information. In the overview of communication theory we reviewed a number of communication models including those of Shannon and Weaver (1949), Gerkner (1976) and Lin (1973) and we went on to discuss three areas of interest to NPO accounting: the communication relationship, the function of communication and opinion leadership. All of these areas provide background for the

discussion of the use of accounts in churches in chapter 10.

The literature on information systems design was discussed briefly and particularly the contingency frameworks. Such frameworks see the design of the accounting information system as being contingent on certain variables eg environment, organisation and decision making style. An understanding of these suggested relationships may help us to understand why church accounts are as they are, particularly in relation to fund accounting which, as suggested in chapter 8, may be a naturally occurring phenomenon.

The discussion of information economics has centred on understanding how information could be of value in an NPO environment. It was suggested that accounting information may have value to recipients even though it does not satisfy the strict decision usefulness criteria in much of the accounting literature. This discussion, as in other parts of this literature review, suffers from a lack of knowledge about what information is produced in NPOs and what it is used for. Once again this section provides helpful background for chapter 10.

The next part of the study is the empirical work where the ideas raised in this first part are explored in a detailed descriptive study.

**Part 2 Empirical Study of Accounts in the Non-Profit Religious
Organisation**

Chapter 5 Introduction and background to case studies

5.1.1 Choice of cases for study

The empirical study took place in five church organisations in the United Kingdom. The study of each of these cases comprises three integrated pieces of work: an archival study of the published accounts of the churches, a questionnaire study of the users of these published accounts and interviews with 'internal' users of accounts of the organisations. In this preliminary chapter background information about each of the five churches in the study will be presented. Before this is done however this first section will give some details of the preliminary work undertaken prior to selecting the churches to be studied.

There are many different religious organisations in the U.K. These comprise many different faiths, but predominantly the faiths are Christian, Jewish and Moslem. Of the three the christian faith is the most widespread and although some initial approaches were made to the Jewish faith for help in the study, the study has concentrated on the Christian Church. The reason for this is mainly due to ease of access, the researcher being a member of this faith and the other faiths having no suitable headquarters within easy distance of the researcher's base.

Barrett (1982) lists some 530 distinct christian denominations in the U.K.. Many of these are extremely small with only one or two congregations but several are large and have area, regional and national headquarters. It was decided at the outset that the study would try and concentrate on organisations at the regional or national level for several practical reasons: the churches at this level would be likely to have full-time officers who would be relatively easy to obtain access to; they would have relatively large amounts of funds at their disposal compared with local congregations and so be similar to other larger U.K. charities and they would be organisations with some impact on the lives of a large number of people. It was expected also that these organisations would demonstrate a large number of the NPO accounting problems which we have already discussed.

In order to collect background material about regional and national church organisations to assist with a choice of cases, it was decided to conduct several interviews with accountants in certain churches, to send out a questionnaire to collect certain basic facts and to collect the accounts of some of the churches in the target group.

A letter was sent out to 117 regional and national church headquarters in the U.K. asking for copies of their annual accounts and enclosing a brief questionnaire. The questionnaire asked about the number of sets of accounts produced, the recipients of those accounts, whether management accounts were prepared, who were the targets for the accounts and finally whether they would be prepared to assist further with the study (see Appendix A for letter and questionnaire).

The churches contacted fall into four broad groups: 'Roman Catholic', 'Anglican', 'Other Main Protestant' and 'Other Churches'. The 'Anglican' churches have an anglican tradition but are not necessarily Church of England, eg Church of Wales. Other Main Protestant' churches include the Church of Scotland, Reformed Church, Salvation Army, Churches of Christ, Methodist etc. and the 'others' include Seventh Day Adventists, Church of Jesus Christ of Latter Day Saints (Mormons) etc.. The number of responses and reasons for non-response are given in table 5.1.1.

There were high response rates from the 'Anglican' and 'Other Main Protestant' churches but disappointingly low responses from the 'Roman Catholic' (RC) and 'other' groups. In the case of the 'other' group, the churches were either very small or were local branches of international churches and therefore felt it inappropriate to respond. In view of these two factors it was decided not to select a church for study from this group. The low response in the RC church was almost certainly due to the organisational character of the church where accounts are those of the trustees and generally not made available to ordinary members of the church. In several cases responses indicated that accounts were produced but that publication had only recently been started or was not a practice normally followed eg "because

many would misunderstand the information". A case study of a RC church headquarters was considered but difficulty with requested confidentiality and arranging adequate interviews led to its abandonment.

Responses in the 'Anglican' and 'other Main Protestant' groups indicated the possibility of a much more fruitful area for research. In several organisations there were substantial numbers of people receiving accounts and a fairly large organisation. From the churches contacted by this first letter therefore five church organisations were chosen for study: three anglican, one of which was a national organisation (the Representative Church Council (RCC) of the Scottish Episcopal Church (SEC)) and two of which were regional organisations (the Diocese of Glasgow and Galloway of the SEC and the Diocese of Liverpool of the Church of England), and two other Main Protestant Churches (Methodist Church and Church of Scotland), both of which were national organisations. All these organisations are briefly described in the later part of this chapter.

The decision to choose these particular churches was not made on the basis of the questionnaire survey and the accounts alone but was assisted by interviews which were undertaken with a number of church accountants. The names of those interviewed are given in appendix C. The interviews gave a good deal of background data on financial information produced in the churches which was not available from accounting reports themselves and they established that there were a number of churches where the kind of research envisaged would be possible. The distance from the home base of the researcher of several of these headquarters meant that, on cost grounds, only three of the distant organisations could be chosen for the study and the others were reluctantly set aside. The interviews also provided much valuable background material which helped in the production of the questionnaire and the questions to be asked at the interviews.

5.1.2 Other Information from the questionnaire

The questionnaire also produced some interesting, if general, information about who the preparers of financial information

Table 5.1.1 Initial Questionnaires distributed and returned

	<u>'Anglican'</u>	<u>'Roman Catholic'</u>	<u>'Other Protestant'</u>	<u>'Other'</u>	<u>Total</u>
Total Sent Out	<u>59</u>	<u>29</u>	<u>15</u>	<u>14</u>	<u>117</u>
Usable replies	<u>42</u> 71%	<u>6</u> 21%	<u>12</u> 80%	<u>2</u> 14%	<u>62</u> 53%
No Replies	11 19%	14 48%	2 13%	6 43%	33 28%
Unusable Replies	-	-	1 7%	1 7%	2 2%
No Acct Published	-	7 24%	-	1 7%	8 7%
Refusal	6 10%	-	-	-	6 5%
Inappropriate	-	2 7%	-	4 29%	6 5%
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>---</u>
Total Not used	<u>17</u> 29%	<u>23</u> 79%	<u>3</u> 20%	<u>12</u> 86%	<u>58</u> 47%

Table 5.1.2 Reported Recipients of Organisations' Accounts

	<u>No of Org- anisations Reporting</u>	<u>% of Orgs</u>	<u>Average % of Accounts</u>	<u>Number of 'Influence' Replies</u>
<u>'Management'</u>				
Senior Staff	46	74.2	2.57	14
Boards	55	88.7	17.44	45
Representatives	45	72.6	27.15	39
Members	24	38.7	13.61	14
Congregations	29	46.8	19.31	24
Headquarters (29 N/A)	33	53.2	1.68	11
<u>'Outside Interests'</u>				
Other Organisations	26	41.9	1.89	4
Charity Commissioners	23	37.1	.22	4
Registrar of Companies	37	59.7	.22	9
Tax Authorities	32	51.6	.90	5
Banks	19	30.6	.50	-
Creditors	-	-	-	-
Press	23	37.1	.79	4
Researchers	9	14.5	.11	1
General Public	7	11.3	.87	2
Employees	18	29.0	1.05	3
Donors	13	21.0	.40	3
Recipients	2	3.2	.03	1
Trusts	1	1.6	.10	-
Library	4	6.5	.12	2
Other	8	12.9	1.35	-
	<u>--</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total Organisations	62	100.0	90.31*	
	<u>--</u>	<u>-----</u>	<u>-----</u>	

* Note that there were several cases where the number of accounts issued was less than published, presumably because spare copies were kept in the office.

thought the users of accounts were; which of these was the main 'target' for the financial information and whether management accounts were prepared. The first two of these questions are ones which the literature had suggested might be useful general information and the last was one which had been suggested by early contacts with NPO accountants.

As far as the main accounts users are concerned, the largest number of accounts are sent to those who are, directly or indirectly, concerned with the management of the organisations (see table 5.1.2). Overall 81.8% of accounts are sent to this sub-group with about 17% going to Board members and 2.6% to staff. On the other hand, 8.5% of accounts are sent to outside organisations including tax authorities, donors, general public etc.

Not all the organisations send accounts to all the bodies named in the questionnaire. It appears that this means an oversight has been made on the part of some respondents, especially in relation to sending accounts to the tax authorities! The general pattern is quite clear that the churches as a whole have a 'parochial' outlook in producing their accounts essentially for those in the organisation. Table 5.1.2 also shows that those people concerned with management are not only the main recipients of accounts but are regarded as the main users in the mind by those who prepare accounts. The major external user considered by preparers is the Registrar of Companies but here, as with other external users, the percentage of preparers considering this user is quite low. (Note that this survey was done before the 1981 Companies Act was in force).

Respondents were also asked if they prepared management accounts more often than annually. The responses are included in table 5.1.3 which shows that 54.8% of churches did prepare some sort of management accounts, 14% at least monthly, 22.6% at least quarterly and 9.7% at least half yearly. There are however 45.2% of churches who do not prepare regular management accounts and this is an indication that in at least some cases the annual accounts, of necessity, perform a management accounting function

(an example of this is Glasgow and Galloway Diocese studied here). In a minority of churches (19.4%), abbreviated accounts are prepared for distribution. This tends to be done in the larger churches and is possibly because they have complex accounts requiring abbreviation and/or that there are very high printing bills for producing the whole accounts.

Table 5.1.3 Number of Church Organisations reporting Management Accounts Prepared

<u>Frequency of Preparation</u>	<u>Total Preparing AT LEAST</u>		<u>Total Preparing</u>	
Monthly	9	14.5%	9	14.5%
Quarterly	14	22.6%	18	29.0%
Half Yearly	6	9.7%	11	17.7%
Other Period	5	8.0%	7	11.3%
Annual	28	45.2%	62	100.0%

This section has given an indication of the basis upon which the five churches in the study were chosen from among the many available. We have also seen some of the initial information collected about church organisations' account users, about target users in the mind of preparers and the extent to which management accounts are prepared.

Chapter 5.2 An Overview of the five churches

The area of the non-profit sector chosen for this descriptive study is that of church organisations for reasons described in the previous section. In this general area of churches it was necessary to choose a number of church organisations for case study purposes and five churches were chosen. These five were selected as they represented different organisational and theological traditions within the religious sector. The study was limited to five churches because of limitation of resources for research.

The five churches each have a significant number of users of accounts not directly involved in controlling the operations. This chapter gives a brief description of each of the churches and draws out contrasts and comparisons between the organisations.

Two of the organisations are regional headquarters and three are national headquarters of churches. These come from four different churches representing three different traditions of christian church life in the 1980's. This is illustrated in table 5.2.1.

Table 5.2.1 Names and traditions of five churches under study

<u>Case Code</u>	<u>Name of Organisation</u>	<u>Church</u>	<u>Tradition</u>
1 GGO	Diocese of Glasgow and Galloway	Scottish Episcopal	'Anglican'
2 RCC	Representative Church Council	Scottish Episcopal	'Anglican'
3 LPL	Diocese of Liverpool	Church of England	Anglican
4 COS	Church of Scotland Headquarters	Church of Scotland	Presbyterian
5 MET	Methodist Church Headquarters	Methodist Church	Methodist

In the descriptions which follow we will discuss each individual organisation in turn. In doing so we shall see that there are a number of different names for similar organisational levels in different churches. To try to reduce any possible confusion we shall define four levels of church organisation for the study and these will always be referenced in the text in a bold type face. Table 5.2.2 gives the relationships between the defined levels and the actual names used in the individual churches. It will be appreciated that these name allocations should not be taken to imply that the levels are equivalent across churches as for

example a Church of Scotland Synod is not equivalent to a Church of England Diocese even though they are both defined as **Districts**.

Table 5.2.2 Comparative organisational levels in the five cases under study

<u>Level</u>	<u>GGO</u>	<u>RCC</u>	<u>LPL</u>	<u>COS</u>	<u>MET</u>
Central	Representative Church Council	Representative Church Council	General Synod	General Assembly	Conference
Regional	Diocese	Diocese	Diocese	Synod	District
Area	Region	Region	Deanery	Presbytery	Circuit
Local	Congregation	Congregation	Parish	Parish	Church

The four different levels are **Central** meaning the central organisation of the particular church structure; **Regional** meaning the organisation roughly corresponding in size to two or three local authority counties; **Area** meaning a group of local churches or congregations and **Local** meaning the local church presence. Table 5.2.2 shows these names related to the individual churches. The **bold names** indicate at which level in the organisation the particular study is being based.

A number of further definitional differences arise in comparing the five church organisations eg names of clergy, organisations, responsibility areas etc. The only one of these which is of immediate interest is the title of the clergyman working in the church, though as we shall see later the questionnaire had to be adapted to cope with a number of these differences. Table 5.2.3 summarises the main titles used for clergy in the different churches.

Table 5.2.3 Main titles for clergy in the five churches under study

GGO	Deacon, Curate, Priest-in-charge, Rector, Clergyman, Canon, Dean, Provost, Bishop
RCC	Deacon, Curate, Priest-in-charge, Rector, Clergyman, Canon, Dean, Provost, Bishop, Primus
LPL	Deacon, Curate, Priest-in-charge, Vicar, Rector, Clergyman, Canon, Dean, Archdeacon, Provost, Bishop, Archbishop
COS	Minister, (Moderator)
MET	Minister, Superintendent Minister

5.3 Diocese of Glasgow and Galloway

Introduction and Constitution

This diocese is one of seven regional organisations within the Scottish Episcopal Church (SEC). The SEC is of Anglican tradition though its roots are not common with the Church of England as it broke off from the Church of Rome separately and remained aloof from the English church (see Goldie 1976). The Diocese covers the geographical area of Glasgow city, Dunbartonshire and the area south of the Glasgow to the Solway Firth and east approximately on the line of the A74, the main trunk road from Glasgow to England. In this area are 72 congregations each of which send a lay representative to sit with the Bishop, the clergy of the Diocese and the diocesan officials in the annual Council meeting which governs the non-theological (temporal) affairs of the diocese. The Bishop and Clergy in the Diocese also forms a separate Synod which was concerned with the spiritual side of the church. Both the Council and Synod have been merged from 1983 but this study took place before this change. There are about 12,500 communicant (regular) members of the church in the diocese, though official membership figures are higher at 22,500.

The Diocese, though a regional one, has a good deal of autonomy from the rest of the Episcopal church due to the tradition of having a Bishop who is chief pastor to the people in his diocese. The Canons of the Church (Code of Canons 1973) indicate that the clergy are answerable for their official conduct to the Bishop, Episcopal Synod (see RCC, chapter 5.4) and the College of Bishops only. The Bishop is therefore in a position to direct much of the work throughout the Diocese through its priests. The Bishop also has various duties in respect of church property, especially ecclesiastical property in the Diocese.

The Code of Canons establish the Ecclesiastical organisation of the church but the 'temporal' affairs are governed by the Digest of Resolutions (RCC Digest 1978) of the Representative Church Council (see Chapter 5.4). The RCC Digest contains the basic rules governing the management of the temporal affairs of the Diocese including the membership of the annual Council meeting and the duties and powers of the Council. In addition to this the Diocese

has its own regulations which establish its various committees and Boards and define their powers and duties. It is therefore not possible to isolate any single document which contains the constitution of the Diocese, its committees and boards. The analysis of structure which follows therefore draws on several sources.

Organisation and duties

The Diocese is organised so that a number of different boards and committees carry out the functions of the Diocese subject to the overall scrutiny of the annual Council meeting. The composition of the Council is laid out in the Digest and is principally as shown in table 5.3.1.

Table 5.3.1 Membership of the Glasgow & Galloway Diocesan Council

1. The Bishop
2. All licensed and instituted priests and deacons
3. All non-stipendary (ie honorary) priests and deacons holding a license or commission
4. All retired priests who have served 10 years immediately prior to retirement in the SEC and live in Scotland.
5. All priests and deacons of the SEC working overseas.
6. Officials of the Diocesan Boards.
7. A lay representative (or an alternate) from each congregation (who must be communicant members over 18 years of age)
8. A number of additional lay representatives appointed by the Council.
9. Members of Diocesan Boards not otherwise members.

In practical terms the Council has a membership of about 200 and meets annually in January when about 2/3rds of those eligible attend. The clergy of the meeting attend year by year and therefore only change when new clergy move into the Diocese or clergy die or move out of the Diocese. On the other hand congregational lay representatives are subject to re-election annually. It seems however as if lay representatives are re-elected for several years running and so though subject to gradual change this membership element is also fairly stable from year to year. Diocesan officials tend to remain in office for several years as do Board members and appointed lay

representatives from Council to the central church body (the RCC). Though stable the membership of council does change and in particular there was a great deal of change in the officials of the Diocese with new bishop, chancellor, secretary and treasurer in the two years immediately prior to the study taking place. The duties of the Council are related to the temporal affairs of the organisation and it is responsible for the main administrative functions of the church. The Council has control of all funds and properties committed to it and is empowered to collect and distribute funds and properties subject to the rights of the Bishop and terms of any trusts (Digest no.21). Certain duties are clearly assigned to the Council and its Boards including:

1. Managing Diocesan Funds and properties and supervision of all Church property in the Diocese.
2. Payment of grants to assist congregations to maintain minimum stipend of clergy, pay travelling allowances and maintain property.

In addition to these duties and support of the Bishop's functions the Diocese provides certain central services such as relief (supernumerary) priests, social service unit, universities chaplain, newsletter and training for the ministry. Among the funds administered are loan funds for assistance with maintenance of property, retired clergy housing and other diocesan work.

None of the Boards operating in the Diocese is formally defined by the Digest except for the Standing Committee (Digest no.21(6)) but in practice the Diocesan Boards reflect virtually the same organisation as the RCC. This means that there are five Boards in addition to the Standing committee: the Joint Board, responsible for matters of home mission, clergy stipends, and augmentation (grants towards stipends in congregations needing assistance with payment); the Board of Education, responsible for matters relating to education inside and outside the church; the Overseas Mission Board responsible for matters relating to the support of and education about overseas mission; the Social Service Board covering areas of social concern in the church and finally, a board not needed at RCC level, the Bishopric Income and Residence Board which oversees maintenance of the bishop's house and

conditions of service and collects funds for this purpose.

The Standing Committee is effectively the executive body of the Diocese in all matters not covered by the other Boards. Each Board has in the past virtually had its own funds and been responsible separately to the annual council meeting. In practice however there has been some overlap between the funds and the distinction between the boards' responsibilities has become blurred at the edges in recent years. It is clear however that the present fund structure of the diocese is related to the Board structure and has its roots in the historical background of the Diocese.

Staffing

Though all the clergy could in some sense be regarded as full time employees of the Diocese, the only clergymen employed by the Diocese are the Bishop and universities' chaplain. Apart from these there are only two full time paid staff in the diocese, a cashier/bookkeeper/secretary and a social worker. The Bishop has a part-time secretary and there is additional secretarial assistance on a part-time basis. The organisation is therefore quite small in terms of employees.

There are however a number of honorary officers who work for the church in their spare time and these include: registrar, chancellor, treasurer, secretary and synod clerk and the positions of convenor (and some secretaries and treasurers) of individual boards. The diocesan officials are all professionally qualified in their respective fields.

Membership of boards and committees is on a voluntary basis with only expenses being paid. The boards meet three or four times a year with the possibility of ad hoc and sub-committees meeting more frequently. The amount of time spent by these various officials and members varies enormously but it constitutes a real and largely cost free (to the organisation) resource to the Diocese. A conservative estimate of 8 hours a week spent on Diocesan work per person for the various officials and convenors alone would be the equivalent of a further two full time

personnel of professional status.

Conclusion

GGO is therefore a small regional organisation of the Anglican tradition with a wide variety of management tasks carried out by a number of committees. Most of the responsibility for management tasks is in the hands of honorary officials and unpaid committee members.

The church management tasks relate mainly to the coordination of the work of the church in the Diocese. There is some work amongst non-church members but this is very limited in extent.

Chapter 5.4 The Representative Church Council

The Representative Church Council (RCC) is the central body responsible for finance and property in the Episcopal Church in Scotland (SEC). The SEC has a very long history in Scotland. The church has its roots in the early church in Scotland when there was a single united church, independent to some degree from Rome, but nevertheless part of the 'worldwide' church then in existence. The Reformation in Europe brought changes to the Scottish church leading eventually to the rejection of the Episcopal (bishops) system in favour of Presbyterianism. During the early years of the Reformation, the Episcopal church was ruthlessly suppressed although the episcopal succession was maintained. The repeal of the Penal Laws in 1792 opened the way for the church to develop again and the present church is based on Canons promulgated since that time.

The RCC was originally constituted in 1876 and the constitution is drawn up by the Episcopal Synod (meeting of the bishops of the church, Canon LI) and the Provincial Synod. The two synods were the organs of the church mainly concerned with liturgical, theological and canonical measures. (This has been revised since the study took place with the amalgamation of the Provincial Synod and the RCC). The main business body of the church is however the RCC and it is this body which will be discussed from now on.

The SEC covers the whole of Scotland. There are about 70,000 permanent members of the church organised into 338 congregations. These congregations fall into seven dioceses or regions each with its own bishop and diocesan organisation. The church is small enough to have (at least until the 1983 reorganisation) a representative from each congregation on the annual RCC meeting which has a total of about 680 members. The membership is composed as shown in table 5.4.1

The RCC meets every year in June to receive accounts and reports and transact business as it sees fit. The Council appoints a number of Boards and committees to carry out its work and these include the Executive Committee, Joint Board, Board of Education,

Overseas Mission Board, Social Service Board and the business committee and their various sub-committees. The duties and membership of the main boards is given in table 5.4.2.

Each Diocese has a Diocesan Council which is very similar in structure to the RCC (see for example the Diocese of Glasgow and Galloway above, chapter 5.3). Apart from a few individuals, the RCC is actually composed of the seven diocesan councils meeting together. For this reason the RCC has very close links with the regional levels of the church and because of the lay representatives it has a close link with the congregations in the church, a feature not repeated in the other central organisations in the study, COS and MET. The membership of the RCC also tends to be fairly stable for the same reasons as in GGO: a stable clerical element and only slowly changing lay representative element.

The RCC operates with a small central staff and this is supplemented by a number of additional part-time convenors and secretaries. As with the other churches there is a significant number of people who sit as honorary members of committees and boards, their time being donated.

Probably because the church is small, the duties of the various boards are not defined in any great detail and the boards have a great deal of discretion to set their own agenda. In terms of the work that they do, the main constraint appears to be the resources available to carry out their function and these are limited by the size of the church. The total contributions from congregations to the work of the RCC was about £100,000 in 1981, though this was supplemented by investment income of £500,000 and legacies and other donations of £170,000. These amounts do not include further funds administered by the RCC. The total amount of money raised from congregations is allocated to boards by the Allocation Committee which also receives and adjusts the budgets of the Central Boards and fixes the total quota and its sharing out to dioceses.

Table 5.4.1 Membership of the Representative Church Council

1. The seven Diocesan Bishops.
2. All instituted or licensed priests and deacons of the church (including most retired clergy).
3. Trustees and officials of the council.
4. Officers of Diocesan Councils and Diocesan Overseas Mission Boards.
5. A Lay representative from each congregation.
6. Additional representatives appointed by each Diocesan Council.

Table 5.4.2 Committees and Boards of the Representative Church Council

<u>Board</u>	<u>Membership</u>	<u>Functions and duties</u>
Executive Committee	Bishops, Diocesan Reps Convenors of Boards	Do anything which no other Board is entrusted with. Agenda for Council, Appeals from Boards.
Joint Board	2 Bishops, Diocesan Reps 7 RCC members, Convenors of Exec and Allocation Committee	1. Stipend setting, Grants towards Minimum Stipend, Travel and Family allowances, Grants Funds and extraordinary repairs funds. 2. Home Mission Fund, Sites and Buildings Fund, Capital Projects Fund, Home Mission Loans Fund. 3. Aged and Infirm Clergy Fund. 4. Widow's and orphan's Supplementary Fund
Board of Education	2 Bishops, 7 Diocesan reps, up to 3 others convenor.	Education Authority of the church, Education and youth work.
Overseas Mission Board	2 Bishops, 7 Diocesan reps, up to 3 others convenor.	Support of Overseas Mission
Social Service Board	2 Bishops, 7 Diocesan reps, up to 3 others convenor.	Wider issues of Social responsibility and church in industry

Source: RCC Handbook 1978

Fund raising is therefore controlled centrally in the RCC with no board raising funds directly from congregations, although contributions for Aged and Infirm Clergy and Widows and Dependents Funds are assessed on congregations on the basis of clergy stipend paid and not via the Quota System. The RCC also operates a Unit Trust Pool which is administered by the Executive Committee and receives deposits and investments from the RCC, the Diocese and congregations.

We can see from table 5.4. that the work of the RCC is very much geared towards serving the rest of the church as it is involved with matters of grants to local churches, setting of stipends and allowances and administering church funds. There is an outreach side to the work, particularly in the area of the Social Service Board and Overseas Mission Board, but this is less well developed than in the larger churches. This may be partly due to the limitation on resources mentioned above and partly due to the church being a minority church in Scotland. This suggests that the primary concern of a church headquarters in the study is to provide services, eg legitimization, investment pools, government structure, to the constituent members of the church and only secondarily to provide services outside the church. This point is taken up again in section 5.8.

Conclusion

The RCC is the national headquarters of a minority episcopal church of the anglican tradition in Scotland. It is small enough to have, at present, very wide representation at its annual Council meeting and thus wide involvement in its work. Its main functions relate to providing services and a legal and constitutional framework for the church itself though there are a number of areas where the church is providing services outside its own membership.

Chapter 5.5 The Diocese of Liverpool

The Diocese of Liverpool has no single constitution covering its many boards and committees. It is probably best described as "the regional authority of the Church of England in the area covered by its boundaries". The boundaries are defined as:

"the County of Merseyside north of the Mersey, the West Derby Hundred of Lancashire (except the portion in the Diocese of Manchester) the ancient Parish of Wigan, now greater Manchester, and that part of Cheshire north of the Mersey" (Church of England Yearbook 1981)

The Diocese was founded in 1880 and has around 50,000 members on the electoral rolls of the parishes in the diocese (Yearbook, 1981). In the diocese there are three hundred and sixty parishes organised into twelve deaneries (areas) which in turn are organised into two Archdeaconries. The Diocese itself is one of 43 dioceses (regions) of the Church of England. The Church of England has two provinces, Canterbury and York with Liverpool Diocese being one of the thirteen dioceses in the Province of York.

The Diocese is basically an episcopal see, having a bishop, appointed by the crown, as the chief pastor in the Diocese. He has a number of ecclesiastical functions including confirmation of church members and ordination of clergy and he is an integral part of the ecclesiastical courts system of the Church of England.

The main administrative and policymaking body of the Diocese is the Diocesan Synod which is composed of three separate houses meeting together: the Bishop, the House of Clergy and the House of Laity. This organisation echos that of the General Synod of the Church where there are three houses: of Bishops, of Clergy and of Laity. The composition of the houses of Clergy and Laity of the Diocesan Synod is shown in table 5.5.1. There are 250 members of synod in total. The Bishop is president of the Diocesan Synod. The functions of the Synod are defined in broad terms by the Synodical Government Measure 1969 (No 2) and cover the following areas:

To consider matters concerning the Church of England and to make provision for such matters in relation to the diocese and to consider and express their opinion on any other matters of religious or public interest.

To advise the Bishop on any matters which he may communicate to the Synod.

To consider and express their opinion on any matters referred to them by the General Synod and in particular to approve or disapprove provisions referred to them by the General Synod under Article 8 of the constitution (of the General Synod).

Though these functions are for synod to carry out, the synod may delegate them to the Bishop's Council and the Standing Committee, bodies appointed directly by the synod. The Diocesan Synod is also able to delegate functions to the Deanery Synods and must keep the Deanery Synods informed. Deanery synods are the organisations which appoint members to the Diocesan synod.

The Diocesan Synod appoints a number of committees and Boards to assist it in its duties but there are certain statutory Boards and committees which, though having members appointed by Synod, are vested with statutory duties not otherwise part of the duties of the Synod. Three of these committees are the Parsonages Committee, the Pastoral Committee and the Education Committee.

The Repairs of Benefice Buildings Measure 1972 (No 2) provided for the setting up of a Parsonages Boards in each diocese in the Church of England. The duties assigned to a Parsonages Board may be carried out by the Diocesan Board of Finance and this is the case in Liverpool Diocese where the Parsonages Committee is responsible for the duties. The Committee has a duty to see that parsonage buildings are inspected at least every five years and to arrange repairs on the houses, obtaining funds from the incumbents, the Diocesan Synod and any investments specifically held. Reports and accounts from the Parsonages Committee are to be sent to the Diocesan Synod and the Church Commissioners (a Central Church body).

The Pastoral Committee was set up under the Pastoral Measure 1968 (No 1) and is responsible for pastoral supervision in consultation with the Bishop, and it again reports to the Diocesan Synod. Similarly the Diocesan Education Committee was set up under the Diocesan Education Committees Measure 1955 which is concerned with promoting christian education in schools and colleges, particularly those run by the church. In Liverpool Diocese there are a large number of church schools, both primary and secondary and so this Committee is important to the Diocese.

The finances of the Diocese are managed by the Diocesan Board of Finance (DBF) which also has other duties in acting as custodian trustee for certain diocesan property. The DBF is a company limited by guarantee and was incorporated in 1883. Its Memorandum and Articles give wide powers to administer funds and property in the diocese and it acts as the 'banker' and provides accountancy services for all the diocesan boards and committees.

Table 5.5.1 Membership of the Diocesan Synod of Liverpool
House of Clergy House of Laity

Suffragan and Assistant Bishops	Chancellor (if not a priest)
Dean or Provost	Chairman of Diocesan Board of Finance (if not a priest)
Archdeacons	Members elected by the Diocese to the house of Laity of the General Synod
Proctors from the Diocese or any University to the Lower House of Convocation	Any other member of the House of Laity of the General Synod chosen from lay members of religious communities in the Diocese
Chancellor (if a priest)	Members elected by the House of Laity of the Deanery Synod
Chairman of Diocesan Board of Finance (if a priest)	Five other co-opted laity
Clergy elected by Deanery Synods	
Five other co-opted clergy	

Note that the Bishop may appoint a further ten members of Synod either clergy or laity

Source: Synodical Government Measure 1969 (No2)

5.6 Description of the Church of Scotland

The Church of Scotland is the largest church in Scotland and was established in reformation times. The part of the Church investigated was the headquarters operation in Edinburgh. The church covers the whole of Scotland and has associations worldwide. There are a total of 1829 congregations (1980 figures from 1982 Reports to General Assembly) or local churches. These congregations are grouped into 46 presbyteries (areas) which in turn are grouped into 12 Synods (regions). The total membership roll is just over 900,000 with 47,900 elders and about 1,400 ministers.

The church is administered locally by either a kirk session or congregational board and at an area level by presbyteries. The key to understanding the church is in the presbyteries. Under Presbyterianism there is parity among all those who have been ordained to the ministry in the church. Anyone who presides at a meeting of the church is simply a 'primus inter pares' and is called a moderator. Further under presbyterianism there is a hierarchy or courts which range from the kirk session through the presbytery and synod to the General Assembly. Because of the parity principle this system cannot be equated with episcopacy as seen in the anglican or roman catholic traditions nor can it be equated with congregationalism where each congregation is independent. Through this hierarchy of courts "There is a linking together of the various congregations in mutual cooperation as members of the same body" (Macdonald 1975)

At Kirk session level the concern is with parochial affairs in which, as a rule, there is only a single minister but several ruling elders. At Presbytery level the court consists of a number of ministers inducted to parishes within the larger area of the presbytery together with a ruling elder representative of each parish in the presbytery. Certain other ministers may also be members of the presbytery and for each additional minister an elder is also elected to the presbytery so that there are an equal number of ministers and elders. The presbytery has a wide ranging set of duties including seeing "that the word of God is purely preached within its bounds, the sacraments rightly

administered and the discipline 'intertenyit'" (Macdonald op cit p153) and also overseeing ministers, maintaining and enforcing laws concerned with worship, supervising examining and licensing students of divinity, delimiting of parishes and determination of appropriate figures for stipend and aid.

The Synod includes all the members of presbyteries within its boundaries together with certain others. The primary functions of synod are to exercise general superintendence of the presbyteries in its area of jurisdiction and be an appeal court between Presbtery and General Assembly.

The General Assembly is the supreme court of the church and it is the accounts of this with which the study has been concerned. The General Assembly has a membership comprising ministers and ruling elders. Each year one minister for every four or part of four ministers on the complete roll of each Presbytery is elected a Commissioner with an equal number of ruling elders. Ministers must be members of presbyteries by which they are elected. Elders must be acting members of Kirk Session in the church. Clerks, procurator and law agent are also ex officii commissioners of the assembly and a number of others have the privilege to be corresponding members of assembly (with no vote).

The General Assembly has two main duties: to receive reports from committees and to deal with matters brought from the inferior courts. The Assembly acts as supreme court of the church and legislates for the regulation of church affairs. As such it is the final policymaking body of the church though most of its work is carried out through its committees.

The committees of the church are mainly those standing committees which are the administrative bodies of the church. These committees are grouped into seven departments each of which has a secretary and deputy. The committees carry out duties under acts and regulations of the General Assembly to which they report annually. From table 5.6.1 we can see that committees have, on the whole, responsibilities for specific areas of work and are as such functional committees and boards. The committee structure

Table 5.6.1 Committees of the Church of Scotland General Assembly and their Departments

Administration and General Interests Division	Church and Ministry Division	Home Division	Social Responsibility Division	Overseas Mission Division	Education Division	Publicity and Publications Division
1 General Administration	15 Maintenance of Ministry	23 Home Board	27 Social Responsibility	28 Overseas Council	30 Board of Education	36 Publicity
2 Nomination of the Moderator	16 Unions and Readjustments	24 Advisory Board on Artistic Questions		29 Inter-church Relations	31 Education	37 Publications
3 Judicial Commission	17 Aged and Infirm Ministers	25 Deaconess Board			32 Education for the Ministry	
4 Law, Property cases and Discipline	18 Probationers and transfer of Ministers	26 Iona Community			33 Board of St Colm's	
5 General Trustees	19 Admission of Ministers of Other Churches				34 Parish Education	
6 Nominations	20 Oxford Chaplaincy Consultancy Cttee				35 University Boards of Nomination	
7 Church of Scotland Trust	21 Chaplains to HM Forces					
8 General Fund	22 Trustees of Ministers' War Memorial and Orphans' Fund					
9 Stewardship and Budget						
10 Advisory Board						
11 Church and Nation						
12 Panel on Doctrine and Aids to Devotion						
13 Public Worship and Aids to Devotion						
14 Ad hoc Committees						

Source: Cox Practice and Procedure in
the Church of Scotland, 1976

existing in 1981/2 is under review and the reconstruction of Boards has been taking place over the past three years. The comments which follow relate to the organisation prior to the reconstitution of boards and committees.

The functional purpose of the boards and committees is laid down in regulations and acts of General Assembly and from a study of these it becomes evident that though there are clearly defined spheres of work, committees have much freedom to operate within their area of work. There is quite a lot of regulation laid down for certain regular and key decision areas in committees.

Regulations cover particularly the areas of procedure for appointing ministers and deaconesses and procedures for regular grant decisions. We shall see later (chapter 13) that internal users of accounts perceive that there are few legal boundaries on the way they prepare accounts but we must be aware that there are a great number of regulations governing the disbursement of grants and these regulations may be constraints in a similar way to budgets.

In commenting on the proposed new committee structure, the Assembly Council in its 1981 report to General Assembly (Assembly Report 1981) notes that boards may be either operating or servicing boards and it is useful to look at the pre-reorganisation boards and committees in this way. The operating Boards and committees are very largely concerned with implementing the objectives of the central church organisation eg overseas mission is involved with the church overseas, support of personnel for work abroad and education of church members about its work; education is involved with religious education in schools, youth and adult education and education for the church's ministry. Each of these operating committees and boards operate under the guidance of the General Assembly and are also integrated into the rest of the church structure in having their membership drawn from a wide area of the church. They are each responsible for overseeing their expenditure budget, planning and executing the work.

Of the 'operating' departments the one which has the largest flow

of funds is the Church and Ministry Department. This is responsible for the payment of ministers' stipend, travel grants, widows, retirement and aged and infirm clergy funds and so on. It also has responsibilities in the areas of unions and readjustments of parishes, chaplains to H.M. Forces, admission of new ministers and transfer of ministers. Basically this is a service function for congregations as it looks at terms and conditions of service for ministers and organises the payment of all ministers from a central fund, collecting specific contributions for this from congregations. Whilst many contributions pay the whole amount of stipend for their minister, there are a considerable number who do not and these are subsidised by additional contributions from the 'better off' congregations and from investment income.

All the operating committees and boards have the support of the service committees, though this may not be optional. The service areas are available for the whole church rather than simply the headquarters. Three of these service areas are of particular interest to finance and accounting: Church of Scotland General Trustees (the 'Trustees'), Church of Scotland Trust (the 'Trust') and the Stewardship and Budget Committee (the 'S&B Cttee').

The Church of Scotland General Trustees was established as a corporation by the Church of Scotland (General Trustees) Order Confirmation Act 1921 and the Trustees have a number of functions relating to the holding of titles relating to Church of Scotland property, including local church property. They also administer the Central Fabric Fund from where grants are made to assist with repairs and maintenance of church property and they administer investments held under various pieces of legislation for the endowment of clergy stipends. They are thus a service department mainly for local churches but also for certain sections of the central church.

The Church of Scotland Trust is much more a service department to the Central church offering "simple and economical facilities for investment in the three funds it operates: (a) the General Investment Fund; (b) the Income Fund; and (c) the Deposit

Fund."(1982 General Assembly reports). Each fund is available to both committees and churches and is widely used by committees (see chapter 7).

The Stewardship and Budget Committee is worthy of special mention. It was set up in 1960 in order to coordinate appeals to congregations for the work of the church. Its functions include publicity and education but of great interest to our purposes are its duty to prepare a draft Act each year "showing the details of the sums required by Committees, Associations and other bodies from congregational contributions for the ensuing year" and "to allocate the total budget as approved by the General Assembly amongst groups of congregations" (Cox 1976 p659). These two functions involve this committee in comparing the draft budgets of the spending committees with each other and also in matching this to anticipated revenue. This committee is therefore not just a service committee drawing up consolidated budgets but also recommends allocation of the funds, a key role in any organisation.

Central Church of Scotland committees have no overall coordinating committee except the General Assembly and so, even though there is a good deal of interrelationship between the various committees, there is no equivalent to a single board of directors in a company to coordinate day to day operations.

Staffing

The Church of Scotland had a central staff at the end of 1981 of 187 split into executive grades (43) and clerical grades (144). This clearly places the organisation at the large end of the group of organisations under study. As with the smaller organisations in the study there is extensive membership of committees which tends to comprise mostly honorary members. At a very rough estimate there are about 1600 regular committee 'places' and even if there are a large number of people taking up more than one 'place' this means that there are a considerable number of voluntary hours input into the management of the church.

Conclusion

Though the Church is very much a centralised body, in practice its seven departments enjoy a considerable degree of autonomy, each answerable only to the General Assembly. In the past 23 years the consolidation of fund raising for church work into the Mission and Service Fund has meant that there has to be some degree of coordination between the various committees and boards and this may be extended in future by drawing up a consolidated budget to cover the present Mission and Service, Maintenance of the Ministry and General Administration Funds.

5.7 The Methodist Church

The Methodist Church as present constituted was formed in 1929 as a result of the union of the Wesleyan Methodist Church, Primitive Methodist Church and United Methodist Church. The church is a major denomination in the UK and has many overseas connections. The part of the church covered by this study is the Methodist Church in Great Britain. At present there are approximately 7,990 local Methodist churches in Great Britain and these are organised into 701 Circuits (areas) which are further grouped into 32 Synods or Districts (regions). The overall governing body of the church is the Methodist Conference which meets annually in June. The accounts studied here are those relating to the Conference and its committees, the annual accounts being presented to the Conference in its Agenda.

The membership of the Conference is made up of 288 Ministers and 288 Laymen (defined as including women) and these are drawn from a number of groups in the church:

1. President, vice president and past presidents and vice presidents and secretaries - approximately 13 members
2. Conference Secretariat (elected by the previous Conference) - 7 Ministers
3. Representatives of the seven Divisions and four other connexional (ie central) committees - 42 members
4. Conference elected - 18 Ministers and 18 Laymen
5. Representatives from eleven other autonomous Methodist Conferences and from Ireland - 34 members
6. Chairmen of Districts - 32 Ministers
7. Representatives from Districts to make up the balance to 576 members

Representatives from Districts are chosen annually by ballot and this means that there is a substantial turnover in the District representatives to conference with only a few representatives remaining members for more than two consecutive years. Against

this the Secretarial and Divisional representatives are a fairly stable part of the Conference and one third of the conference elected members are appointed each year. The Conference meets at a different location each year and is not confined to London.

The Conference is the policy setting organ of the church but it does most of its work through seven divisions and a number of connexional (central church) committees and other bodies. Table 5.7.1 gives a breakdown of the Divisional organisation with the major constituent committees and table 5.7.2 give a list of the major connexional committees with the main duties of those committees. In both of these tables the main accounting funds are noted for the committees.

The divisional structure came into existence in 1974 in place of the departmental structure then in being. Each Division has a board appointed by the Conference and each board appoints a number of committees to assist it in carrying on the work of the Division. The Divisions vary considerably in size and staffing although comparative figures are not published on this in the Agenda or Yearbook. Unlike the Church of Scotland Headquarters, the Divisions are not located in a single location. The Property Division is in Manchester, the Division of Education and Youth is at Muswell Hill in London, Overseas Division at Marylebone Road and the other four Divisions are located at Westminster.

In addition to the Divisions are a number of connexional committees with specific tasks which do not clearly fall into a single division - functions of supervision, coordination, laws and conference operation. Included in table 5.7.2 along with these connexional committees is the National Childrens Home which has the status of a connexional committee. Divisional and Connexional committees have overall a considerable number of members who are not from the headquarters staff.

The functions of the church may be conveniently divided into three specific areas: Joint Action, Administration and Services to Members and churches. Functions in each of these areas are carried on in each of the seven divisions as can be seen from the functions listed in table 5.7.1. However certain divisions have a

concentration of functions in one particular area eg Finance Division is very largely involved with administration and services to member churches whereas joint action is the main concern of the Division of Social Responsibility.

The Methodist Church, being a national church, has a wider range of activities than the regional churches and this is undoubtedly due not only to its national outlook but also to its ability as a national church to command sufficient local resources to produce an effective program.

Table 5.7.1

The Seven Divisions of the Methodist ChurchHome Mission

Functions: Promotion of evangelism in GB and fostering spiritual life of home churches. Initiation & support of new forms of ministry. Church in Industry, dependent circuits, team ministries, evangelists and stewardship (ie giving).

Board	Home Mission Fund
Prisons Sub Committee	
Royal Navy, Army and Air Force Board	
City Centre Committee	
New towns & New areas Commission	
Cliffe College Management Sub Cttee	
London Mission Committee	London Mission Fund

Property Division

Functions: Full responsibility for all model trust property affairs and building, financial and legal aspects of shared schemes. Administration of General Property Fund (making grants towards property development).

Board	Property Division accts
	General Property Fund
Connexional Advance Fund	Connexional Advance Fund
Archives and History Committee	Archives and History

Division of Ministries

Functions: Promotion and coordination of the whole program of training for the church's various forms of ministry - ministers, local preachers, deaconesses, adult organisations, individual members

Board	Ministries Account
Candidates Board	
Candidates Examination Committee	
Ministerial Training Committee	
Probationers Oversight Committee	
Advisory Committee on Ministerial Appointments	
Committee for Deaconess Training	
Deaconess Appointments Advisory Cttee	
Committee on authorisations to preside at the Lord's Supper	
	MM Retirement Fund
	Connexional Contingency Fund

Division of Education and Youth

Functions: Oversight and extension of work of the church amongst children, young people and young adults including oversight of Methodist primary and secondary schools and colleges of education

Board	DEY Account
Publications Committee	
Methodist Day Schools Committee	
Managers of Westminster College	Westminster College Accts
Managers of Southland College	Southlands College Acct

Division of Social Responsibility

Functions: Effective presentation of the Christian Social witness and take action in respect of the public affairs within its purview. Aspects include industrial welfare, gambling, public health, Sunday observance, community relations, modern medicine, mass media, world peace, christian citizenship, world development.

Board	DSR Account
	Methodist Relief Fund
	Fund for Human Need
	World Development Fund
	World Development Action Fund
	MHA Accounts
Central Committee of Methodist Homes for the Aged	

Division of Finance

Functions: Consolidation of Budgets, Consideration of any subject bearing on Methodist Finance not within the responsibility of other divisions, advising President's Council on appeals, accountancy for Retirement Funds and any connexional fund if asked. Give financial advice, operate the Mission and Service Fund, Travel Fund, MM Children's Fund and Contingency Fund.

Board or General Committee	Divisional Funds
	Common Cash
	Mission and Service
	Travel Fund
Committee for Methodist Ministers' Children's Fund	MM Children's Fund

Overseas Division (Methodist Missionary Society)

Functions: Sharing in world mission; development of relationships with overseas churches; education of people in worldwide implications of the Gospel; encouraging people to take part in overseas mission, raising funds and sharing financial resources for world mission.

Board (=Central Committee)	Overseas Mission Fund
Pastoral Committee	

Table 5.7.2
Committees

Connexional Committees of the Methodist Church
Specific Duties (additional explanation)
Funds

President's Council	None	Supervise Divisions and Connexion, encourage liason between divisions, advise on priorities for Mission and Service Fund, Advise on final appeals etc.
General Purposes Cttee	General Purpose Fund	Advise on Candidates for the Ministry, Minimum allowance for Ministers, date of Conference, nominate budget committee
Budget Committee	None	Scrutinise the budget and advise Conference
Faith and order	None	All matters touching on faith and order
Law and Polity	None	Advise on laws of the Connexion
Stationing	None	Recommend placing of Ministers and probationers in circuits and other appointments.
Methodist Publishing House	MPH	Production and distribution of books as conference desires, offering services to connexion
Editorial Committee	MPH	Responsible for theological and doctrinal content of all publications.
Ecumenical Movement	Ecumenical Cttee	Promote ecumenical (inter-church) action
National Children's Home	NCH	Running the National Children's Home
Building Schemes and Cooperation with other Churches	None	Agreeing on an commenting on schemes for shared churches
Committee for European Relations		
Suggestions & Memorials Cttee		
World Methodism	Wld Meth Brit Cttee	Liason with World Methodist Council
Committee for the New Room Bristol		
Central Finance Board		
Press Office		
Wesley's Chapel (City Rd) Circuit		

5.8 Summary of the organisations under study

The preceding sections describe the churches studied in varying amounts of detail. It is clear that the style of church government varies between traditions but that in each church there is a single representative body which, at least in theory, acts as the central policymaking and administrative organ of the organisation, though its practical influence may vary as between regional organisations, subject to the overall policy of the central church and the central organisation.

The membership of the representative body (AGM) ranges from around 200 in the case of Glasgow Diocese to over 1200 in the case of the Church of Scotland but this increase in membership of the AGM is not directly related to the membership of the organisation which ranges from 20,000 in Glasgow Diocese to 900,000 in the Church of Scotland. Two of the central church bodies, COS and MET, have a ratio of AGM representatives to members of approximately 1:750 whilst the regional bodies GGO and LPL have a ratio of approximately 1:100. The RCC has a ratio of about 1:100 but this is in the process of being changed for cost and efficiency reasons to about 1:400.

The membership of the AGM basically determines the circulation of the annual accounts, except in the case of COS where not every person attending the Assembly collects the accounts and LPL where some additional church members receive accounts. The detailed accounts are therefore not distributed to all church members though anyone interested may easily obtain a copy.

We have seen also that the membership of the Methodist Church Conference and Church of Scotland General Assembly tends to circulate with different individuals attending from year to year as representatives from districts and presbyteries. This is in sharp contrast to the Scottish Episcopal Church (GGO and RCC) and the Diocese of Liverpool where members seem to attend for a number of years. This means the MET and COS AGMs have a more fluid representative membership and though this may encourage more people to be involved with church government in the long run it may also mean that there are additional learning times for new

members each year.

These additional learning times may result in less active participation by the representative membership than would be the case where there is a more continuous membership. In the particular area of financial information this may lead to less 'user criticism' of accounting reports due to lack of familiarity and may lead to a longer term stability in the form of the accounts so that individuals attending the AGM say every three or four years are not faced with completely different accounts.

The AGMs in the regional organisations in the study are mainly concerned with decisions of policy for that region of the church, but as both the regional organisations having AGMs are of the Anglican tradition they do have a considerable amount of autonomy, unlike regions in say the Church of Scotland. The membership of these regional AGMs is less fluid than the central organisation and the discussions tend to be more directly relevant to the local church. Agendas and reports are smaller and less formally produced and the range of work carried out is smaller.

Previous analysis has shown that the functions of all the churches in the study can be conveniently grouped into two major areas: action intended to have an effect outside the church and action intended to have an effect inside the church. Action with effects outside the church would be where the church is acting together to produce some service or effect for 'outsiders'. Examples of such action by the church would be mission work, particularly in the area of overseas mission; social work; assisting with overseas development; seeking to influence opinion eg on abortion, drinking or nuclear weapons; running special homes and hostels for the underprivileged in society and so on.

Action intended to have an effect inside the church is however probably the largest part of the work of the organisations in this study. It is convenient to divide up this area of action into four groups:

1. Education, training and selection of ministers and other workers to serve the church. Educational training is on

the whole done centrally but selection and on the job training is carried out in regional as well as central organisations. One very important function of all the organisations is to regularise the legitimisation of ministers and this may be done at a regional level eg by licensing of clergy in a diocese or at central level in the Methodist church.

2. Education and publicity services for the individual church members in the organisation. These services may be both education for the benefit of members, eg bible study and educational materials, or it may be information about the services and work of the church eg describing the church's position on particular issues of the time or of course it may be a combination of both of these eg information about overseas mission which is intended to inform and educate.
3. Central services for the church, particularly in relation to investments eg RCC Unit Trust Pool, Methodist Central Finance Board, and in relation to the holding of property where a regional or central church authority may act as custodian or managing trustee for land buildings and investments. The Episcopal churches also provide the specific services of a bishop for confirmation and pastoral care of ministers in a region.
4. Assistance grants. In all the churches in the study there were one or more areas where the church regional or central headquarters provided grant assistance to local churches and possibly also workers and members in particular financial problems. Usually the grants are in two areas: assistance with the payment of clergy or ministers' stipends and assistance with building maintenance. The funds to provide these grants may come from three sources: endowment income; gifts, grants and donations and contributions from local churches. These grants are then very largely a form of redistribution of resources in the church from the more wealthy to the less wealthy parts.

Though these two groups of functions are carried out to a greater

of lesser extent by all churches, it seems as if the actions outside the church are much more associated with the larger church organisations. Perhaps this indicates that the primary role of the central church organisation is to provide services for the local church work and that the work affecting those outside the church takes place centrally as a second development.

Other perspectives would place these various functions of the churches into different categories and perhaps the most interesting of these is that related to whether an NPO is service providing or grant providing. We can see from the above analysis that the church has functions falling into both these categories with grants and services being provided intended to have an effect both inside and outside the church.

We have also seen that the organisation of the churches is broken down into smaller boards and committees for administrative purposes and though these groupings do not completely follow the functional pattern described above, they are quite similar to that description. Table 5.8.1 lists the major boards and committees of the five churches for comparison purposes and demonstrates the close similarity of functions in all the churches in the study, though the extent of work carried on by the various organisations varies very largely due to the resources available.

It is clear that the churches are structured in a way which gives a great deal of say in the day to day running of the church to church members, although the number of church members taking part in running a large organisation must be somewhat limited. This is a contrast to PSOs organised as companies where ownership of the organisation may be widely spread and have only a marginal influence on the daily affairs of the company.

The five churches each have a long history as organisations and as such have a great deal of stability. There is evidence in these brief descriptions that the churches are not unchanging, especially in the area of organisation of activities. All the five cases have had some reorganisation in the last 25 years and

Table 5.8.1 The Main Boards and Committees of the Churches

<u>GGO</u>	<u>RCC</u>	<u>LPL</u>	<u>COS</u>	<u>MET</u>
Standing Committee	Executive Committee	Diocesan Board of Finance	Administation & Gen Interest	Finance Divn Property Divn
Joint Board	Joint Board	Pastoral Cttee	Home Dept	Home Mission
Education Board	Education Board	Board of Education	Education Department	Divn of Educatn & Youth
Overseas Miss Board	Overseas Miss Board	** 1	Overseas Miss Department	Overseas Division
Social Service Board	Social Service Board	Board of Miss & Socl Respon	Socl Responsi- bility Dept	Division of Soc Responsibility
** 2	** 2	Board of Ministry	Church and Ministry Dept	Divn of Ministries
**	**	**	Publicity and Publications	Methodist Publ- ishing House
Bishopric Inc and Residence	**	**	**	**

Note 1. The Overseas Mission in the Church of England is traditionally carried out by independent missionary societies.

2. The 'Ministry' function in the RCC and GGO is carried out by the Joint Boards

are still changing in response to changing environments. However the churches are slow to change, particularly if matters of religious dogma and church law are concerned.

Finally a comment needs to be made on the comparison of churches with PSOs. We have noted above the differences in membership participation. Other very clear differences from PSOs are in the objectives. We have shown that in churches the main objectives are service and grant providing together with a key legitimizing and identification function. This compares with a profit or shareholder wealth maximization orientation in PSOs.

The organisation structures are also different in that PSOs generally have a narrow hierarchical structure whilst churches have a much broader based structure, though still hierarchical. This difference arises from two aspects of churches: the many broad objectives of churches and the broad base of membership, each of which give rise to many interest groups in the church under a common structure.

The final difference between PSOs and churches is that members of churches are not beneficial owners but act in a trusteeship role. They may of course get some personal satisfaction or utility from the church but the results of managing the church in a trusteeship way are different from managing an organisation to obtain direct financial rewards for oneself. From this evidence we must conclude that churches do have a number of significant differences from PSOs.

Section 1 Analysis of Church Accounts

Chapter 6 Introduction and Descriptive Framework

In this section of the empirical work we will see a brief description of the accounts of the five churches. The section comprises three chapters: this first chapter establishing a framework for describing the accounts; the next chapter (7) applying this framework in turn to the five sets of accounts in the study and the final chapter 8 drawing some conclusions about the accounts. The section shows that although the five organisations under study are similar in function, their accounts are very varied in structure, organisation and content.

6.1 Introduction

In the preliminary study made of church organisations (see chapter 5) it became clear that only a few of these organisations produced formal monthly or quarterly accounts. Accordingly the major accounting document produced in these organisations is the annual accounting report. As a necessary prelude to the discussion to follow on the uses made of accounts in the churches under study, this section will describe and analyse the annual accounts of the five cases under study. Although the study is basically descriptive in nature, this first chapter of the section will be devoted to developing a framework necessary for a systematic description of the accounting reports.

6.2 A descriptive framework

Though it would be possible to simply describe each of the five sets of accounts under study in turn, it would be helpful to have a broad framework to guide the analysis. The analysis of accounts is a common subject in the accounting literature in the profit seeking sector of the economy though it is not nearly so common in the non-profit sector. In the profit seeking sector there a number of specialist works on the area (eg Lev, Foster) and there are sections on accounts analysis in many standard texts.

Unfortunately, though there is an element of description in each of these texts, they are best classified as applied literature, developing analytical techniques, based on specific well formulated accounting models, for specific uses eg ascertainment of solvency, prediction of bankruptcy, forecast of profitability.

These texts begin by assuming a particular model of organisation (profit seeking company) and a related accounting model (profit and loss account, balance sheet etc) which as we have seen may not be applicable to NPOs.

One research area which has a large element of descriptive content is that concerned with the analysis of disclosure in accounts. Though this research involves quite a detailed analysis of the content of accounts, it too begins with assumptions about the underlying structure of the accounting reports and the organisation concerned and then looks at disclosure of information in organisations with these common patterns. In the research concerned with disclosure eg Buzby (1974) McNally, Eng and Hasseldine (1982), research has proceeded by first identifying "items of types of financial and non-financial information which might appear in an annual report" (Buzby 1974). This information may then be used in a number of ways to score the 'disclosure' of particular firms (eg Cerf 1961, Firth 1979).

Despite the large element of description in each of these studies it is clear that the method is one which first assumes a common organisational pattern and structure of accounting statements then identifies items actually or potentially disclosed which are then used to construct a disclosure index or to compare with a predetermined disclosure pattern. The stance of this research then suffers from similar problems to the applied research described above.

More descriptive studies include the Survey of Published accounts published annually by the ICAEW (the Survey) and similar studies in the USA and Canada. The structure of the Survey is changing slightly from year to year but in general it isolates particular aspects of accounting practice (for example as identified by SSAPs and company law) and identifies how the accounts included in the sample deal with these particular aspects. The survey is based on certain assumptions: that the companies under study will all be subject to company law and that they will be profit seeking concerns and such description as there is again assumes a common underlying model.

In the non profit literature there are only isolated examples of studies of accounts (eg Bryan (1980), Traub (1977), Burrows (1980), Bird and Morgan-Jones (1981)). Traub's study of the accounts of foundations is to a large extent descriptive, identifying for 198 annual reports the cash or accrual basis, capitalisation of fixed assets, basis of valuation of investments, extent of fund accounting etc. The items specifically identified for study were however developed very largely from a study of the differences between NPO and PSO accounts or from research based on these differences. As a result Traub's research is conditioned by standards of accounting used in the PSO sector and has a bias (albeit unconscious) in favour of the PSO approach to NPO accounting.

Bird and Morgan-Jones study of charity accounts is also a descriptive study and identifies a number of specific areas of problems in NPO accounts. There is for example a description of the names of statements used in accounts and discussion of fund accounting, fixed assets and depreciation etc. Within the study there are however many comparisons with the standards of accounting expected in company accounts (and which might apply by law to any charity registered under the Companies Acts). These comparisons suggest implicitly that PSO standards are applicable to NPOs and this implies a tacit acceptance that the underlying PSO accounting model applies to NPOs.

It is not suggested that either of these approaches is inherently wrong but merely that they may fail to identify the underlying *raison d'être* for a particular practice in NPOs. It is proposed to try to avoid a PSO bias in describing accounts and to try to describe accounts in their own context, ie the NPO environment.

In summary, the literature on accounts analysis tends to be of three distinct kinds: applied analysis which seeks to use accounts for particular purposes such as profit forecasts; normative analysis which seeks to measure how accounts compare with particular normative standards such as SSAPs, Company Law etc. and disclosure research which attempts to identify the patterns of disclosure in accounts and explain the reasons for

differences between organisations. Much of the literature makes implicit assumptions that the form and aims of the organisations are profit oriented and/or that the accounting model employed is or should be closely related to that developed for the profit seeking sector of the economy.

As we have shown in earlier chapters, there is at least a measure of doubt as to whether the use of these assumptions is justified in the NPO sector and so we will attempt to describe the accounts of NPOs in as general a way as possible. We cannot hope to do this in a completely value free way but if we try to develop a general framework for the descriptive analysis this should assist us in identifying our underlying values.

We must begin at some point and so will do so with one basic assumption: that accounts are documents intended as communications. Under this assumption we shall define an accounting report as **any statement or group of statements which is prepared to communicate accounting information about the financial affairs of an organisation.**

6.3 A framework for analysing NPO accounts

Starting from the assumption that accounting reports are communications about the financial affairs of an organisation it is possible to identify four major steps needed in the analysis of any accounting report. These are: to define and describe the report itself (its component parts, boundaries, structure etc); to put the report into context as part of the organisation; to identify its implicit or explicit purposes and to see what the report communicates. These steps are necessary for us to describe and analyse a preexisting financial report and are not intended as a prescription for developing a particular accounting report for specific purposes such as that suggested in Bird (1975).

1. Define and describe the report itself

There are at least five distinct parts to defining and describing the report: identify the boundaries of the report; identify its component parts; identify the function of each part of the report; identify how the component parts relate to each other and

finally describe the contents of the report. Though each of these parts is described separately it should be recognised that they need not necessarily be pursued as chronological steps but are likely to be part of an overall iterative approach.

a) Identify the boundaries of the financial statement.

This will enable us to identify what is included and excluded from the financial report. In profit-seeking organisations this is normally considered to be the Corporate or Financial Report including statements in both accounting symbols and prose text which describe a broader context and give comment. In non-profit organisations however the annual statement about financial matters may consist of accounting statements only or be part of a document containing AGM agenda, accounting statements and reports.

b) Identify the component parts of the report

In analysing any form of communication we must accept that each type of communication is prepared using a set of common symbols and structures. In an accounting report a number of different accounting statements are used to convey accounting information in the same way that for example architects use a series of drawings and scientists mathematical formulae.

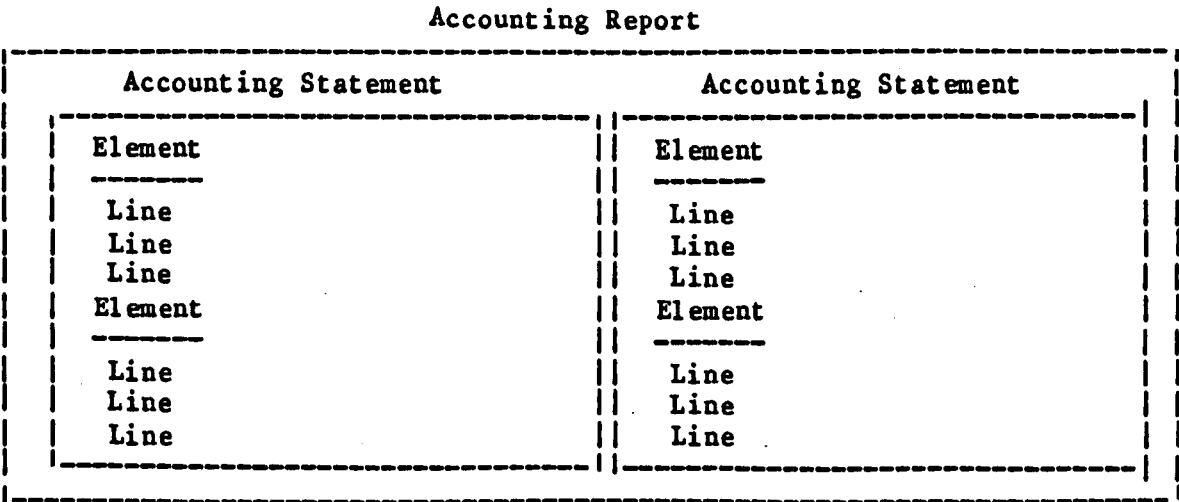
Accounting statements may be seen as a way of displaying information which is obtained from an accounting record keeping system. Practically, one or more accounting statements may be prepared together with such other explanatory information as is called for by recipients or felt necessary by preparers. As accounting statements in NPOs display information in a structure which is similar (and perhaps in the limit common) to profit seeking organisations we define below some general terms which (hopefully) carry few values specific either to the profit seeking or the NPO field and which will be used with these meanings through the rest of this chapter.

The terms defined are **Accounting Report** meaning the whole set of accounting statements published together; the **Accounting Statement** meaning an individual statement which addresses one

general aspect of the accounting information and which will usually be based on a theoretical model; the **Statement Element** which refers to a logical grouping of information within the accounting statement and the **Individual Line** which refers to a single piece of consolidated information. The relationship between these terms is shown schematically in figure 6.1.

All these terms imply an information view of accounting.

Figure 6.1 Definition of the Accounting Report



An example of this analysis of an accounting report is where an organisation accounting report contains five statements: a balance sheet, a profit and loss account, a flow of funds statement, an audit report and a director's report. The balance sheet will contain **elements** such as owners equity, long term liabilities, fixed assets, current assets and creditors and the fixed asset element will contain **lines** such as buildings at cost, building depreciation, motor vehicles etc each of which is a single consolidation.

Each 'level' of these terms represents a different level of consolidation of the basic information from the accounting system and although in this analysis the terms only allow for four levels it should be recognised that a very large number of reporting levels is possible, through to reporting the elementary entries in the books of account.

Now we have these terms defined, even though rather loosely, we need to note that there are a number of assumptions underlying this type of structure. Among the most important of these are:

- i) the significant items in accounting statements are numbers representing money values of transactions at particular points in time.
- ii) That each transaction has attributes other than money values and these attributes include its purpose, direction and nature.
- iii) That when values of individual transactions are added together with other transaction values having a common attribute then the sum ought to be produce a message meaningful to producers and receivers of the accounts.
- iv) That each line in a statement element is a summary of a number of individual transaction values grouped together on the basis of particular transaction attributes. This grouping is likely to be subjective as even exactly similar transactions with exactly similar money values take place at marginally different times and so are in that sense not exactly the same.
- v) Elements in a statement contain lines having some common attributes but sufficient differences in line attributes to retain the breakdown between lines.
- vi) Likewise elements in an accounting statement have sufficient common criteria to be included in a statement but sufficient sifferences to retain them as separate elements.

It is possible to classify each individual symbol as being a constituent part of the total fund statement but this is unlikely to be helpful if the individual symbol is unable to convey any meaning to a recipient.

The component parts of the report will be identified either as statement elements or lines. The main emphasis will be to identify separate statements but as we shall see, what appears to be a statement may in fact be the breakdown of a line of another statement. This then leads us on to the next part of

the analysis:

c) Identify the function of each component of the report

In discovering the function of the identified components we must recognise that the components of accounting statements have at least five key aspects: a time dimension, a measurement focus, a measurement basis, a level of consolidation and a relationship to other statements.

In terms of the time dimension there are statements which relate to a particular point in time (eg balance sheets), statements relating to one or more particular periods of time (eg flow of funds statements and operating statements) and statements which have no specific time dimension (eg notes on accounting policies).

Components of accounting reports may or may not have a measurement focus which is the particular object which the statement is seeking to measure. It may be profit, shareholder's equity, value added etc. The component may not have a measurement focus (such as a list of directors) but it is more likely that a measurement focus will be implied in the component eg a breakdown of office expenses will have a focus determined by the component where office expense occurs as part of an accounting statement. Note that the measurement focus may be independent of other aspects of the component such as its time dimension and level of consolidation.

Measurement basis relates to the way in which the component is calculated and there are a number of different possible bases. The measurement basis may be a direct result of the object being measured eg purchase cost of an asset would normally have a measurement basis of price paid. It may however be possible to have a number of different bases for each measurement focus so that for example a fund balance may reflect merely cash, cash plus net current assets, cash plus other net assets etc.

Levels of consolidation refer to the extent to which individual transactions are consolidated. An accounting statement consisting of simply five elements eg a balance sheet with fixed assets, current assets, current liabilities, long term liabilities and owner's equity would be at a high level of consolidation whereas one where individual fixed assets were detailed would be at a low level of consolidation.

The final aspect of the component is its relationship to other statements. There may be at least seven relationships of one statement to another: independent, movement, explanation, breakdown, allocation, comment or a restatement. An independent statement may be defined as being able to exist on its own without the existence of other statements (an example would be a Balance Sheet). All other statements would normally be related to either an independent statement or to one or more other statements.

A Movement statement would explain a change in some measurement eg fund balance, between two points in time eg a receipts and payments account would explain the movement of a cash fund balance between two balance sheet dates. An explanation statement would give background information on one or more statements and might well include details of accounting measurement principles used or notes to explain a particular transaction. A statement which gives details of the items which are included in a particular line of another statement (eg a list of fixed assets included in a fixed assets line) would be a breakdown statement.

An allocation statement is one which includes details of total income or expenditure allocated to a number of other statements. Examples of this type of statement are the allocation of administration expenses between cost centres. A comment statement is one which gives an opinion or a commentary on one or more statements in the accounting report and finally the restatement is simply a statement which restates a piece of information included elsewhere. Figure 6.2 gives some examples of these relationships.

We see from the literature (Herzlinger and Sherman 1981) that inter-relationships between accounts may be more complex than this as there may be inter-linking between several different statements where transfers between funds are present. These transfers are quite common in the accounts under study and are a separate interlinking from allocations type statements. It may be necessary to identify such interfund transfers separately in order to understand the structure of the accounting report and this is discussed further in the COS analysis below.

Figure 6.2

Some examples of types of statements

<u>Independent</u>	<u>Movement</u>	<u>Explanation</u>	<u>Breakdown</u>	<u>Comment</u>	<u>Restatement</u>	<u>Allocation</u>
Balance Sheet	I & E Acct P & L Acct	Notes to Accounts	Admin Exps Fixed Assets	Audit Report	Fund Balance Restatement	Admin Expense Allocation
	Funds Flow					Income Allocation

Some statements may be encountered which combine two or more characteristics eg Breakdown and Movement statements and Receipts and Payments account. Such statements would be identified as combined statements.

2. Identify the context and apparent purpose of the accounting report

The accounting report's context may not be obvious from the report itself but it is important to try to discover this if we are to understand why a particular report is prepared as it is. The report may be set in the context of either other documents with which it is published or in relation to the overall reason for its publication eg Companies Acts, AGM, Constitution etc.

There may be an indication from the formal report as to its context eg a glossy brochure may indicate a publicity aim whereas a duplicated report may indicate a 'members only' report. Frequency and place of publication and availability may also be important contextual matters which help to throw light on the target audience of the report.

Although the purposes of preparing accounting reports may appear obvious, particularly to those used to company financial reports, we would not nevertheless assume that it is obvious when moving

into a new situation. At a very simple level we have seen from our basic study of church organisations that few churches actually provide regular management accounts, indicating that perhaps annual accounts may in fact fulfil the need for internal accounting reports as well as the 'external' need.

We have seen also in the communications literature that at a psychological level accounts as communications may be important in maintaining the balance of the organisation and become signals (eg that all is well) or symbols (that the relationship between members and executive is stable). The problem in these cases of purpose is to identify actual purpose and we are not going to be able to do this easily. Though the behavioural reasons may be difficult to identify we should at least be able to identify the more obvious purposes of the accounts and will try to use the context of the accounting reports and knowledge about individual organisations to identify this.

3. Identify what information the report might convey

Information economics defines information as that data which alters the perceptions of recipients. In seeking to understand what information accounting reports may convey to recipients we therefore need to identify what user perceptions the accounts may alter. There are so many possible perceptions that it is difficult to identify more than a few but it is useful to suggest a number of areas where user perception might be altered:

1. Perceptions about the structure of the organisation. The accounting reports may convey information about how an entity is organised structurally by their content, structure and inter-relationships. This may help users understand the practical as opposed to the constitutional organisation of the church. The structure of accounting reports may be slightly artificial especially when fund accounts are not structurally related.
2. Details of the constraints under which an organisation operates. In the NPO environment this might particularly relate to the limitation of designated and restricted funds but would also include the extent of available reserves and the commitment of the organisation to maintenance of certain

activities.

3. Details of actual work done by the organisation during a period. This may mean seeing how income is expended or how expenditure is funded. Once again this may be difficult to discover in the NPO environment where fund accounts fragment operational expenditure or in the commercial sector where aggregation and consolidation removes detail of operation.
4. Comparative information about finances compared with plans eg budget/actual comparison, or with previous years.
5. In the Non-Profit environment particularly, information about efficiency, effectiveness and economy (the 3 E's). Efficiency is measurement of service output against input, effectiveness is a measure of changes induced by service output and economy is judgement about the cost of a given input. Whether this information is available depends on the type of organisation and operations undertaken.
6. Details of the state of finances of an organisation at a point in time and thus the resources which are under the control of the management of the organisation.
7. Details of how the management of an organisation has dealt with the resources of the organisation during the past period. This is the 'bare' stewardship idea of the accounting literature: showing how the money received has been spent.

These areas do not completely exhaust the possible information but they give some general indication of the data accounts might be expected to yield. Whether this data actually becomes information is not at issue. In the sections which follow it is not proposed to impose a search procedure to identify whether each of the above areas is available in the accounting report in question but such a rigorous approach might well be used for future research. In this study we are seeking the range of information which accounts make available rather than the extent to which individual accounts make a given set of information readily available.

6.4 Conclusions

In this chapter we have developed a framework for describing

accounting reports of an organisation. The framework is general in approach and could be applied to accounting reports of all organisations. The framework has however been described largely in terms of the non-profit context because this is the situation to which it will be applied in this study.

The descriptive framework is comprised of three parts: the description of the report itself, identifying the context and purpose of the report and identifying the information that the report may convey. The first of these four separate parts is the one involving the most mechanical analysis whilst the latter two parts involve much more intuitive deduction and value judgement. In the next chapter we go on to describe the accounting reports of the five churches. The description of the reports and their elements will comprise most of the discussion so as to keep value judgements to a minimum.

Chapter 7 Description of the Individual accounts of the churches

7.1 Introduction

This chapter describes the accounting reports of the five churches included in the study. The descriptive framework developed in the previous chapter is used to guide discussion but analysis proceeds in an iterative rather than a sequential pattern. Overall conclusions about and discussion of the descriptions are given in chapter 8 and not at the end of this chapter.

Five sets of accounts were studied, one for each case study. All the accounts studied were 1981 accounts having year ends within the latter half of the 1981 calendar year. The actual year end dates are shown as part of table 7.1.1.

The periods which these accounts covered are the first set of boundaries which need to be reported. In all cases virtually all balance sheets contained information as to balances at the beginning and end of the calendar year covered and movement accounts contained movements for those inclusive dates and the previous equivalent year (except where this was the first year of operation). None of the accounts contained information about years prior to 1980. The RCC and the LPL did include budgets for the following year however. In the case of the RCC these budgets were more detailed than the audited accounts whilst in LPL the budget was in exactly the same form as the current year's income and expenditure account.

The accounts of each church were presented in a slightly different form. Accounts for GGO and COS were in the form of a separate booklet containing merely accounting information. In these cases it was relatively straightforward to identify these statements as the accounting reports with one slight reservation that in GGO the congregational contributions were regarded as part of the accounts but for technical reasons these were printed at the end of the reports to Council. This is not regarded as a significant problem as both reports were distributed at the same time. Establishing the extent of the accounts was therefore slightly different in each case.

Table 7.1.1 Description of accounts for the five cases under study

<u>Aspect</u>	<u>GGO</u>	<u>RCC</u>	<u>LPL</u>	<u>COS</u>	<u>MET</u>
Document Name	Accounts	Annual Report	Report and Accounts	Abstract of Accounts	Agenda
Total Pages	15	77	38	52	415
Pages of Accounts	15	20	24	52	90
Form of Accounting Report	Separate Booklet (plus part of Rept)	Part of Annual Report	Part of Annual Report	Separate Booklet	Parts of Annual Report
Form of Printing	Duplicated	Printed	Offset	Printed	Printed
Approx. No of Copies	250	750	500	1000	600
Number of Sections of Accounts	19	14	28	165	217 *
Year End Date	30.11.81	31.12.81	31.12.81	Mainly 31.12.81	30.8.81
Budgets Included?	No	Yes - detailed	Yes - summary	No	No
<u>Types of Statement</u>					
Independent	1	3	4	17	35
Movement	14	4	11	66	77
Comment	-	3	2	7	26
Breakdown	3	4	9	4	40
Explanation	1	2	2	7	31
Restatement	-	-	-	59	-
Allocation	-	-	-	5	-
(Joint Bdown/Mvt)	-	-	-	-	8

* Note. Individual notes are here counted as separate statements as in most cases they are equivalent to separate statements in other churches.

LPL accounts are included in a separate booklet which contains both the accounts and reports of the Boards. Here the accounting reports were regarded as being exclusive of the reports which contained mainly non-accounting information. The RCC accounts are included as appendices to the Report of the Executive Committee with additional schedules at the end of the Report. For the purposes of this section, the appendices and schedules are regarded as the accounts, there is some summary accounting information included in the non-accounting reports.

The MET accounts are spread throughout the Agenda for the Methodist Church Conference and are to be found at the end of each relevant committee report in the accounts. The 'accounting report here has been regarded as the total of all the accounts in the Agenda which cover some 20% of the pages in the Agenda. Some additional financial information is given in the prose sections to the report but this has been ignored in this analysis. Table 7.1.1 gives some of this information in tabular form together with other information used below. In summary then the boundaries of the accounting reports are fairly easy to determine except in the case of the MET where accounts are spread throughout the whole of the agenda.

Content and Structure of Accounts

In chapter 6 it was indicated that the process of description must be iterative rather than sequential and so in each of the five sets of accounts described in this section we shall establish for each identified component statement the name of each statement, its time dimension, its measurement focus and basis, its level of consolidation and its relationship to other statements. In doing this we shall be able to ascertain content and structure together. It will be convenient to proceed with one set of accounts at a time and summarise the conclusions at the end of the section.

Tables in each of the following sections give the breakdown of the component parts of the accounting report for each church. Note that in the tables the components are arranged in an order which highlights the structure of the accounts rather than the

order in which the components appear in the accounting reports. Note also that the components given in these tables are not equivalent to those in the reading question asked of recipients in the questionnaire because if they had been then the questions on reading would have become too long to answer.

7.2 Accounts of the Diocese of Glasgow and Galloway

7.2.1 Description of the accounting reports

The components of the GGO accounts are given in table 7.2.1. We can see from this table that there is in this report a single independent statement called a balance sheet. This statement includes individual fund balances on the 'liabilities' side of the balance sheet and details of the assets held on the 'assets' side. To this statement are linked 13 movement statements, each explaining the balances on one of the fund accounts in the balance sheet and two breakdown statements which break down the investments in the balance sheet and relate them to the funds they represent.

Balance Sheet

The balance sheet is repeated here as exhibit 7.2.1. It has no single measurement focus but instead has a number of different focii: the individual fund balances. It is possible to define this statement either as having multiple focii, one focus for each fund balance, or as having a single measurement focus of 'All Funds' held. The former definition is preferred because on closer inspection the balance sheet is found to contain a large number of 'mini-balance sheets' within its structure as it is possible to relate exactly the assets held for nearly every fund. An example of this is that the Dunderdale Trust fund balance is £64,930.83 and the investments held for the Dunderdale Trust are £64,930.83. Not every item ties up exactly in this way but sufficient do to enable us to view the balance sheet as an aggregated balance sheet. We shall see this again in other accounts.¹

Defining the measurement focus as being 'fund balances' hides the fact that the fund balances may not all have the same measurement basis. The GGO balance sheet displays each of the fund types defined in the CICA (1980) study ie: plant funds, endowment funds, designated funds, undesignated or general funds and

1. Here the term 'aggregated' is used as opposed to 'consolidated'. By aggregated is meant including composite parts whereas consolidated would imply adding together similar parts, particularly on the assets side of the balance sheet. This is discussed further in chapter 8.

Table 7.2.1 Breakdown of the various statements making up the Diocese of Glasgow and Galloway Accounts

No	1st Name of Statment Page	Status	Link	Item Link	Measurement Focus	Measurement Basis
1	0 Summary of Diocesan Recurrent Funds	Movement	0	-	Payments/	NCA Mvt
2	1 Notes the the Accounts	Explanation	0	-	-	-
3	2 Balance Sheet	Independent	0	-	-	-
17	12 Assets held for Trust and Endowment Funds	Breakdown	3	Assets	Cost	Cost
18	13 Assets held for Revolving Funds	Breakdown	3	Assets	Cost	Cost
4	4 Diocesan General Fund	Movement	3	Fund	Fund Balance	NCA Mvt
5	5 Clergy Stipend Fund	Movement	3	Fund	Fund Balance	NCA Mvt
6	5 Home Mission Fund	Movement	3	Fund	Fund Balance	NCA Mvt
7	6 Diocesan Expenses Fund	Movement	3	Fund	Fund Balance	NCA Mvt
8	6 Diocesan Bursary Fund	Movement	3	Fund	Fund Balance	NCA Mvt
9	7 Bishopric Income Fund	Movement	3	Fund	Fund Balance	NCA Mvt
10	7 Bishopric Residence Fund	Movement	3	Fund	Fund Balance	NCA Mvt
11	8 Emergency Repairs Fund	Movement	3	Fund	Fund Balance	NCA Mvt
12	8 Diocesan Chaplain's Fund	Movement	3	Fund	Fund Balance	NCA Mvt
13	9 Diocesan Social Worker's Fund	Movement	3	Fund	Fund Balance	NCA Mvt
14	9 Sites and Church Extension Fund	Movement	3	Fund	Fund Balance	NCA Mvt
15	10 Diocesan Loans Fund	Movement	3	Fund	Fund Balance	NCA Mvt
16	11 Retired Clergy Residences Fund	Movement	3	Fund	Fund Balance	NCA Mvt
19	0 Congregational Contributions to Funds	Breakdown	Various	Receipts	Cash	Receipts

Exhibit 7.2.1. Balance Sheet of the Diocese of Glasgow and Galloway

[illegible]

custodian trustee funds. The assets which represent each of these funds reflect a measurement basis of that fund so that assets representing the (expended) plant funds relate to the cost (or valuation) of the asset on acquisition of those assets whilst assets representing endowment funds represent the cost of acquiring investments. As it happens both these measurements are in terms of the the original cost of the assets, but had the plant fund measured depreciated values of assets this would have meant that the balance sheet would have contained a mixture of measurement bases. The fixed assets shown in the balance sheet are not depreciated and the fixed assets are charged in full against a fund balance on purchase.

A final interesting feature of the balance sheet is that, on the face of the balance sheet, assets related to each individual fund are not identified except in general terms (eg 'x fund investments'). Detailed breakdowns of the assets under each heading are however given in the breakdown statements.

Fund Summary

This is the only set of accounts that tries to produce any sort of overall summary of movements on funds, though even here it takes the form of a memorandum statement. This summary, shown here as exhibit 7.2.2, brings together equivalent elements or lines of most of the fund accounts of the organisation and sums these to arrive at an overall 'funds flow' position.

Though a 'total funds' figure is produced it is not clear from the statement whether this represents a summation of restricted fund balances or of designated funds or both. If the former were the case then the summation would not necessarily be meaningful as the balances would not be transferable and the total would be a jumble of such balances.

Fund Accounts

Though there are thirteen separate fund accounts, each related to individual fund (lines) in the balance sheet, it is clear that there is considerable interlinking of funds. Interfund transfers in either 1981 or the previous year are evident from the General Fund to the Bursary Fund, Diocesan Chaplain's Fund, Emergency

Exhibit 7.2.2. Summary of Funds Statement of Glasgow and Galloway Diocese

SUMMARY OF DIOCESAN RECURRENT FUNDS
For the Year Ended 30th November 1981

	DIOCESAN EXPENSES	BISHOPRIC INCOME	BISHOPRIC RESIDENCE	CLERGY STIPENDS	HOME MISS. FUND	GENERAL FUND	EMERGENCY REPAIRS	BURSARY FUND	CHAPLAIN FUND	SOCIAL WORKER	TOTAL
RECEIPTS											
Quotas	8,477.50	6,926.14	2,308.71	8,691.00	-	8,338.50	-	-	-	-	34,741.85
R.C.C. Grants	-	-	-	22,550.00	7,430.00	-	-	350.00	65.00	2,500.00	32,895.00
Endowment Income	-	1,069.07	42.48	-	4,193.01	22,082.60	4,803.97	-	-	-	32,191.13
Other Interest	46.71	926.18	-	-	-	9,018.84	-	-	-	-	9,991.73
Donations	1,293.47	-	-	-	-	1,347.00	-	381.32	200.00	3,000.00	6,221.79
Inter-fund Tfirs	-	-	-	-	6,519.37	-	1,500.00	5,000.00	4,000.00	-	17,019.37
Other Receipts	-	-	3.06	-	-	-	-	-	2,763.90	-	2,766.96
TOTAL RECEIPTS	9,817.68	8,921.39	2,354.35	31,241.00	18,142.38	40,786.94	6,303.97	5,731.32	7,028.90	5,500.00	135,827.83
PAYMENTS											
Expenses	8,073.98	6,409.11	1,151.08	2,454.00	6,163.01	1,720.00	1,577.05	4,040.01	4,873.68	7,316.26	43,678.18
Grants to Congs	-	-	-	26,526.98	11,979.37	-	3,321.00	-	-	-	41,827.35
Office charges	542.00	270.98	90.32	-	-	7,117.64	-	-	-	-	8,020.94
To other Funds	-	-	-	-	-	27,019.37	-	-	-	-	27,019.37
To Reserves	-	-	-	-	-	5,500.00	-	-	-	-	5,500.00
TOTAL PAYMENTS	8,515.98	6,680.09	1,241.40	28,980.98	18,142.38	41,357.01	4,898.05	4,040.01	4,873.68	7,316.26	126,045.84
Increase in funds	1,301.70	2,241.30	1,112.85	2,260.02	-	(570.07)	1,405.92	1,691.31	2,155.22	(1,816.26)	9,781.99
Funds at 1/12/81	1,629.77	3,543.62	4,498.00	5,558.62	-	795.74	5,832.04	3,135.88	2,120.75	4,623.93	31,738.35
Funds at 30/11/81	2,931.47	5,784.92	5,610.85	7,818.64	-	225.67	7,237.96	4,827.19	4,275.97	2,807.67	41,520.34

Repairs Fund and Home Mission Fund and from various funds to the General Fund on account of office expenses. This set of transfers complicates the understanding of the accounts, though these items are clearly shown in the fund summary. There is no clear note to describe why these transfers have taken place except in the case of office expenses.

The individual fund accounts are quite detailed with individual items giving a reasonably comprehensive picture of the nature of payments. As far as identifying the function of the payments there is little mention of this within the statements except that several of the funds themselves eg Bishopric Residence Fund relate to a specific functional area. Funds are not entirely singular-function though as can be seen from an examination of the contents of the Expenses Fund which contains details of committee expenses, bishop's office expenses and Diocesan publications amongst other items.

The headings of the fund accounts give no clue as to the measurement basis of the statements. The notes to the accounts establish that the accounts are prepared on a receipts and payments basis and the element headings within each fund (Receipts and Payments in most funds) indicate that it is receipts and payments that are being summarised. The measurement focus of each individual fund statement is on the final fund balance but each statement summarises the period movement on the fund. An example of this is shown in exhibit 7.2.3.

Audit Report

These accounts are audited after they have been submitted to the AGM (Diocesan Council). The accounts are therefore presented to the AGM unaudited and this is why they appear here without an audit report. The audit report presented later does not conform to the standard 'company' form of report in that it does not express an opinion on the 'true and fair view' of the accounts but merely states that the accounts are in accordance with the books of account and that the auditor has seen evidence of the assets in the balance sheet. The lack of a 'true and fair' part of the report has not received comment from any members of Council or committees.

Exhibit 7.2.3 A Fund account from annual accounts of the
Diocese of Glasgow and Galloway

CLERGY STIPEND FUND

1979/80

For the year ended 30th November 1981

E

E

RECEIPTS

7,567.63

Quotas from congregations

8,691.00

21,628.00

R.C.C. Block Grant

26,050.00

1es 8 GRANTS

-

15,958.77
8,809.82
780.00

Refund of Excess R.C.C. Grant 1980	3,500.00
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Augmentation to congregations	20,240.98
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Travelling allowances	6,286.00
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Diocesan Chaplain

2,118.00 27,666.59

Diocesan Students' Chaplain

2,454.00 32,480.98

1,529.04

NET INCREASE IN FUND FOR YEAR

2,260.02

4,029.58

BALANCE OF FUND AT 1st DECEMBER 1980

5,558.62

5,558.62

BALANCE OF FUND AT 30th NOVEMBER 1981

7.818.64

Note that £5,000 has been returned to the R.C.C.

since 30th November 1981 being surplus to requirements.

7.2.2 Context and Purpose of the accounting report

Although presented as a separate document the annual accounts form part of the annual reports to the Council (AGM) of the Diocese and as such are a report on what has happened financially during the past year to members of the Council. There is usually little comment on the accounts at the Council where their various sections are presented under the relevant committee reports. The context of the accounting report suggests therefore that the financial accounts are a stewardship document merely listing the items of receipts and payments of the various funds during the year.

There is little obvious decision use made of the accounts by the Council and due to the system of members giving first to local churches and local church quotas not being shown in full in the accounts, it seems unlikely that the accounts could be of use to local churches or individuals in establishing their giving patterns. We shall see later in chapter 16 however that because these are the only accounts produced during the year, they may be

used for control purposes in the routine management of the Diocese.

7.2.3 Information Content of the report

There is a very large amount of detail in these accounts as can be seen from the balance sheet and fund accounts. This detail gives a great deal of information about what the Diocese is doing, merely by virtue of donations it is making, people it is employing and help it is giving in the form of loans, grants etc. This work of the diocese is fairly static from year to year but changes do occur and where there are special events these tend to be shown separately in the accounts and not included with general items.

One area where there is a great deal of detail is in the balance sheet where funds are reported individually rather than being combined together. This is the case for both designated and restricted funds and this in itself may convey information as it allows readers at a glance to see what monies are available for use. The fund accounts also give detail about how money has been spent, though there is only comparison available with one prior year's figures. Lack of any budget detail means that it is not possible for a reader to use the accounts for compliance of spending though the presence of last years figures does allow for comparison with previous years.

Though the accounts are prepared on a receipts and payments (R & P) basis there are probably few differences from a full accruals basis except for the absence of depreciation. In fact in the places where the R & P basis is a significant departure from full accruals basis (eg exhibit 7.2.3) there is a note to explain the difference. Whilst in theory therefore the accounts could not be relied on to give a full 'cost of operations' in practice the figures are approximately correct. The use of 'receipts' rather than 'income' however means that there may be some departure from the full accrual concept matching income to 'cost of operations'.

The accounts do not conform to the structure of the diocesan organisation except that Bishopric Income and Residence accounts are the responsibility of a single committee. If anything the

accounts confuse the reader about the structure of the church as several committees may have responsibility for certain funds.

Finally it was suggested in Chapter 6 that perhaps these accounts might identify the constraints under which the organisation operates. The GGO accounts do not obviously identify constraints though the fund accounting tends to suggest that there are specific sources of funds for certain areas of work.

7.3 Representative Church Council Accounts

7.3.1 Description of the structure and content of accounts

The accounts of the RCC are contained in the annual report of the Council, commonly called the 'Blue Book'. The formal accounts are contained in seven appendices to the report of the Executive Committee and cover seven pages of the Blue Book. In addition to the formal accounts are breakdowns of the detailed contributions of congregations to the central funds, statements which also contain other information about a congregations income, membership, diocesan contributions and stipend paid. These breakdowns have been regarded as part of the accounts though they are separate from the formal accounts taking up thirteen pages near to the end of the Blue Book.

The breakdown of the statements in the 1981 RCC accounts is given in table 7.3.1 and this reflects the structure of the accounts. It can be seen that there are three independent statements: balance sheets for the Province, the Unit Trust Pool and Scan (the church's newspaper). There are one or two movement statements connected to each independent one. In the case of the Pension Fund, Unit Trust Pool and Scan, the movement statement represents a single 'fund entity' but in the case of the Provincial Revenue account the statement is a summary of three funds: General, Specified and Loans (see exhibit 7.3.1).

Additional explanations and breakdown statements present include a summary of the Unit Trust dividends over an 11 year period and a series of statements which give contributions to central funds broken down by both diocese (region) and individual congregation. These latter statements give details of congregational statistics: numbers of members, income and payments for clergy stipend and diocesan quota (see exhibit 7.3.2).

The statements in the accounts contain little detail, except in that administrative expenses and congregational contributions are broken down quite extensively. In the case of the Provincial Revenue account this lack of detail results in only 13 expense items and four income items, a considerable difference from other churches.

Exhibit 7.3.1. R.C.C. Balance Sheet and Revenue Account

APPENDIX I			
Representative Church Council			
Provincial Revenue Account for the Year to 31st December, 1981			
	1981	1980	
Receipts:			
Investment income including interest on loans	£547,558	£473,505	
Provincial quota (cash)	103,704	79,816	
Administration charges recovered	30,839	31,023	
Other items—donations, etc.	85,322	68,276	
	<u>£767,423</u>	<u>£652,620</u>	
Payments:			
Clergy Stipend Fund inc. family allowances	£110,338	£106,093	
Supply. Pension Fund, widows and dependants	64,389	55,935	
Home Missions	45,938	45,681	
Grants to congregations	35,100	33,500	
Capital projects grants	25,000	17,000	
Education	24,369	23,500	
Theological College (net)	57,981	37,690	
Overseas Missions	44,510	57,077	
Social Service	19,737	14,603	
Miscellaneous grants	31,567	17,804	
Administration—see analysis	117,307	93,484	
Annual Meeting and Report	1,980	3,078	
Other items	53,444	39,890	
	<u>£631,660</u>	<u>£545,335</u>	
Net receipts	£135,763	£107,285	
Legacies	89,086	26,591	
Net additions to Funds	<u>£224,849</u>	<u>£133,876</u>	
Consisting of:			
Provincial Board Funds—increase	£170,436	£105,976	
Specified Funds—increase	3,344	2,883	
Loans Funds—increase	51,069	25,017	
	<u>£224,849</u>	<u>£133,876</u>	
Pension Fund			
Receipts:			
Investment Income	£167,660	£147,876	
Legacies and Donations, etc.	36,912	3,613	
Assessments	24,854	23,106	
	<u>£229,426</u>	<u>£174,595</u>	
Payments:			
Pensions	£119,901	£64,783	
Administration expenses (including £5,871 to R.C.C.)	6,377	8,059	
	<u>£126,278</u>	<u>£72,842</u>	
Increase	<u>£103,148</u>	<u>£101,753</u>	

APPENDIX II			
Representative Church Council			
Provincial Balance Sheet as at 31st December, 1981			
	1981	1980	
Provincial Board Funds:			
Balance at 1st January, 1981	£2,698,307	£2,592,331	
Increase for year	170,436	105,976	
	<u>£2,868,743</u>	<u>£2,698,307</u>	
Specified Funds:			
Balance at 1st January, 1981	£159,363	£156,480	
Increase for year	3,344	2,883	
	<u>£162,707</u>	<u>£159,363</u>	
Housing Fund and Loans Funds:			
Balance at 1st January, 1981	£380,491	£355,474	
Increase for year (see Note (2))	51,069	25,017	
	<u>£431,560</u>	<u>£380,491</u>	
Pension Fund:			
Balance at 1st January, 1981	£987,119	£885,366	
Increase for year	103,148	101,753	
	<u>£1,090,267</u>	<u>£987,119</u>	
Represented by:			
Heritable properties at book value	£338,313	£300,781	
Heritable Bond	(21,986)	(21,986)	
	<u>£316,327</u>	<u>£278,795</u>	
Investments at cost (Market value £5,355,313—1980 £5,346,887)	3,106,679	2,833,629	
Deposits with RCC Unit Trust Pool	372,326	408,626	
Loans—			
Housing Fund	27,768	27,768	
Church, Education and General Funds	94,442	92,007	
	<u>122,210</u>	<u>119,775</u>	
Sundry debtors	256,348	144,207	
Cash and bank balances	403,802	472,970	
	<u>£4,577,692</u>	<u>£4,258,002</u>	
Liabilities—			
Sundry creditors	(24,415)	(32,722)	
	<u>£4,553,277</u>	<u>£4,225,280</u>	
Auditors' Report			
We have audited the foregoing Balance Sheet in accordance with approved auditing standards.			
In our opinion the Balance Sheet, which has been prepared under the historical cost convention, presents fairly the state of affairs of the Representative Church Council at 31st December, 1981, and the net addition to funds for the year ended on that date.			
ARTHUR YOUNG McCLELLAND MOORES & CO., Edinburgh, 26th March, 1982. Chartered Accountants.			

Table 7.3.1 Breakdown of the statements in the 1981 Accounts to reflect structure - R.C.C.

No	1st Name of Statment Page	Status	Link	Item Link	Measurement Focus	Measurement, Basis
3	21 Provincial Balance Sheet	Independent	-	-	Fund Bals	Assets/Liab.
5	22 Notes to the Accounts	Explanation	1-6	-	-	-
4	21 Audit Report	Comment	3	-	-	-
1	20 Provincial Revenue Account	Movement	3	Funds	Fund Mvt	R & P
7	22 Quota Pool Contribution	Breakdown	1	Quota	Receipts	Receipts
16	72 Abstract of Contributions	Breakdown	7	Tot Recpts	Receipts	Various
15	60 Diocesan Contributions (7 tables)	Breakdown	16	Tot Recpts	Receipts	Various
6	22 Administration Expenses	Breakdown	1	Expense	Expense	R & P
2	20 Pension Fund Account	Movement	3	Fund	Fund Mvt	R & P
<u>Unit Trust Pool</u>						
8	23 Balance Sheet	Independent	-	-	Net Assets	Market Value
10	24 Audit Report	Comment	8	-	-	-
11	25 Valuation and Distribution	Explanation	8-11	-	Distribn	Payments
9	24 I & E Account	Movement	8	Fund	Distribn.	R & P
<u>Scan Accounts</u>						
12	26 Balance Sheet	Independent	-	-	Reserve	Assets/Liab
13	26 Revenue Account	Movement	12	Net Mvt	Surplus	I & E
14	26 Audit Report	Comment	12-13	-	-	-

The Balance Sheet (see exhibit 7.3.1) consists of assets for four funds and is an accumulated balance sheet in that all the assets belonging to the four funds are not separately identified to those funds. It is noted in the accounts that there are donations and covenants of approximately £88,000 received and disbursed but not included in the accounts. This is an indication that these accounts do not contain a report of all the trustee funds which are in the control of the RCC. It is also not clear whether all the property which is owned is also included.

The Provincial Revenue Account and Pension Fund accounts give only the most general impression of the activities of the church and it is necessary to turn to the budgets in order to discover anything about the work of the various committees listed in the Revenue account. The Scan revenue account on the other hand gives much more detail of the operation of the newspaper. The Unit Trust Pool Income and Expenditure Account is brief but it is difficult to see what other details could usefully be reported.

The Audit report for the Provincial accounts indicates that the accounts "present fairly the state of affairs". This departure from the "true and fair" declaration of company accounts probably indicates that the accounts have not been prepared in accordance with SSAPs. The audit reports for the Unit Trust Pool and Scan are in the normal company form.

7.3.2 Context and Purpose of the Accounts

The Blue Book in which the accounts are found in a series of reports which are presented to the annual Council meeting, one report for each of the central boards and committees reporting to Council. The reports are quite short in comparison with some of the other churches and contain a mixture of information about committee membership and meetings held, financial information reported in a prose type manner (especially legacies and donations), decisions and recommendations of committees and information about the work that the committee/board has been concerned with in the year. For the Joint Board, Theological College, Board of Education, Overseas Mission Board and Social Service Board, each of which are the operational boards of the

Exhibit 7.3.2 A Parish Contribution Summary From the R.C.C. Blue Book

VII. DIOCESE OF ST. ANDREWS, DUNKELD AND DUNBLANE											
No.	Charge	No. of Permanent Members as revised by Synod Clerk	No. of Communicants as revised by Synod Clerk	Endowment and other Investment Income	Amount raised by Congregation for all objects, exclusive of Grants	Stipend of Clergy			Central Funds Contributed	Diocesan Funds Contributed	No.
						From Congregation and Local Sources	Total Income of Rector or Priest-in-charge	Curate's Stipend			
				£	£	£	£	£	£	£	
1	Perth—Cathedral	500	250	3169	12,407	3788	4908	4662	738	419	1
2	Aberdour	63	40	23	2126	756	—	—	60	34	2
3	Aberfoyle	230	147	1644	6900	3600	6197	—	776	440	3
4	Alloa	380	190	915	4669	441	—	—	490	209	4
5	Alyth	76	66	1890	2752	1686	—	—	260	148	5
6	Auchterarder	13	94	4248	4929	4908	4908	—	550	332	6
7	Ballintuin	40	26	—	—	—	—	—	—	—	7
8	Blairgowrie	86	66	3789	1624	1686	—	—	260	148	8
9	Bridge of Allan	326	160	46	8684	4141	4908	4360	171	289	9
10	Burntisland	150	103	362	3291	1947	4908	—	35	21	10
11	Callander	106	46	711	2860	960	—	—	—	—	11
12	Comrie	83	65	3586	2212	1460	—	—	245	139	12
13	Coupar Angus	80	66	905	4139	1884	—	—	310	148	13
14	Crieff	281	205	1885	7638	2309	4499	—	472	253	14
15	Cupar, Fife	259	196	350	9375	5148	5148	—	500	280	15
16	Dollar	248	130	675	6278	326	—	—	448	206	16
17	Doune	120	70	1392	2312	1636	—	—	—	—	17
18	Dunblane	400	202	1104	13,711	6044	6044	—	809	400	18
19	Dunfermline	263	237	1095	10,640	4971	4971	—	715	305	19
20	Dunkeld with Birnam	61	57	1004	5840	2454	4908	—	248	124	20
21	Elie	65	55	1260	2488	1078	—	—	184	104	21
22	Forfar	400	235	2001	12,173	5158	5158	—	706	604	22
23	Glamis Private Chapel	13	12	—	—	—	—	—	—	—	23
24	Glenalmond Trinity College	500	90	—	—	—	—	—	—	—	24
25	Glenrothes	310	130	1668	4276	3528	4908	—	397	219	25
26	Inverkeithing	92	52	—	—	—	—	—	204	268	26
27	Killin	37	22	103	848	—	—	—	120	42	27
28	Kilmaveonaig	63	42	80	809	54	—	—	71	41	28
29	Kinghorn	31	19	21	1263	693	—	—	51	29	29
30	Kinloch Rannoch	47	37	471	618	—	—	—	71	41	30
31	Kinross	150	120	858	6003	1279	818	—	410	206	31
32	Kirkcaldy	463	247	456	11,124	4908	4908	—	712	303	32
33	Kirriemuir	245	210	1446	9852	3681	3681	—	423	241	33
34	Ladybank	10	10	52	509	237	—	—	12	8	34
35	Leven	180	140	352	7191	3072	4908	—	232	90	35
36	Locheamhead	9	7	42	211	—	—	—	12	8	36
37	Lochgelly	100	50	2974	4813	3839	4908	—	—	—	37
38	Muthill	40	37	1689	2116	730	—	—	148	84	38
39	Newburgh	50	20	8	432	—	—	—	38	22	39
40	Newport	170	109	2504	5831	4558	5008	—	250	142	40
41	Perth—St. John's	750	345	3096	13,710	5417	5417	—	1459	800	41
42	Pitlochry	169	124	788	9745	4908	4962	—	359	205	42
43	Pittenweem	65	55	189	2803	1078	—	—	208	132	43
44	Rosyth	100	50	—	—	—	—	—	—	—	44
45	St. Andrews— All Saints'	325	200	3114	10,148	5444	5444	—	675	360	45
46	St. Andrew's	611	339	2545	16,436	3124	5280	—	1439	524	46
47	Stanley	22	19	366	492	250	—	—	41	26	47
48	Strathtay and Aberfeldy	46	32	4847	4456	2454	—	—	248	124	48
49	Tayport	42	22	269	1088	450	—	—	63	37	49
	Sums not received through Congregations	—	—	—	—	—	—	—	654	—	
	1981	9000	5246	59,992	241,822	106,085	106,799	9022	16,274	8555	
	1980	9421	5320	50,404	211,709	94,652	101,556	11,932	10,323	7330	

church, there are also budgets for the following year appended and these give some detailed information not in the formal annual accounts (see exhibit 7.3.3). These budgets are not reconciled with the formal accounts although there is an approximate relationship between the two.

The accounts are in this context only one aspect of a total report to the Council meeting. The accounts are quite brief and some respondents to the questionnaire survey felt they were too brief, wanting a return to the pre-1976 practice of publishing detailed accounts. Despite this briefness however there is a large percentage of the Blue Book given over to accounts, budgets and financial matters.

The Blue Book is issued to all members of the RCC and so at least one copy is sent to every congregation in the church through its lay representative with additional copies being received by all clergy in the church (and in some dioceses by congregational treasurers as well). The report is therefore mainly aimed at providing written information for the AGM - enabling verbal reports to be kept to a minimum and allowing discussion to be a major element of the meeting.

The annual accounts in the RCC are actually summary accounts. They are not prepared so as to reveal the details of a particular operation as can be seen by comparing the detail in the individual budgets with the summary on the Provincial Revenue account. The aim of the accounts then can be only to give an overall picture and there is no sense in which the accounts might provide detailed management information. More detailed annual accounts by Board and Committee are prepared and these are prepared in the organisation for management control.

There is insufficient information in the accounts themselves to determine budget/actual performance and though the budget figures are given elsewhere in the Blue Book, these statements show only expected current year figures and not actual ones. There is also insufficient information to identify the state of individual

Exhibit 7.3.3. A Budget From the R.C.C. Blue Book.

1980 Estimate	1980 Actual	1981 Estimate	JOINT BOARD—BUDGET FOR 1982		1981 Probable Total	1982 Estimate
1. Home Mission Fund						
EXPENDITURE						
£53,000	£45,682	£55,500	Grants		£48,500	£59,500
			Transfer to/from General Reserve (Cr. Bal. 31/12/81 say, £24,000 following estimated withdrawal during 1981 of £5,000)		—5,000	—
—5,000	4,055	—11,000	Sundry Expenses		500	500
500	802	500	Working Party on Information and Communication		2,000	1,000
—	—	2,000	Partners-in-Mission Consultation		—	1,000
—	1,000	—	Share of Central Expenses		6,000	6,000
3,500	3,500	6,000				
£52,000	£55,039	£53,000			£52,000	£68,000
INCOME						
£40,000	£43,423	£43,000	Interest on Investments		£46,000	£46,000
—	—	—	Contributions		—	—
—	—	—	Legacy		—	—
—	2,000	—	Transfer from H.M. General Reserve Fund		—	11,000
10,000	10,000	—	Transfer from Unallocated Legacies Reserve		—	—
2,000	1,791	10,000	Quota - sum required		say, 6,000	11,000
£52,000	£57,214	£53,000			£52,000	£68,000
2. Aged and Infirm Clergy Supplementary Fund						
EXPENDITURE						
£11,200	£11,060	£12,000	Grants—Annuityants		£12,000	£13,000
3,000	1,321	2,000	Special		4,000	4,500
3,600	5,520	5,500	W. & O. (Retired Clergy)		6,500	7,000
500	—	500	Pensions		500	500
2,000	44	—	Sundry Expenses		76	—
2,000	2,000	2,000	Cash Retirement Benefit Fund		4,324	3,000
1,200	1,200	2,000	Share of Central Expenses		2,000	2,000
£23,500	£21,145	£24,000			£29,400	£30,000
INCOME						
£13,000	£13,834	£14,000	Interest on Investments		£15,000	£15,000
—	151	—	Royalties		—	—
—	5,000	—	Transfer from Unallocated Legacies Reserve		—	—
10,500	10,104	10,000	Quota—sum required		14,400	15,000
£23,500	£29,089	£24,000			£29,400	£30,000
3. Widows' and Orphans' Supplementary Fund						
EXPENDITURE						
£18,000	£21,144	£22,000	Grants to Widows		£22,500	£24,000
9,000	8,985	10,000	Grants to Dependants		10,000	11,000
3,000	2,592	2,500	Group Life Assurance Premium		2,500	2,500
—	268	—	Sundry Expenses		—	—
2,000	2,000	4,500	Share of Central Expenses		4,500	4,500
£32,000	£34,989	£39,000			£39,500	£42,000
INCOME						
£32,000	£35,274	£35,000	Interest on Investments		£38,500	£38,500
—	206	—	Royalties and Donations		—	—
—	—	—	Legacies		200	—
—	—	4,000	Quota—sum required		800	500
—	—	—	Withdrawal from Credit Balance		—	3,000
£32,000	£35,480	£39,000			£39,500	£42,000
Summary						
£2,000	£1,791	£10,000	Home Mission Fund		£6,000	£11,000
10,500	10,104	10,000	Aged and Infirm Clergy Supplementary Fund		14,400	15,000
—	—	4,000	Widows' and Orphans' Supplementary Fund		800	500
£12,500	£11,895	£24,000			£21,200	£26,500

funds within the accounts as as to identify the place where surpluses and deficits occur. This means that the accounts cannot be used for any evaluation purposes save the general one of identifying that there was an increase in the funds held in 1981.

As the Provincial accounts are kept on a Receipts and Payments basis it is not possible to find out an operating cost for the organisation for the year, though supplementary information is given breaking down the administrative costs of the operation. However, as in the case of GGO, it is unlikely that the use of the R & P basis produces figures which are significantly different from a full accrual basis in the long term.

From the above analysis it could be argued that the accounts fulfil two functions:

1. They give an overall stewardship signal that everything is in order. Though not all possible detail is given, sufficient is given to signal 'we are not spending all our income, our admin expenses are not too high and the auditors are happy with the accounts'.
2. They give certain basic information which the 'average' member of the RCC could easily communicate to his congregation: total congregational support, value of unit trust Units etc.

If the budgets are included as part of the overall financial information package then it could be argued that a further purpose is also fulfilled: that of giving details of the actual operation of the RCC.

7.3.3 Information in the Accounts

As these accounts are summaries, by themselves they can give little detailed information about the work that the church is doing or the structure of the church. The basic information available is that of an overview of the general areas where money is being spent.

If again we include the budgets as part of the accounts then these add a detailed dimension which allows readers to see where the work of the individual committee is directed and they allow an understanding of the structure to be grasped as the budgets

are shown by board.

The accounts give an overall picture of the state of funds and spending but this gives little idea of the constraints (if any) under which the church is operating eg the combination of funds into a single overall statement hides the restricted nature of investment income.

One final comment on the accounting reports is that it is quite difficult for a first time user to approach these accounts as the information is very fragmentary. Actual figures in budgets do not agree with audited accounts and information given in one part of the report does not readily reconcile with other parts.

Accordingly part of the impression given by the accounts is of a confusing number of accounts with little to draw the information together.

7.4 Accounts of Liverpool Diocese

7.4.1 Description of accounts

The accounts of this church comprise a total of twenty seven different components and they are shown in table 7.4.1. Although produced as a single document the accounts contain three separate balance sheets each with their related movements statements: the Board of Finance Balance Sheet, Other Board's Balance sheet and Church House Balance Sheet. There are two audit reports, one for the Church House section of the accounts and one for the rest.

Balance Sheets

The first of the three balance sheets is the DBF balance sheet. Unlike the GGO balance sheet it is not simply a list of balances but includes movements of six of the seven funds included in the statement on the face of the balance sheet (see exhibit 7.4.1). The balance sheet is prepared on a horizontal format with funds and creditors on the left hand side and assets less provisions on the right hand side. The form of the statement does not lend itself to easy identification of the measurement focus. Like the GGO balance sheet, the focus seems to be 'all funds' and there are five different fund groups and their respective statements included in the balance sheet. The schematic balance sheet given in figure 8.3.1 illustrates this type of presentation. This first balance sheet is however neither an 'aggregate' balance sheet with assets linked directly to the funds they relate nor is it a 'consolidated' balance sheet where all assets for all funds are combined (see figure 8.3.2 for a schematic). It is rather a mixed balance sheet with some assets consolidated and some aggregated as in the GGO balance sheet.

The second balance sheet, 'Other Funds' is similar to the first but is an almost purely aggregate balance sheet with no assets shown which are common to more than one fund. Eleven separate funds are shown in the balance sheet and summaries of movements on the first four funds are shown on the face of the balance sheet. Movements on only two of these funds are given in the accounts ie Buildings and Board of Education.

Exhibit 1.4.1. Diocese of Liverpool Balance Sheet

LIVERPOOL DIOCESAN BOARD OF FINANCE BALANCE SHEET AS AT 31ST DECEMBER 1981

	1981	1980
Diocesan Capital Account	161,718	153,755
Compensation Payable to the Board under the provisions of the Pastoral Measure	-	8,000
Loss on disposal of investments	-	(37)
	161,718	161,718
General Reserve		
Balance at 1st January 1981	23,126	24,214
Less: Transfer to Clergy Car Loan Scheme	5,000	-
Less: Amortization of specific gifts	6,670	6,670
	11,670	6,670
Sites and Buildings Repayments	11,456	17,544
	5,147	5,582
	16,603	23,126
Budget Equalisation Account		
Balance at 1st January 1981	(952)	7,032
Less: Income and Expenditure Account Transfer	773	7,984
	(179)	(952)
	16,424	22,174
	178,142	183,892
Loans from Parishes	1,431	318
Creditors and Credit Balances		
Sundry Creditors	51,801	49,099
Other Boards	25,000	9,679
Current Accounts with Other Boards	-	12,087
Diocesan Pastoral Account	7,971	3,898
	84,772	74,763
	264,345	258,973
Stipends Committee		
Capital Fund as at 1st January 1981	150,000	150,000
Deficit brought forward	18,767	(4,346)
Deficit for the year	25,125	23,113
	43,892	18,767
	106,108	131,233
Current Account with LDBF	43,892	18,767
	150,000	150,000
Clergy Car Loan Scheme		
Balance at 1st January 1981	55,000	55,000
Transfer from General Reserve	5,000	-
Church Commissioners Long Term Loan	10,000	-
	70,000	55,000
Parsonages Committee		
Capital Fund	55,339	55,339
Repair Account 1st January 1981	(8,469)	8,787
Add: Deficit on year	(2,240)	(17,256)
	(10,709)	(8,469)
	44,630	46,870
Creditors and Credit Balances		
70's Scheme	-	58,925
Capital Allocation (Ordinary)	4,273	1,220
Sundry Creditors	25,816	19,958
Parsonages Outgoings Fund	13,857	13,857
Unofficial Houses Account	1,417	2,267
Decoration Account	3,380	1,370
	93,373	144,467
Diocese of Liverpool Centenary		
Thanksgiving Fund		
Balance brought forward	6,639	17,931
Excess income accrued in 1981	6,944	(11,292)
	13,583	6,639
Less Expenditure incurred by the Buildings Committee and Bd of Education	68,524	36,438
	(54,941)	(29,799)
Reimbursement due to Buildings and Education	68,524	36,438
Deeds of Covenants Received in Advance	1,034	1,478
	14,617	8,117
	£592,335	£616,557

	1982	1980
Diocesan Freehold Properties at Cost	104,365	57,916
Additions in year at Cost and transfer	-	63,102
	104,365	121,018
Less: transferred to Board of Education	-	16,633
	104,365	104,365
Less: Depreciation	23,707	19,462
	80,658	84,903
Diocesan Leasehold Properties on long lease as at 1st January 1980	3,751	25,065
Less: Transfer to freehold	-	12,144
Sold	-	9,170
	-	21,314
	3,751	3,751
Less: Depreciation	2,228	2,147
	1,523	1,604
Furniture and Fittings at Cost	54,107	46,603
Additions in year at cost less disposals	334	7,504
	54,441	54,107
Less: Depreciation	40,651	31,396
	13,790	22,711
Investments		
Quoted Investments at Cost	13,262	13,257
(Market Value 1981 £6,140; 1980 £6,939)		
Less: Provision for Reduction in Value	8,670	8,670
	4,592	4,597
Unquoted Investments at Cost		
(Valuation 1981 £62,023; 1980 £25,370)	48,899	14,075
	53,491	18,672
	149,462	127,890
Debtors and Debit Balances		
Parish and Other Loans	25,112	22,672
Sundry Debtors	48,734	38,170
Current Accounts with other Boards	42,837	36,438
Other Boards	17,117	3,563
Church House Limited	17,692	17,955
Funds with the Church Commissioners	8,601	3,898
	160,093	122,696
Bank and Deposit Accounts		
Church Deposit Fund	157,224	164,468
Parish Stipends Account CDF	1,777	1,571
Current Account	(204,211)	(157,652)
	(45,210)	8,387
	264,345	258,973
Stipends Committee		
Quoted investments at cost	150,000	150,000
(Valuation 1981 £134,938; 1980 £148,662)		
Clergy Car Loan Scheme		
Outstanding Loans	56,378	49,934
Current Account L.D.B.F.	13,622	5,066
	70,000	55,000
Parsonages Committee		
Official Houses Insurance	1,670	132
Sundry Debtors	4,513	3,235
Funds with the Church Commissioners	-	58,925
Church Deposit Fund	55,339	55,339
Lloyds Bank Limited	31,851	26,836
	93,373	144,467
Diocese of Liverpool Centenary		
Thanksgiving Fund		
Cash at Bank - Deposit Account	8,000	54
Current Account	2,852	2,319
Certified Balances held by Deaneries	3,765	5,744
	14,617	8,117
	£592,335	£616,557

The Financial Statements were approved by the Board on 17 June 1982

WILLIAM JONES
GRAEME SPIERS

Both of the balance sheets contain fixed assets and depreciation indicating an accrual basis is used for at least some of the funds. This is confirmed in the notes on accounting policies which state:

"Depreciation is calculated to write off the cost of each fixed asset over its expected life by equal annual installments adjusted for profits or losses on disposal"

Sources and Application of Funds Statement

The Statement of Source and Application of Funds (SSAF) in the Accounts of the Diocese repeated as exhibit 7.4.2. This SSAF is prepared according to the format adopted in commercial accounting where the main movement statements are seeking to measure 'profit' instead of fund movements. This means that the statement is measuring only net changes in overall fund balances and thus not giving detailed movements on funds.

The total sources of funds for the work of Liverpool Diocese are shown approximately in table 7.4.2. These sources are only for the movement statements detailed in the accounts and exclude the many more trust funds handled by the Diocese as custodian trustee where movements are not detailed in the annual accounts.

We can see from Table 7.4.2 that the main source of funding is congregational contributions and it should be noted that over half of this is collection of clergy stipend which is paid by the Diocese to Church Commissioners who in turn pay stipends of all clergy in the church. A significant part of the Donations and Grants are from the Church Commissioners who have funds available for assisting with parsonage repairs and stipends (see the accounts of the Church Commissioners, 1981). Entrepreneurial (ie trading) and interest income are small but still significant parts of the funding of the operation of the Diocese.

It is interesting to compare the information given in table 7.4.2 with that in exhibit 7.4.2. The two statements are not strictly comparable in that the former only includes the source of funds and even in respect of source of funds the SSAF does not provide the same sort of information as table 7.4.2. It seems however that from the point of view of understanding the total sources of

funds of the Diocese, table 7.4.2 is much more useful than exhibit 7.4.2. In Liverpool Diocese, as in other NPOs, the main movement statements are themselves fund movement statements and a meaningful overall funds movement statement would undoubtedly be a consolidated statement of fund movements. Despite this the SSAF does give interesting information about changes in working capital, though just how useful these are is difficult to assess as they are consolidated from a number of separately managed funds.

This discussion raises a serious question about the application of the commercial model of Funds Flow statements to Churches. The commercial model is designed for an environment which uses operating statements and a single pool of resources whereas the church environment is one with (largely) fund statements and more than one pool of resources. This question is taken up again in Chapter 8.

The Audit Report

As Liverpool Diocesan Board of Finance (DBF) is a company limited by guarantee, the form of the audit reports is very similar to that in commercial companies. The DBF audit report is addressed to members of the DBF, the proper body to receive the accounts according to the legal structure and gives an opinion that "the financial statements give a true and fair view of the state of affairs at 31st December 1981 and of the surplus and source and application of funds for the year then ended and comply with the Companies Acts 1948-1981".

The DBF Audit Report also gives an explanation that the Board acts as custodian trustee and assets are held by the Board though not owned by them. The Liverpool Church House Ltd Audit Report is similar to the DBF report but without this custodian trustee clause. Both audit reports state that the work done was to audit financial statements in accordance with approved auditing standards.

Table 7.4.1 Rearrangement of Sections of 1981 Accounts to reflect Structure
Diocese of Liverpool

No	1st Page	Name of Statement	Status	Link	Item link	Measurement Focus	Measurement Basis
1	15	Budget 1982	Independent	-	-	Net Cost	I & E
5	19	Balance sheet - Bd of Finance	Independent	-	-	?Fund Balances	Assets/Liab
2	16	Auditors Report	Comment	-	-	-	-
4	18	Note to the Accounts	Explanation	-	-	-	-
3	17	Income and Expenditure Account	Movement	5	Fund Balance	Surplus	I & E
9	23	Parsonages Admin Account	Breakdown	3	Expense	Expense	I & E
11	23	Pastoral Account	Breakdown	3	Expense	Expense	I & E
12	24	Publications Account	Breakdown	3	Expense	Expense	I & E
16	25	Retired Clergy Etc Account	Breakdown	3	Expense	Expense	I & E
17	25	Widows and Dependents Fund	Breakdown	16	Expense	Expense	I & E
19	27	Board of Ministry	Breakdown	3	Expense	Expense	I & E
15	25	Accredited Lay Ministry	Breakdown	19	Expense	Expense	I & E
20	28	Bd of Mission and Soc. Resp.	Breakdown	3	Expense	Expense	I & E
21	28	Board for Social Welfare	Movement	20	Expense	Expense	I & E
24	31	Quota Payments (General)	Breakdown	3	Income	Income	I & E
10	23	Parsonages Repairs Account	Movement	5	Fund Balance	Fund Balance	I & E
13	24	Laurence House Operating	Movement	5	Fund Balance	Fund Balance	I & E
22	29	Stipends Fund	Movement	5	Fund Balance	Fund Balance	I & E
23	30	Thanksgiving Fund	Movement	5	Fund Balance	Fund Balance	I & E
25	31	Quota Payments (Thanksgiving)	Breakdown	23	Income	Income	I & E
6	20	Source & Application of Funds	Movement	5	Overall	Decr. Liq. Res.	
7	21	Balance Sheet - Other Boards	Independent	-	-	-	-
8	22	Notes - Other Boards	Explanation	7	-	-	-
14	24	Buildings Account	Movement	8	Fund Balance	Fund Balance	R & P (?)
18	26	Board of Education	Movement	8	Fund Balance	Fund balance	I & E
26	37	Balance Sheet Church House	Independent	-	-	-	-
28	38	Auditors' Report	Comment	26	-	-	-
27	38	Income and Expenditure Ch Hse	Movement	26	Fund	Net Expenditure	I & E

Table 7.4.2 Approximate sources of Liverpool Diocese recurrent funds

Donations Grants etc

Donations	87,033	
Bequests	2,156	
Church Commissioners	415,980	
Endowment income	100,938	606,107

Contributions (including £598,247 for Clergy Stipends) 1,050,523

Entrepreneurial 13,272

Interest 56,810

Unknown 421
£ 1,727,133

Exhibit 7.4.2 Liverpool Diocese Source and Application of Funds Statement

SOURCE AND APPLICATION OF FUNDS		
SOURCE OF FUNDS	1981	1980
(Deficit)/Surplus for year deducted from Budget Equalisation Account	773	(7,984)
Adjustment for items not involving the movement of funds:		
Depreciation	7,309	9,764
<u>Total Generated from Operations</u>	<u>8,082</u>	<u>1,780</u>
Funds from other Sources		
Sites and Buildings Repayments	5,147	5,582
Compensation	-	8,000
Church Commissioners long term loan re Clergy Car Loans	10,000	-
Gifts	-	-
Disposal of Fixed Assets and Investments	1,597	22,810
	<u>16,744</u>	<u>36,392</u>
	24,826	38,172
<u>APPLICATION OF FUNDS</u>		
Additions to furniture and fittings	2,329	7,504
Additions to freehold property	-	50,958
Investments	34,819	150,000
	<u>37,148</u>	<u>208,462</u>
<u>Decrease/Increase in Liquid Resources</u>	<u>(£12,322)</u>	<u>£170,290</u>
<u>INCREASE/(DECREASE) IN WORKING CAPITAL</u>		
(Increase)/Decrease in Loans from Church Commissioners	-	-
(Increase)/Decrease in Loans from Parishes	(1,113)	-
Increase/(Decrease) in:		
Parish and Other Loans	2,440	5,537
Sundry Debtors	10,564	(46,588)
Other Boards Debit Balances	13,554	4,785
Current Accounts with other Boards	6,399	-
Church House Ltd	(263)	10,524
Funds with Church Commissioners	4,703	(50,812)
Current Account - Clergy Car Loan	8,556	-
Car Scheme Outstanding Loans	6,444	-
Parsonage Committee Debtors and House Insurance	2,816	(5,190)
Parsonage Committee Funds with Church Commissioners	(58,925)	(10,354)
	3,712	(92,098)
(Increase)/Decrease		
Sundry Creditors	(2,702)	(12,527)
Other Boards Credit Balances	(15,321)	4,557
Current Account with other Boards	12,087	21,773
Parish Stipends Account	-	(19,231)
Church Commissioners	-	567
Diocesan Pastoral Account	(4,073)	50,812
Parsonages Committee Credit balances	51,094	32,421
Centenary Fund	(6,500)	10,258
	34,585	88,630
<u>MOVEMENT IN NET LIQUID FUNDS</u>		
Increase/(Decrease):		
Short term Deposits	-	(90,000)
Bank Current Account	(46,559)	44,107
Church Deposit Fund	(7,244)	-
Parish Stipends C.D.F.	206	(93,794)
Parsonage Committee Bank Account	5,015	(16,877)
Centenary Fund	6,500	(10,258)
	<u>(42,082)</u>	<u>(166,822)</u>
	<u>(£12,322)</u>	<u>£170,290</u>

Movement and Breakdown Statements

Although details of movements on certain of the funds are confined to the face of the balance sheets, there are nine movement statements which give specific fund balance movements in more detail. Each of these statements shows considerable detail, though apparently not enough for detailed control by managers (see chapter 15). Individual items from the accounts are further detailed in nine 'breakdown' statements which are apparently used to keep detail off the face of the relevant movement statement.

Both the breakdown and movement statements are miniature statements of account in their own right and are the equivalent of responsibility centre statements. The level of detail shown is similar to that in the other churches except the RCC. Exhibit 7.4.3 gives one of the breakdown statements and shows how a movement statement relates to one expenditure item.

It should be noted that even in this small set of accounts the movement and breakdown statements are not included in the report in a logical order. Table 7.4.1 has put the statements into a logical progression and the actual occurrence in the report (given by the first column) bears little relationship to this logical order. We shall see worse problems with this interrelationship of accounts in COS below.

7.4.2 Context and Purpose of the accounts

Once again the accounts are produced as part of a series of reports which is made to the annual Synod meeting. This means that the accounts are a 'stewardship' type document giving details of the Diocese's financial position and progress over the past year. The accounts are also prepared in satisfaction of the requirements of the Companies Acts as the Diocesan Board of Finance is a company limited by guarantee.

7.4.3 Information in the Accounts

These accounts are detailed enough to give readers some idea of the various areas of work that the Diocese is involved in financially. Discussions with internal users, reported in chapter 16, make it clear that the accounts do not contain sufficient detail for managing the organisation.

All the accounts contain figures for the previous financial year and so it is possible to compare what happened this year with what happened last year. In addition the accounts contain budgets for the financial year represented by the accounts and the following year. This means that in this set of accounts it is possible to carry out a compliance check although this is only provided for the main account and not for any of the other fund accounts reported. The presence of budgets means that it is possible to trace through the accounts how the parochial contributions to the Diocese have been used and will be used. This is the only one of the five churches where this is easy to perform this exercise.

The accounts also conform approximately to the structure of the Diocese, though their actual physical layout confuses this. This means that the new user would be somewhat hard-pressed to discover which committee is responsible for the funds in each set of accounts.

The balance sheets give, albeit in broad terms, an accurate consolidated picture of funds held in the diocese and this can be used to see what reserves there are and how they are held. Unfortunately the restrictions under which they may be held are not available in the accounts.

Exhibit 7.4.3 Breakdown and Movement Statement - Diocese of Liverpool

<u>BOARD OF MISSION AND SOCIAL RESPONSIBILITY</u>		
	<u>1981</u>	<u>1980</u>
Administration		
Salaries	969	692
Travelling Expenses of Board Staff	303	175
Printing and Stationery	216	201
Postage	144	26
Telephone	357	321
Rent of Offices	498	415
Charges	435	240
	2,922	2,070
Conference Expenses	39	89
Social Welfare	13,077	9,885
Holly Lodge	521	497
Church and Community	957	641
Race Relations	216	371
Unity and Overseas	269	-
Balance to Income and Expenditure Account	£18,001	£13,553
 <u>BOARD FOR SOCIAL WELFARE</u>		
	<u>1981</u>	<u>1980</u>
Grants to Local Committees	9,764	5,985
Administration		
Salaries	8,431	7,654
LDBF Administration Charge	125	100
Printing and Stationery etc.	110	108
Insurance	-	93
Telephone	400	391
Rent	722	552
Travelling Expenses	1,100	555
	10,888	9,453
Conference Expenses	151	-
	20,803	15,438
Less: Income		
BCC Children in Need	1,000	227
Miss St George	-	54
Churches	-	110
Firms	135	25
Individuals	40	-
United Way Organisation	2,701	865
Investment Income		
Quoted	1,281	1,227
Unquoted	2,569	2,617
Conference Contributions less expenses	-	428
	7,726	5,553
Balance to Board of Mission and Social Responsibility Account	£13,077	£9,885

7.5 The Accounts of the Church of Scotland General Assembly

7.5.1 Description of Accounts

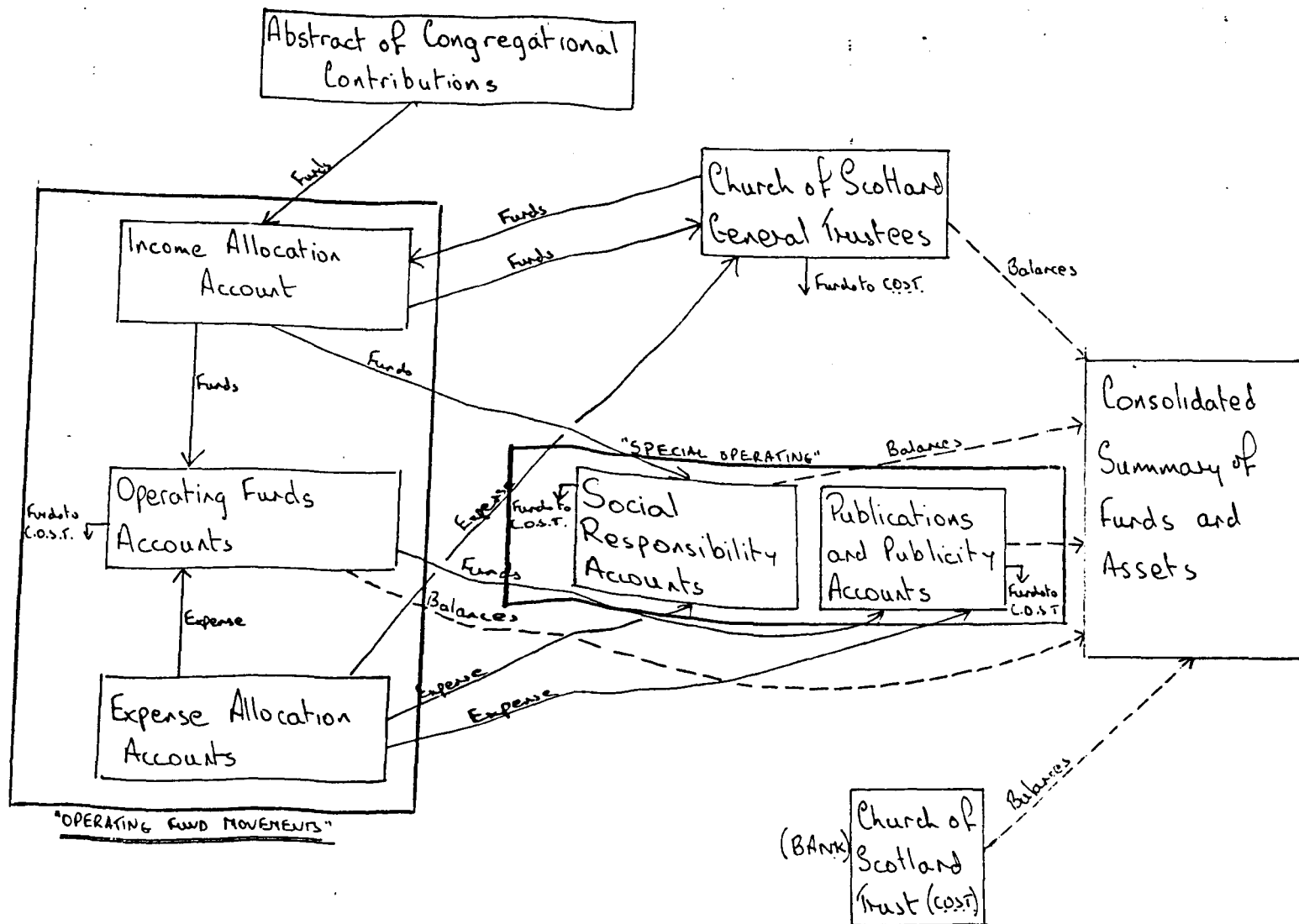
The accounts of the Church of Scotland are presented as an Abstract and as such contain a great deal of detail. As will be shown below, the very simple statement analysis is much more difficult to apply here as there a large number of interlocking items in the accounts but the analysis of the accounts structure is nevertheless extremely instructive in terms of demonstrating many of the complex problems which exist in describing NPO accounts.

The structural analysis of the accounts is summarised in table 7.5.1 which covers several pages and is to be found at the end of the chapter. This analysis helps us to see the interrelationship of the various statements and a briefer explanation of this is given in figure 7.5.1. This shows that the COS accounts are really six groups of closely inter-related statements each with a specific measurement focus. The groups are as follows:

1. 'Operating funds movements' (pages 2 to 22) which detail the movements on the main fund accounts involved in the operating side of the church;
2. A consolidated summary which summarises the funds, expressed as cash and investment balances, held by the Church of Scotland Trust, The General Trustees and the General Treasurer;
3. A list of congregational income, contributions to funds and overall summary;
4. The accounts of the COS Trust which is effectively an investment banker for the COS departments;
5. The accounts of the Church of Scotland General Trustees who hold certain funds and assets for the benefit of other work of the church and feed income from these assets into the general funds;
6. Two areas of 'special' operations, social responsibility and publications excluded from the general operations of the church as they are regarded as quasi-trading operations.

It is a pity that the general framework is not clearly described in the accounts themselves because once this is understood the

Figure 7.5.1. Schematic Relationship of Constituent Parts of the Church of Scotland Abstract of Accounts



accounts themselves become easier to interpret and follow.

In the detailed structural analysis it is apparent that several working practices complicate the presentation of accounting information. The first is the very strict fund accounting which is followed (see for example exhibit 7.5.1). In the operating accounts there are three or four possible fund groups for each operational area: one or two general funds, a reserve fund and special funds. For each of these fund groups there are two possible accounts, revenue and capital. This means that for any specific area of operation there are eight possible fund accounts. Not all the eight possible accounts occur in each area and even when all eight do appear fund movements may not be shown on all of these. But even so there is a vast amount of detail shown. This fund structure clearly demonstrates that there are many funds available and that they are strictly accounted for but reporting in this way may introduce constraints to presenting information intelligible to non-accountants.

It is interesting to contrast the reporting of fund accounting followed for operating departments in the first part of the accounting report (see exhibit 7.5.1) with that followed for one of the operating departments in the latter part of the report (see exhibit 7.5.2). In the first case the fund accounts are shown as completely separate accounts and the balances appear as a separate item on the consolidated summary. In the case of the committee on social responsibility there is a single operating account with expenditure allocated into three fund groups whilst in the balance sheet there are a number of different funds in similar fund groupings. The operating surplus agrees with the operating credit balance but there is no indication of whether the movement on the other fund accounts shown in the balance sheet relates in any way to the operating account. This demonstrates two different methods of fund accounting used in a single set of accounts.

The second problem in understanding these accounts is that there are a considerable number of interfund transfers which are not apparent from the structural analysis of table 7.5.1. When these

Exhibit 7.5.1. Some Church of Scotland Fund Accounts

8. Board of Education					
(a) GENERAL FUND					
Revenue				1981	1980 (Parish Education)
Income					
Congregational Contributions				£403,401	£139,495
Less: Contributions specially destined				—	10
				403,401	139,485
Donations, Grants and Income from Trusts				25,866	17,293
Bequests:					
Received during year			£ 1,383		1,000
Transfer from Reserve Funds - Revenue			2,314		3,348
				3,697	4,348
Interest on Capital				1,812	1,843
Interest on Revenue Balance				4,181	3,809
Grant from Contingencies Fund - Mission and Service				—	10,100
				438,957	176,878
Expenditure					
Education for the Ministry - Net Expenditure			135,127		—
St. Colm's College - Net Expenditure			11,902		—
Carberry Tower - Net Expenditure			19,315		30,050
Field Staff Salaries			132,279		44,556
Conferences, Training & Publicity			16,252		13,088
Group Relations			9,003		—
Upkeep of Youth Offices			6,498		2,619
Unit of Curriculum & Research			1,327		15,567
Grants, etc.			1,500		5,799
Cosmobile			—		9,471
			333,203		121,150
Administration and Organisation			119,199		55,125
				452,402	176,275
(Deficit) Surplus for Year				(13,445)	603
Credit (Debit) Balance at 1st January			603		(3,305)
Transfer (to) from Contingencies Fund - Mission & Service			(603)		3,305
				—	—
(Debit) Credit Balance at 31st December				£ (13,445)	£ 603
Capital					
Invested Funds at 1st January				£ 17,023	£ 13,777
Transfer from Special Funds - Capital				—	3,246
Invested Funds at 31st December				£ 17,023	£ 17,023
			Market Value	£ 23,090	£ 22,213
(b) RESERVE FUNDS					
Revenue					
Credit Balance at 1st January				£ 22,096	£ 8,467
Income during year				8,986	16,977
Transfer to General Fund - Revenue (Bequests)				(2,314)	(3,348)
Credit Balance at 31st December				£ 28,768	£ 22,096
Capital					
Invested Funds at 31st December				£ 57,000	£ 57,000
			Market Value	£ 68,290	£ 66,911

are added to the structural analysis they produce an extremely complicated interfund transfer network. Interfund transfers for the COS are of four main types:

1. Allocation of centrally collected expenses
2. Allocation of Centrally collected income
3. Transfers between funds within a specific area of work
4. Transfers of fund balances (all or part) from one fund account to another

The first two of these are reasonably easy to identify in the accounts but the latter are often difficult to identify and because of inadequate explanation appear to be merely arbitrary transfers, though no doubt there are clear reasons why they have taken place. As an illustration of the sort of transfers which take place figure 7.5.2 has been prepared to show the transfers in the group of accounts relating to Maintenance of the Ministry. For each transfer is shown: the direction of the flow of funds, the amount and the description shown in the accounts. Only half the transfers have an explanation other than 'transfer' or 'payment' and this makes the overall position quite difficult to interpret from the accounts, though this does not mean that there are no valid reasons for the transfers.

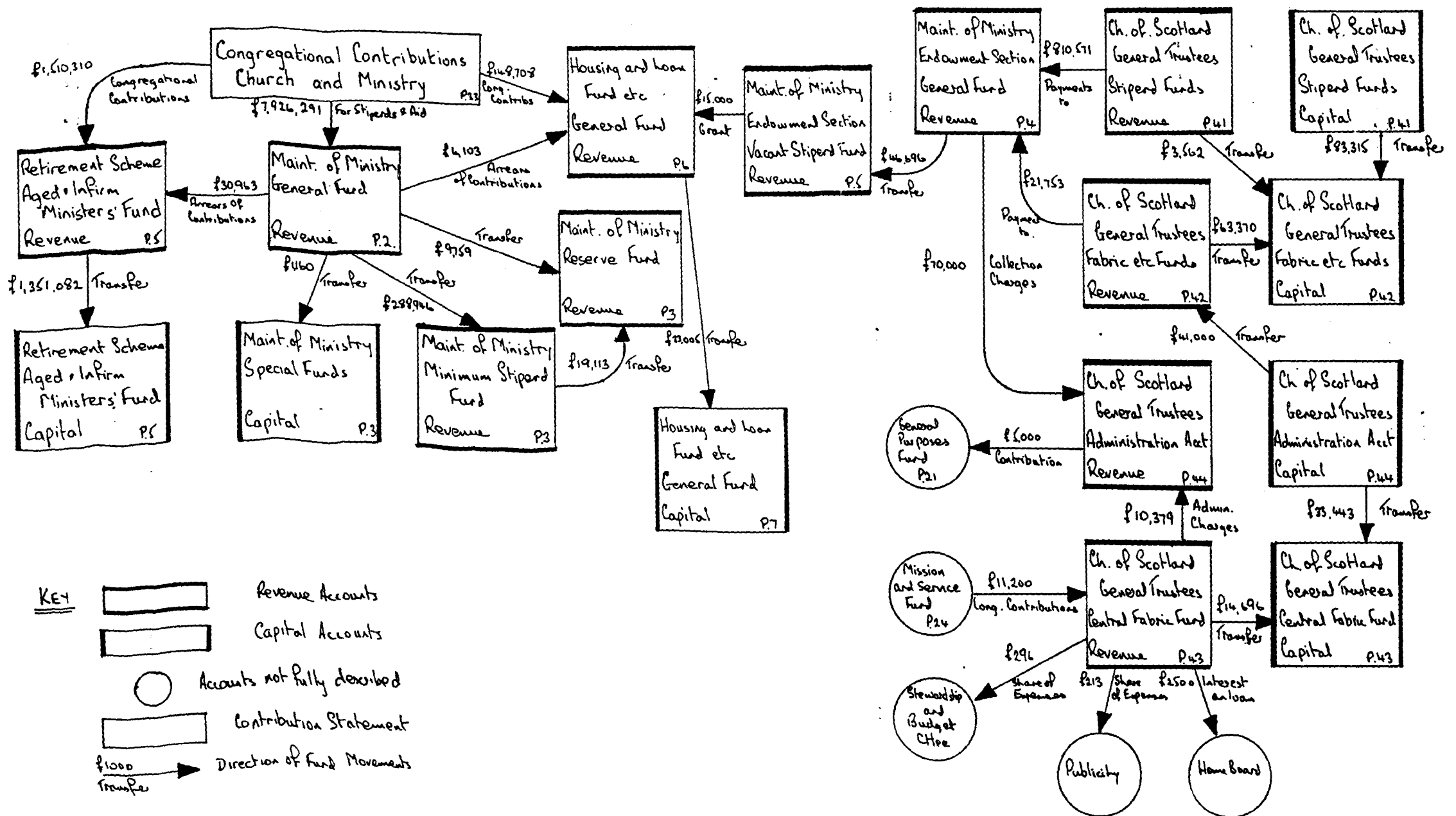
Discussion in chapter 3.3 about fund accounting raised the question of whether the reporting of overall results was better than results by fund accounting. Although no final conclusions can be drawn we see here that extensive use of fund accounts and complex inter-relationships do exist in practice and that intuitively the presence of some explanation or overall statement in addition to detailed fund accounts could only improve understanding. As this large amount of fund accounting has appeared only in this case in the study this issue is not explored more widely. However if, as seems the case, fund accounting is widely used in practice and is useful then further research and experiment could usefully be undertaken on the presentation of fund accounts in complex environments.

Exhibit 7.5.2 (Page 1) Fund Accounts of Committee on Social Responsibility

Committee on Social Responsibility					1981	1980
General Operating Account						
Year to 31st October 1981						
Income						
Congregational Contributions					240,537	215,348
Donations, Grants, Income from Trusts, etc.					19,208	23,580
Bequests					12,243	—
Interest on Capital					53,093	6,702
Interest on Revenue Balance					9,958	81,389
Miscellaneous					—	1,587
					<u>335,039</u>	<u>328,606</u>
Expenditure						
Age Care — Expenditure				£5,429,555		4,553,069
— Income				5,005,901		4,363,435
— Operating Surplus/(Deficit)				(423,654)		(189,634)
— Recoverable from (Repayable to) Local Authorities				413,091		167,232
					(10,563)	(22,402)
Child Care — Expenditure				563,275		592,763
— Income				480,960		525,939
— Operating Surplus/(Deficit)				(82,315)		(66,824)
— Recoverable from (Repayable to) Local Authorities				41,279		31,361
					(41,036)	(35,463)
Community Care — Expenditure				866,498		804,913
— Income				624,773		566,858
— Operating Surplus/(Deficit)				(241,725)		(238,055)
— Recoverable from (Repayable to) Local Authorities				37,919		18,656
					(203,806)	(219,399)
Late Adjustments — Accrued Expenses					(8,000)	—
Recovery of Surplus Refund					9,433	3,024
					<u>(253,972)</u>	<u>(274,240)</u>
Surplus for Year					81,067	54,366
Credit Balance at 1st November				123,746		74,205
Prior Year Adjustment				(2,976)		—
					120,770	74,205
Transfer to Capital					—	(4,825)
Credit Balance at 31st October					<u>£ 201,837</u>	<u>£ 123,746</u>

Exhibit 7.5.2 (Page 2) Fund Accounts of Committee on Social Responsibility

Balance Sheet As at 31st October 1981				1981	1980
ASSETS					
Investments at Cost (Market Value £5,303,600)	.	.	.	£5,242,218	£4,503,583
Debtors					
Deficits Recoverable	.	.	£ 706,564		215,083
Loans	.	.	25,499		25,499
Supplementation due by Local Authorities	.	.	122,554		156,113
Sundry Debtors	.	.	2,203		935
			856,820		397,630
Less: Creditors	.	.	121,003		277,188
General Treasurer's Current Account	.	.		735,817	120,442
				77,678	568,480
				<u>£6,055,713</u>	<u>£5,192,505</u>
Represented by:					
S.R. General — Capital	.	.	£ 878,165		£1,302,782
— Other Funds	.	.	164,157		77,503
				£1,042,322	1,380,285
Age Care — Capital	.	.	3,874,939		2,821,973
— General Funds	.	.	241,826		98,506
— Development	.	.	25,908		216,835
— Special Maintenance	.	.	98,121		107,053
— Other Funds (related to Homes)	.	.	19,141		21,792
				4,259,935	3,266,159
Child Care — Capital	.	.	272,199		205,995
— General Funds	.	.	29,640		15,088
— Development	.	.	49,606		31,066
— Special Maintenance	.	.	23,062		23,892
— Other Funds (related to Homes)	.	.	(11,646)		(22,381)
				362,861	253,660
Community Care — Capital	.	.	216,915		172,833
+ General Funds	.	.	19,288		17,305
— Development	.	.	(92,890)		(74,602)
— Special Maintenance	.	.	41,336		48,276
— Other Funds (related to Hostels)	.	.	4,109		4,843
				188,758	168,655
Operating Surplus carried forward	.	.		201,837	123,746
				<u>£6,055,713</u>	<u>£5,192,505</u>

Figure 7.5.2. Inter-relationships of Church of Scotland Maintenance of Ministry Accounts

The Consolidated Summary

The statement which all the other statements seem to be related to is the Consolidated Summary which appears on pages 29 and 30 of the Abstract, repeated here as exhibit 7.5.3. The Summary is basically an independent statement and shows on the first page both the Revenue Funds held by the General Treasurer at the end of the current and previous accounting periods and the Capital Funds invested in the Church of Scotland Trust at the same dates. On the second page of the Summary are shown broad groups of investments, deposits and cash held by the General Treasurer and Church of Scotland Trust with the totals on this page agreeing with the previous page. This statement therefore has very similar contents to the investments section of a balance sheet but it has no fixed assets or depreciation or current assets other than related to the funds held by the General Treasurer.

One very interesting feature of the Summary is that for the Church of Scotland Trust, COS General Trustees, Committee on Social Responsibility and Department of Publicity and Publications the Summary contains the investments which are also contained within the balance sheets of the individual units. Therefore the Consolidated Summary is not completely independent and yet is not easily related to the other balance sheets in the accounts (particularly Publicity and Publications and Social Responsibility which have different year ends). The consolidated summary is thus simply a summary of revenue and capital funds and carries very little useful information for either stewardship or decision purposes.

Other Statements

There are two types of statement found in the COS accounts and not elsewhere in the study. These have been given the names 'allocation' and 'restatement'. The allocation statement is a statement which shows mainly the allocation of either income or expenditure to a number of accounts. The main income allocation account is the Stewardship and Budget Fund Account (Reference 99 in figure 7.5.1) and is repeated here as exhibit 7.5.5. This account is in two parts, the first which includes the allocation

Exhibit 7.5.3 Church of Scotland Consolidated Summary

IV. CONSOLIDATED SUMMARY OF REVENUE AND CAPITAL FUNDS				
	Revenue Funds (Debit) Credit held by General Treasurer		Capital Funds invested in Church of Scotland Trust	
	1981	1980	1981	1980
The Ministry				
Maintenance of the Ministry	£ 932,320	£1,132,496	£1,607,782	£1,373,606
Endowment Section	627,636	490,547	3,318,597	2,747,564
Retirement Scheme	307,619	237,136	8,197,754	6,706,284
Housing & Loan Fund for Retired Ministers and Widows	615,309	502,818	353,836	320,831
	<u>£2,482,884</u>	<u>£2,362,997</u>	<u>£13,477,969</u>	<u>£11,148,285</u>
Mission and Service				
Home Mission	£ 163,120	£ 274,763	£1,161,011	£1,087,037
National Church Extension	190,818	56,217	192,595	192,595
Foreign Missions	421,883	455,786	1,595,611	1,641,340
Colonial & Continental Churches	73,284	82,712	843,583	769,620
Jewish Mission	46,414	83,220	239,210	246,931
Scots Memorial	(1,618)	(2,609)	19,589	18,339
Christian Aid	—	143	—	—
Board of Education	84,861	81,289	201,349	103,320
Education for Ministry	49,015	57,276	246,293	246,294
St. Colm's	21,307	20,367	20,708	20,708
Public Worship and Aids to Devotion	6,000	3,178	3,030	2,975
Diaconate Board	2,881	1,988	34,001	34,001
Chaplains to H.M. Forces	1,125	1,886	22,084	22,084
	<u>£1,059,090</u>	<u>1,116,216</u>	<u>4,579,064</u>	<u>4,385,244</u>
Miscellaneous				
General Administration	£ 7,213	£ 12,652	£ 35,518	£ 34,805
General Finance	(111,737)	(75,293)	252,068	215,777
Stewardship and Budget	766,584	883,647	67,537	67,537
Law	33,207	(8,693)	211,914	128,813
Personnel	(160,608)	—	6,060	—
Education	—	3,276	—	98,030
Woman's Guild	40,646	28,382	39,576	36,576
College and Bursary Funds	53,317	53,587	369,539	348,504
Special Trusts	96,497	53,559	1,169,423	1,158,523
Sums held for behoof of Congregational Funds	3,505	2,531	3,837,512	3,486,509
	<u>£ 728,624</u>	<u>£ 953,648</u>	<u>£5,989,147</u>	<u>£5,574,874</u>
Church of Scotland Trust	<u>£ 234,683</u>	<u>£ 220,402</u>	<u>£ 115,000</u>	<u>£ —</u>
Church of Scotland General Trustees	<u>£ (43,287)</u>	<u>£ 88,869</u>	<u>£14,392,748</u>	<u>£12,969,426</u>
Committee on Social Responsibility	<u>£ (49,088)</u>	<u>£ 261,500</u>	<u>£5,242,218</u>	<u>£4,614,923</u>
Department of Publicity and Publication				
Committee on Publication	£ (185)	£ 43,612	£ 190,006	£ 190,006
Committee on Publicity	(7,823)	(313)	39,996	39,996
	<u>£ (8,008)</u>	<u>£ 43,299</u>	<u>£ 230,002</u>	<u>£ 230,002</u>
Total Revenue Funds Held	<u>£4,404,898</u>	<u>£5,046,931</u>		

(Continued Overleaf)

Exhibit 7.5.3 (Continued) Church of Scotland Consolidated Summary

	Revenue Funds (Debit) Credit held by General Treasurer		Capital Funds Invested in Church of Scotland Trust	
	1981	1980	1981	1980
Represented by:				
Loans made by Ministry Funds	£ 385,712	£ 342,144		
Loans made by Mission and Service Funds	289,216	283,124		
Loans made by Miscellaneous Funds	27,000	21,048		
Short Term Loans invested by Church of Scotland Trust	3,100,000	3,391,000	£ 3,100,000	£ 3,391,000
Feuduties, Ground Annuals, etc.	104,798	112,659	104,798	112,659
Balances at Bank and Cash in Hand	498,172	896,956		
	<u>£4,404,898</u>	<u>£5,046,931</u>	<u>£ 3,204,798</u>	<u>£ 3,503,659</u>
Total Capital Funds Held			<u>£47,230,946</u>	<u>£42,426,413</u>
		Market Value	<u>£51,431,048</u>	<u>£46,774,701</u>
Held thus:				
General Investment Fund - Capital			£17,134,263	£15,196,568
Deposits awaiting Admission			—	86,689
Income Fund - Capital			10,188,148	8,209,123
Deposit Fund			12,263,620	11,744,610
Special Investment Account			572,920	593,761
Short Term Loans & Feuduties, Ground Annuals, etc.			104,798	1,103,659
Aged and Infirm Ministers Fund - Capital			6,967,197	5,492,003
			<u>£47,230,946</u>	<u>£42,426,413</u>
EDINBURGH., 4th May, 1982. The foregoing abstracts are submitted by				
W.G.P. COLLEDGE, C.A., General Treasurer				

Exhibit 7.5.4. Church of Scotland Sources of Funds Statement

SOURCE OF FUNDS		1981	1980
Total Congregational Liberty - per Appendix I			
Normal		£23,375,076	£20,424,675
Special		4,270,179	4,215,566
		<u>27,645,255</u>	<u>24,640,241</u>
Less: Retained by Congregations		14,426,121	13,162,255
Congregational Contributions to Central Funds - per Appendix II		13,219,134	11,477,986
Add: Other Income			
Donations, Grants, Income from Trusts, Sale of Properties, etc.	£ 1,853,152		1,295,220
Bequests	1,301,095		1,186,073
Interest on Capital	3,481,030		2,737,666
Stipend Endowments per General Trustees	832,324		806,358
		<u>7,467,601</u>	<u>6,025,317</u>
Total Income of Central Funds		<u>£20,686,735</u>	<u>£17,503,303</u>
EDINBURGH, 4th May, 1982.			
The foregoing statement of Source of Funds submitted by			
W.G.P. COLLEDGE, C.A., General Treasurer.			

of congregational contributions and the second which is a contingencies fund. The allocations are made in line with budgets and additional grants to meet deficits or special work are made from the contingencies fund. This fund receives income from interest unallocated congregational contributions and surpluses from previous years.

Exhibit 7.5.6 is an example of an expenditure allocation account and in this case is allocating the net expense of the accommodation at the church headquarters.

A Restatement is the name given to a fund statement where no details are given of movements on the fund. Instead the balance at the end of the year is noted together with that for the previous year and possibly the market value of any investments in which the fund is held. Though at first this does not seem to have any purpose, such a restatement does ensure that the funds designated or restricted to use within the general area of the committee concerned are reported in total along with the other funds.

Sources of Funds

Exhibit 7.5.4 shows the General Treasurer's Sources of Funds statement. Unlike in the case of LPL where a commercial type source and application of funds statement has been prepared this statement is prepared as an overall statement of funds received. The statement is reconciled to total congregational income via statements broken down to presbytery level.

An attempt was made to reconcile the totals in the General Treasurer's Source of Funds statement but this proved impossible due to the number of movement statements for which no detail was shown. However the headings in the accounts of the Church of Scotland are remarkably consistent across the accounts and this means that it is very easy to identify the source of funds for the accounts where these are shown. The sources of funds shown fall mainly into four groups: donations, congregational contributions, entrepreneurial receipts and interest on recurrent balances. The repayment of loans and sale of properties are

Exhibit 7.5.5 Church of Scotland Income Allocation Account

3. Stewardship and Budget

(a) MISSION AND SERVICE CONTRIBUTIONS AND CONTINGENCIES FUND

	1981	1980
Total Congregational Contributions per Appendix II		
Ordinary	£2,579,011	£2,321,632
Other	126,235	128,638
	<u>2,705,246</u>	<u>2,450,270</u>
Less: Allocation thereof:		
Home Missions	£463,305	409,343
National Church Extension	423,789	381,704
General Trustees - Central Fabric Fund	11,200	10,000
Social Responsibility	250,447	260,443
Foreign Missions	991,637	875,715
Jewish Missions	27,727	24,251
Scots Memorial	14,225	12,800
Christian Aid	82,757	82,700
Board of Education	403,401	300,105
Public Worship and Aids to Devotion	3,500	3,130
Diaconate Board	9,850	8,342
Chaplains to H.M. Forces	2,100	2,260
	<u>2,683,938</u>	<u>2,370,793</u>
Balance credited to Contingencies Fund	<u>21,308</u>	<u>79,477</u>
Interest and Donations	89,577	75,722
Total Income of Contingencies Fund	<u>110,885</u>	<u>155,199</u>
Credit Balance at 1st January	858,802	448,611
	<u>969,687</u>	<u>603,810</u>
Expenditure		
Grants towards previous year's deficits:		
Foreign Missions	7,156	21,342
Jewish Missions	4,152	—
Scots Memorial	5,904	1,473
Board of Education	—	3,305
Education for the Ministry	—	2,547
St. Colm's	—	1,491
Diaconate Board	786	1,021
	<u>17,998</u>	<u>31,179</u>
Grants towards current year's work		
Home Missions	—	20,600
National Church Extension	250,000	—
Social Responsibility	2,750	(22,400)
Parish Education	—	10,100
Education for the Ministry	18,200	17,200
St. Colm's	—	6,400
Public Worship and Aids to Devotion	260	(30)
Diaconate Board	—	190
Chaplains to H.M. Forces	—	(60)
	<u>271,210</u>	<u>32,000</u>
Net Cost of Programme for Action	<u>9,203</u>	<u>23,672</u>
Special Grant - Pray Today	750	500
Miscellaneous	—	860
	<u>299,161</u>	<u>88,211</u>
	<u>670,526</u>	<u>515,599</u>
Refunds in respect of previous year's Surplus		
Home Missions	24,568	31,264
National Church Extension	41,270	306,616
Jewish Missions	—	3,734
Board of Education	603	—
Education for Ministry	10	—
St. Colm's	2,414	—
Public Worship and Aids to Devotion	188	346
Chaplains to H.M. Forces	1,880	1,243
	<u>70,933</u>	<u>343,203</u>
Credit Balance at 31st December	<u>£ 741,459</u>	<u>£ 858,802</u>

Exhibit 7.5.6 An Expenditure Allocation Account of the Church of Scotland

2. General Finance			
(a) GENERAL FUND			
Revenue			
(i) Accommodation			
		1981	1980
Upkeep of 121 George Street, Edinburgh:			
Rates and Insurance		£ 48,091	£ 41,766
Heating and Lighting		27,993	22,641
Caretakers' and Receptionists' Salaries		13,581	10,141
Cleaning and Laundry		20,889	15,387
Maintenance and Decoration		20,055	11,745
		<u>130,609</u>	<u>101,680</u>
Income from Let Property		(17,400)	(14,500)
		<u>113,209</u>	<u>87,180</u>
<i>Allocated thus:</i>			
Committees within Accounts of General Treasurer			
Service Departments	£17,146		12,558
Others	<u>51,974</u>		<u>39,753</u>
	69,120		52,311
Church of Scotland General Trustees	9,630		7,196
Committee on Social Responsibility	15,099		11,627
Department of Publicity and Publications	<u>19,360</u>		<u>16,046</u>
		<u>£113,209</u>	<u>£ 87,180</u>

Exhibit 7.5.7 Auditor's Reports from the Church of Scotland Abstract**AUDITOR'S REPORT**

EDINBURGH, 4th May, 1982. As Auditor of The Church of Scotland, I have audited the financial statements of The Church of Scotland Trust in accordance with approved Auditing Standards except that the scope of my work was limited by the matter referred to below.

Heritable Properties are not recorded in the accounts under review and I have not, therefore, verified the existence of these Properties.

In my opinion the financial statements for the year ended 31st December 1981 are in agreement with the accounting records.

HUGH McMICHAEL, C.A., Auditor.

AUDITOR'S REPORT

EDINBURGH, 4th May, 1982. As Auditor of The Church of Scotland, I have audited the financial statements of the Committee on Publications in so far as they relate to the Bookshops in accordance with approved Auditing Standards.

In my opinion the financial statements for the year ended 31st January 1982 are in agreement with the accounting records.

HUGH McMICHAEL, C.A., Auditor.

recorded as a source of funds because the accounts are recorded on a receipts and payments basis. Sale of property may be sale of either a property previously purchased by the church or the conversion of a donation of property into cash. In both these cases (and also with loan repayments) sale of property may be regarded as the conversion of one store of value, assets, into another, cash and this may not be a prime source of funds in the same way as are donations and contributions. Sometimes however the sale of donated property, received for example from a legacy, may be sold and become the equivalent of a cash donation. The difference between these different sources is not clear in these accounts.

Table 7.5.1 Approximate contributions to Church of Scotland
Current Funds for the year ended 31st December 1981

Donations	
Donations, Grants and Income	
from trusts	1,033,396
Bequests	391,625
Endowment Interest	2,477,480
	----- 3,902,501
Congregational Contributions	
(including Clergy Stipends etc £7,926,291)	12,789,494
Entrepreneurial Receipts	300,579
Interest on recurrent balances	215,084
Repayment of Loans	34,221
Sale of Properties	64,141

	£ 17,306,020

It can be seen that though there are some differences between table 7.5.1 and exhibit 7.5.4 there is general agreement about the scale of contributions. Differences in the statements show some details of financial activity eg with respect to bequests where the General Treasurer's statement shows three times the amount shown in the other accounts, probably indicating that many bequests go straight into endowment or special accounts.

The main source of funds for recurrent purposes are congregational contributions. This is not directly comparable with other churches in the study as nearly £8m of this is related to central payment of ministers' stipends. The minor sources of funds are entrepreneurial receipts (mainly sale of publications, fees and accommodation) and interest on current balances. Note that table 7.5.1 excludes the major source of income in the Social Responsibility Department which is accommodation fees (£5m).

Audit Reports

There are seven audit reports in the Church of Scotland Abstract and they are all by the same auditor. The audit statements cover all the statements in the accounts except Appendices I-IV signed by the General Treasurer. The wording of all seven statements is the same with the exception that four of the reports, of General Treasurer, Church of Scotland Trust, Church of Scotland General Trustees and Committee on Social Responsibility carried a qualification that:

"Meritable Properties are not recorded in the accounts under review and I have not, therefore, verified the existence of these Properties." Abstract pages 30,40,44 and 47

The General form of the auditor's reports are given in exhibit 7.5.6.

The auditor of the church accounts is appointed by the General Assembly and the accounts are presented to the General Assembly. Though there is no addressee of the audit report it seems therefore that the General Assembly is the addressee. The work done by the auditor is described simply as 'audit in accordance with approved auditing standards' and a separate statement is given that in the auditors opinion the statements are in agreement with the accounting records. No opinion is expressed as to whether the accounts are 'true and fair'.

7.5.2 Context and Purpose of the Abstract

The annual Abstract is made available to the members of the annual Church of Scotland General Assembly. It is not issued with the Agenda of the Assembly but is available to any members of

Assembly who require it at the actual meeting. The papers in the Agenda contain some financial information but on the whole are written reports describing the work of the various committees of the church and bringing matters to the church for discussion.

Though the accounts are available to all Assembly members, they are not in fact sent to all members and this suggests that the church does not see the accounts as being of value to all members. The easy availability of the Abstract suggests however that the church sees itself as accountable to members despite the fact that not all members are interested. The non-distribution of accounts automatically to all members is therefore seen as a saving of cost and therefore a stewardship of resources.

Only limited conclusions can be drawn from the accounts themselves about their purpose. One clear conclusion is that the Abstract provides a vehicle for the General Treasurer to account for his stewardship of funds. The information in the accounts may be useful for other purposes by Assembly and Committee members.

7.5.3 Information in the accounts

There are many "accounts" in the Abstract which are simply restatements of balances in the Consolidated Summary and show no movements. It is doubtful if there is much information content in these balances except perhaps to state the total funds available to a committee.

Apart from these restatements, the rest of the accounts appear to be extremely detailed. They give a good amount of detail about the work that is going on, see for example exhibit 7.5.1, and despite their complexity they can give a general impression of where money is being spent, although this is not necessarily an indication of work that is being undertaken.

One very interesting account is the income allocation account which gives a guide to where currently raised funds are being spent in the church. This does not however give details of overall income from endowments and so gives only a partial picture of finances.

The structure of the Abstract hides much of the information that

is in it but this is probably because the Abstract is designed simply as an abstract of accounts and not an informative document. This highlights the problem found in many NPO accounts that there are many perspectives from which to view the finances and the adoption of one form of presentation must necessarily present a limited view.

The vast amount of information detracts from an overall view which would be useful in coming to an understanding of the position of the church as a whole. However the structure of the information relates almost exactly to the responsibility structure of the church and this may be of value to readers particularly those interested in a specific section of work (see table 10.5.18 in chapter 10).

Over the past few years COS has been warning members of a need to give more to the work of the church otherwise the work will have to be curtailed. There is however little evidence from the accounts of any constraints being present because of lack of giving by members.

Table 7.5.1 Breakdown of the Church of Scotland accounts to show structure

No	1st Name of Statement	Status	Link	Item link	Measurement Focus	Measurement basis
	<u>Page</u>					
<u>Main Church of Scotland Accounts</u>						
121	29 Consolidated Summary of Rev & Cap Funds	Independent	0	-		?
122	30 Auditor's Report	Comment	0	-		?
1	1 Accounting principles	Explanation	-	-	-	
2	1 Definitions	Explanation	-	-	-	
8	3 Maint of Mnstry Reserve Funds Capital	Restatement	121	Part-fund b	Fund Balance	?
9	3 Maint of Mnstry Special Funds Revenue	Restatement	121	Part-fund a	Fund Balance	?
10	3 Maint of Mnstry Special Funds Capital	Restatement	121	Part-fund b	Fund Balance	?
17	5 Endowments Special Funds Revenue	Restatement	121	Part-fund c	Fund Balance	?
18	5 Endowments Special Funds Capital	Restatement	121	Part-fund d	Fund Balance	?
21	6 Reserve Fund Revenue (Retirement)	Restatement	121	No Balance	Fund Balance	?
22	6 Special Funds Revenue (Retirement)	Restatement	121	Part-fund e	Fund Balance	?
23	6 Special Funds Capital (Retirement)	Restatement	121	Part-fund f	Fund Balance	?
26	7 Special Funds Revenue (Housing and Loan)	Restatement	121	Part-fund g	Fund Balance	?
30	9 Special Funds Revenue (Home Mission)	Restatement	121	Part-fund h	Fund Balance	?
31	9 Special Funds Capital (Home Mission)	Restatement	121	Part-fund i	Fund Balance	?
33	9 National Church Extension General Capital	Restatement	121	Part-fund k	Fund Balance	?
35	9 Special Funds Revenue (Nat. Church Extn)	Restatement	121	Part-fund j	Fund Balance	?
36	9 Special Funds Capital (Nat. Church Extn)	Restatement	121	Part-fund k	Fund Balance	?
41	11 Special Funds Revenue (Foreign Mission)	Restatement	121	Part-fund l	Fund Balance	?
42	11 Special Funds Capital (Foreign Mission)	Restatement	121	Part-fund m	Fund Balance	?
46	12 Special Funds Revenue (Colonial and Cont)	Restatement	121	Part-fund n	Fund Balance	?
47	12 Special Funds Capital (Colonial and Cont)	Restatement	121	Part-fund o	Fund Balance	?
51	13 Jewish Missions Special Funds Revenue	Restatement	121	Part-fund p	Fund Balance	?
52	13 Jewish Missions Special Funds Capital	Restatement	121	Part-fund q	Fund Balance	?
56	14 Scots' Memorial Jerusalem Special Revenue	Restatement	121	Part-fund r	Fund Balance	?
57	14 Scots' Memorial Jerusalem Special Capital	Restatement	121	Part-fund s	Fund Balance	?
59	15 Christian Aid Special Revenue	Restatement	121	Part-fund t	Fund Balance	?
63	16 Bd of Education Reserve Capital	Restatement	121	Part-fund v	Fund Balance	?
64	17 Bd of Education Special Revenue	Restatement	121	Part-fund u	Fund Balance	?
65	17 Bd of Education Special Capital	Restatement	121	Part-fund v	Fund Balance	?
67	17 Educ For Ministry General Capital	Restatement	121	Part-fund x	Fund Balance	?
70	18 Educ for Ministry Special Funds Revenue	Restatement	121	Part-fund w	Fund Balance	?
71	18 Educ for Ministry Special Funds Capital	Restatement	121	Part-fund x	Fund Balance	?
73	18 St Colm's General Fund Capital	Restatement	121	Part-fund z	Fund Balance	?
75	18 St Colm's Special Fund Revenue	Restatement	121	Part-fund y	Fund Balance	?
76	18 St Colm's Special Fund Capital	Restatement	121	Part-fund z	Fund Balance	?
78	19 Worshp and Aids to Devtn General Capital	Restatement	121	Part-fund B	Fund Balance	?
79	19 Worshp and Aids to Devtn Special Revenue	Restatement	121	Part-fund A	Fund Balance	?
80	19 Worshp and Aids to Devtn Special Capital	Restatement	121	Part-fund B	Fund Balance	?
82	20 Diaconate Board Special Revenue	Restatement	121	Part-fund C	Fund Balance	?
83	20 Diaconate Board Special Capital	Restatement	121	Part-fund D	Fund Balance	?
85	20 Forces Chaplains General Capital	Restatement	121	Part-fund F	Fund Balance	?
86	20 Forces Chaplains Special Revenue	Restatement	121	Part-fund E	Fund Balance	?
87	20 Forces Chaplains Special Capital	Restatement	121	Part-fund F	Fund Balance	?
90	21 General Admin Fund General Fund Capital	Restatement	121	Part-fund H	Fund Balance	?
92	22 Special Funds Revenue	Restatement	121	Part-fund G	Fund Balance	?
93	22 Special Funds Capital	Restatement	121	Part-fund H	Fund Balance	?
96	23 General Fund Revenue Special Funds	Restatement	121	Fund	Fund Balance	?

No	1st Name of Statement	Status	Link	Item link	Measurement Focus	Measurement Basis
Page						
97 23	General Fund Revenue Special Funds	Restatement	121	Fund	Fund Balance	?
100 25	Stewardship and Budget Special Fund Rev.	Restatement	121	Part-fund I	Fund Balance	?
101 25	Stewardship and Budget Special Fund Cap.	Restatement	121	Fund	Fund Balance	?
103 25	Law General Fund Special Revenue	Restatement	121	Fund	Fund Balance	?
104 25	Law General Fund Capital	Restatement	121	Fund	Fund Balance	?
106 26	Personnel Special Revenue	Restatement	121	Fund	Fund Balance	?
107 26	Personnel Special Capital	Restatement	121	Fund	Fund Balance	?
113 27	Woman's Guild Special Revenue	Restatement	121	Part-fund J	Fund Balance	?
114 27	Woman's Guild Special Capital	Restatement	121	Part-fund K	Fund Balance	?
115 28	Colleges and Bursary Fund Revenue	Restatement	121	Fund	Fund Balance	?
116 28	Colleges and Bursary Fund Capital	Restatement	121	Fund	Fund Balance	?
117 28	Special Trusts Revenue	Restatement	121	Fund	Fund Balance	?
118 28	Special Trusts Capital	Restatement	121	Fund	Fund Balance	?
119 28	Sums held for congregations Revenue	Restatement	121	Fund	Fund Balance	?
120 28	Sums held for congregations Capital	Restatement	121	Fund	Fund Balance	?
94 23	General Fund Revenue Accommodation	Allocation	>5	Expenditure	Net Cost	R&P+T
95 23	General Fund Revenue Administration	Allocation	>5	Expenditure	Net Cost	R&P+T
99 25	Stewardship and Budget General Fund	Allocation	>3	Expenditure	Net Expenditure	R&P+T
102 25	Law General Fund Revenue	Allocation	>5	Expenditure	Net Expenditure	R&P+T
105 26	Personnel General Revenue	Allocation	>4	Expenditure	Expenditure	R&P+T
3 2	Maintenance of the Ministry Fund General	Movement	121	Part-fund a	Balance	R&P+T
4 2	Maintenance of the Ministry Fund Capital	Movement	121	Part-fund b	Fund Balance	R&P+T
5 3	Minimum Stipend Fund Revenue	Movement	121	Part-fund a	Deficit/Fnd Bal	R&P+T
6 3	Minimum Stipend Fund Capital	Movement	121	Part-fund b	Fund Balance	R&P+T
7 3	Maint of Mnstry Reserve Funds Revenue	Movement	121	Part-fund a	Fund Balance	R&P+T
11 4	Endowment Section General Fund General	Movement	121	Part-fund c	Surplus/Fnd Bal	R&P+T
12 4	Endowment Section General Fund Capital	Movement	121	Part-fund d	Fund Balance	R&P+T
13 4	Funds Available for Endowment Grants Revn	Movement	121	Part-fund e	Surplus/Fnd Bal	R&P+T
14 4	Funds Available for Endowment Grants Capl	Movement	121	Part-fund d	Fund Balance	R&P+T
15 5	Vacant Stipend Fund Revenue	Movement	121	Part-fund e	Deficit/Fnd Bal	R&P+T
19 5	Aged and Infirm Ministers' Fnd General	Movement	121	Part-fund e	Surplus/Fnd Bal	R&P+T
20 6	Aged and Infirm Ministers' Fnd Capital	Movement	121	Part-fund f	Fund Balance	R&P+T
24 6	Housing and Loan Fund General	Movement	121	Part-fund g	Fund Balance	R&P+T
25 7	Housing and Loan Fund Capital	Movement	121	Part-fund	Fund Balance	R&P+T
27 8	Home Mission General Fund Revenue	Movement	121	Part-fund h	Surplus/Fnd Bal	R&P+T
28 8	Home Mission General Fund Capital	Movement	121	Part-fund i	Fund Balance	R&P+T
29 9	Reserve Funds Revenue (Home Mission)	Movement	121	Part-fund h	Fund Balance	R&P+T
32 9	National Church Extension General Revenue	Movement	121	Part-fund j	Surplus/Fnd Bal	R&P+T
34 9	National Church Extension Reserve Revenue	Movement	121	Part-fund j	Fund Balance	R&P+T
37 9	Foreign Mission General Revenue	Movement	121	Part-fund l	Surplus/Fnd Bal	R&P+T
38 9	Foreign Nission General Capital	Movement	121	Part-fund m	Fund Balance	R&P+T
39 11	Reserve Funds Revenue (Foreign Mission)	Movement	121	Part-fund l	Fund Balance	R&P+T
40 11	Reserve Funds Capital (Foreign Mission)	Movement	121	Part-fund m	Fund Balance	R&P+T
43 11	Colonial and Cont. Churches General Revnu	Movement	121	Part-fund n	Surplus/Fnd Bal	R&P+T
44 12	Colonial and Cont. Churches General Captl	Movement	121	Part-fund o	Fund Balance	R&P+T
45 12	Reserve Funds Revenue (Colonial and Cont)	Movement	121	Part-fund n	Fund Balance	R&P+T
48 13	Jewish Missions General Fund Revenue	Movement	121	Part-fund p	Surplus/Fnd Bal	R&P+T
49 13	Jewish Missions General Fund Capital	Movement	121	Part-fund q	Fund Balance	R&P+T
50 13	Jewish Missions Reserve Funds Revenue	Movement	121	Part-fund p	Fund Balance	R&P+T
53 14	Scots' Memorial Jerusalem General Revenue	Movement	121	Part-fund r	Surplus/Fnd Bal	R&P+T
54 14	Scots' Memorial Jerusalem General Capital	Movement	121	Part-fund s	Fund Balance	R&P+T
55 14	Scots' Memormal Jerusalem Reserve Revenue	Movement	121	Part-fund r	Fund Balance	R&P+T

No	1st Name of Statement Page	Status	Link	Item link	Measurement Focus	Measurement Basis
58	15 Christian Aid General Revenue	Movement	121	Part-fund t	Fund Balance	R&P+T
60	16 Bd of Education General Revenue	Movement	121	Part-fund u	Deficit/Fnd Bal	R&P+T
66	17 Educ for Ministry General Revenue	Breakdown	60	Expense	Expense	
61	16 Bd of Education General Capital	Movement	121	Part-fund v	Fund Balance	R&P+T
62	16 Bd of Education Reserve Revenue	Movement	121	Part-fund u	Fund Balance	R&P+T
68	17 Educ for Ministry Reserve Revenue	Movement	121	Part-fund	Fund Balance	R&P+T
69	17 Educ for Ministry Reserve Capital	Movement	121	Part-fund	Fund Balance	R&P+T
72	18 St Colm's General Fund Revenue	Movement	121	Part-fund z?	Expend/Fnd Bal	R&P+T
74	18 St Colm's Reserve Fund Revenue	Movement	121	Part-fund y	Fund Balance	R&P+T
77	19 Worshp and Aids to Devtn General Revenue	Movement	121	Part-fund x	Surplus/Fnd Bal	R&P+T
81	19 Diaconate Board General Revenue	Movement	121	Part-fund C	Deficit/Fnd Bal	R&P+T
84	20 Forces Chaplains General Revenue	Movement	121	Part-fund E	Surplus/Fnd Bal	R&P+T
88	21 General Purposes Fund	Movement	121	Part-fund G	Fund Balance	R&P+T
89	21 General Admin Fund General Fund Revenue	Movement	88	Expenditure	Net Expenditure	R&P+T
91	22 Committees having no Funds	Breakdown	88	Expenditure	Net Expenditure	R&P+T
98	24 Mission and Service and Contingencies Fnd	Movement	121	Part Fund I	Fund Balance	R&P+T
108	26 Education General Fund Revenue	Movement	64/121	Fund	Surplus/Fnd Bal	R&P+T
109	27 Education General Fund Capital	Movement	65/121	Fund	Fund Balance	R&P+T
110	27 Education Special Fund Capital	Movement	65/121	Fund	Fund Balance	R&P+T
111	27 Woman's Guild General Revenue	Movement	121	Part-fund J	Surplus/Fnd Bal	R&P+T
112	27 Woman's Guild General Capital	Movement	121	Part-fund K	Fund Balance	R&P+T
123	31 Abstract of Congregational Income Appx I	Independent	0	-		?
124	33 Abstract of Cong. Contributions Appx II	Breakdown	>5	Receipts	Receipts	Receipts
125	35 Source of Funds Appx III	Breakdown	All	Receipts	Receipts	Receipts
126	35 Analysis of Admin and Org exps Appx IV	Breakdown	Various	Expenses	Expenses	?
<u>Church of Scotland Trust</u>						
141	40 Auditor's Report	Comment	127-140	-	-	-
128	36 Gen Invest Balance Sheet	Independent	121	Asset Bal	Unitholder's Fnds	Market Value
127	36 Gen Investment Revenue Acct	Movement	128	Funds Held	Reserves	R&P
130	37 Income Fund Balance Sheet	Independent	121	Asset Bal	Unitholder's Fnds	Market Value
129	37 Income Fund Revenue Acct	Movement	130	Funds Held	Reserves	R&P
132	38 Deposit Fund Bal Sheet	Independent	121	Asset Bal	Depositor's Funds	Market Value
131	38 Deposit Fund Revenue Acct	Movement	132	Funds Held	Reserves	R&P
134	39 Spec Invest Acct Bal Sheet	Independent	121	Asset Bal	Investor's Funds	Market Value
133	39 Spec Invest Acct Rev Acct	Movement	134	Funds Held	Reserves (0 bal)	R&P
136	39 Spec Invest Acct Bal Sheet	Independent	121	Asset Bal	Investor's Funds	Market Value
135	39 Spec Invest Acct Rev Acct	Movement	136	Funds Held	Reserves (0 bal)	R&P
138	39 Internal Banking Bal Sheet	Independent	121	Asset Bal	Investor's Funds	Market Value
137	39 Internal Banking Rev Acct	Movement (SL)	138	Funds Held	Reserves (0 bal)	R&P
140	40 Aged & Infirm Bal Sheet	Independent	121	Asset Bal	Investor's Funds	Market Value
139	40 Aged & Infirm Rev Acct	Movement (SL)	140	Funds Held	Reserves (0 bal)	R&P

No	1st Name of Statement Page	Status	Link	Item link	Measurement Focus	Measurement Basis
<u>General Trustees Funds</u>						
150	44 Auditor's Report	Comment	142-149	-	-	-
143	41 Stipend Bal Sheet	Independent	0	-	Funds	Market Value
142	41 Stipend Rev Acct	Movement	143	Fund Balance	Surplus/Fund Bal	R&P
145	42 Fabric etc Bal Sheet	Independent	-	-	Funds	Market Value
144	42 Fabric etc Rev Acct	Movement	145	Fund Balance	Surplus/Fund Bal	R&P
147	43 Cent. Fabric Bal Sheet	Independent	-	-	Funds	Net C.A.
146	43 Cent. Fabric Rev Acct	Movement	147	Fund Balance	Surplus/Fund Bal	R&P
149	44 Admin Acct Bal Sheet	Independent	-	-	Funds	Market Value
148	44 Admin Acct Rev Acct	Movement	149	Fund Balance	Surplus/Fund Bal	R&P
<u>Social Responsibility Committee</u>						
153	46 Balance Sheet	Independent	121	Assets	Fund Balances	?
154	47 Auditor's Report	Comment	152-153	-	-	-
151	45 Accounting principles	Explanations	151-159	-	-	-
152	46 General Operating Account	Movement	153	Fund Balance	Op surplus/CR Bal	R&P+T
<u>Publications and Publicity</u>						
155	48 Accounting principles	Explanation	-	-	-	-
157	49 General Activities B Sheet	Independent	-	Capital/Fund	Capital/Fund	?
159	50 Auditor's Report	Comment	156-158	-	-	-
158	50 Notes to Balance Sheet	Breakdown	157	Assets/Funds	-	?
156	49 General Activities Rev Acct	Movement	157	Capital	Surplus	?
161	51 Bookshops Balance Sheet	Independent	-	Current Acct	-	-
163	51 Auditor's Report	Comment	160-162	-	-	-
162	51 Bookshops B Sheet Notes	Explanation	161	-	-	-
160	51 Bookshops Revenue Account	Movement	161	Part Curr Act	Surplus	?
165	53 Publicity Balance Sheet	Independent	-	Reserve Fund	Reserve Fund	?
166	53 Publicity Auditor's Report	Comment	164-165	-	-	-
164	52 Publicity Revenue Account	Movement	165	Fund	Deficit/Fund Bal	?

Note: R&P = Receipts and Payments
 Net C.A. = Net Current Assets

7.6 The Accounts of the Methodist Church

7.6.1 Description of the Accounts

The annual accounts of the Methodist Church (MET) are to be found in the Agenda for the Annual Conference of the church. The accounts that are published in the Agenda, issued in June each year, relate mainly to the financial year ended the previous August and this means that the accounts in the Agenda are up to nine months out of date. Accounts are made available before that date by individual boards and committees, but the Agenda is the formal place for reporting as the boards and committees are appointed by Conference.

Unlike in the other churches under study, the MET annual accounts are in no sense a single document. The Agenda contains annual accounts, or summaries thereof, of the seven divisions, various divisional sub-committees, connexional (ie central church) committees and various other organisations which regularly report to Conference. There are a total of 34 separate accounting reports in the 1982 Agenda and the accounting reports range in complexity from a simple receipts and payments account to a quite complicated set of movement statements and explanations in the case of the Overseas Division.

The Agenda does not contain the accounts for the Central Finance Board of the Methodist Church, the body that operates the investment trusts for the church. The year end for these accounts is 28th February and these have been excluded from this study although the equivalent accounts for the COS and RCC were included.

Structure of the Accounting reports

It is not correct to call the accounts of the Methodist Church a single accounting report as there are clearly a large variety of such reports in the Agenda. Nevertheless table 7.6.1 (included at the end of this section) has been prepared to give an insight into the structure of the various accounting reports included in the Agenda. There are 34 balance sheets in the Agenda and there is no overall balance sheet consolidating or aggregating the individual balance sheets. The fact that there are so many

individual balance sheets suggests that the committees and boards act more or less autonomously and whilst this might be correct in relation to a particular field of work, there is nevertheless some interfund transfer of resources.

Formal interfund transfers take place for two reasons: central fund raising and central administration. The central fund raising takes place through the Mission and Service Fund (M & S Fund) and this is the one major fund for which no accounts are present in the Agenda. There are however budget allocations for the current and following years in the Agenda and a report of the total M & S Fund receipts collected in the Year Book (published following Conference). The M&S Fund came into existence in 1981 to replace the system of raising funds from Districts then in existence. The fund does not cover all the needs of the Central work of the church but it raised around £1.4 million from Districts in 1980/1. The M&S Fund is referred to in the discussion of internal users of accounting information in chapter 16. In 1981, 18 different committees benefitted from the central fund raising.

One of the objectives of raising money centrally was to try to reduce the amount of interdivision and intercommittee transfers (1980 Agenda p286) and the only interfund transfers found throughout the accounts are those paying for services provided by one division for another. These transfers cover only small parts of the costs and revenues of most of the accounts. The biggest supplier of services is the Finance Division and the bulk of its 'income' is interfund charges for services rendered.

The structure of the individual statements in the accounts varies depending on each individual committee's operations. There are three basic structures in the accounts:

1. There is a single case of a receipts and payments account.
2. There are several cases where a single balance sheet contains a single fund account (eg World Development Fund) with a single movement account giving details of movement on that fund.
3. There are a large number of cases where a single balance sheet contains a number of funds and 'reserves' with

either a detailed movement statement or an abbreviated movement statement, or both abbreviated and detailed movement statements for each of the funds and 'reserves'.

There are in addition to these basic structures notes to the accounts containing explanations of accounting policies and details of items in the accounts together with breakdown statements which keep information from the face of the main accounts.

Movement Statements - Fund Movements


Though the 'major' movement statements always occur as individual statements, a number of these are related to the movement in the balance sheet via a note to the accounts. In this way the surplus or deficit on an income and expenditure accounts will be carried to a 'fund account' in the notes, the balance of which then appears on the face of the balance sheet. This form of transferring balances can be a little confusing especially as in some cases eg the Overseas Division, the amount carried from the I&E account is added to other reserves, then reduced by transfers to the property account and to the I&E account and decreased further by the legacy equilization reserve. (Agenda pl88 note 9 repeated as exhibit 7.6.2)

This sort of approach is quite difficult to follow in the simpler cases and very difficult to follow in other cases eg in the National Children's Home (NCH) where excess income is transferred to five different funds - one of which received both a 'transfer' and an 'appropriation', the difference not being explained in the notes (see exhibit 7.6.1).

The effect of separating 'Income and Expenditure' (or its equivalent) from the rest of the movement of funds is to introduce a number of specific names for the bottom line of each movement statement. In the NCH accounts (exhibit 7.6.1) the name 'operating deficit' has been given to the net of 'operating expenditure' and 'operating income' but the total of 'operating deficit' and 'supplementary income' has not been named.

Exhibit 7.6.1. National Childrens Home I&E Account

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NATIONAL CHILDREN'S HOME
STATEMENT OF INCOME AND EXPENDITURE
YEAR ENDED 31st MARCH 1981

	Note	1981	1980
		£	£
OPERATING EXPENDITURE			
Maintenance and Care of Children	1	13,166,334	10,243,530
Administration	2	712,488	608,335
General Advocacy		1,072,000	980,599
Other Operating Expenditure	3	530,935	529,082
		<u>£15,481,757</u>	<u>£12,361,546</u>
OPERATING INCOME			
Voluntary Income	4	2,868,157	2,546,652
Fees and Contributions	5	11,742,994	8,857,593
Grants	6	271,171	145,719
Other Operating Income	7	71,995	40,527
		<u>£14,954,317</u>	<u>£11,590,491</u>
OPERATING DEFICIT		(527,440)	(771,055)
SUPPLEMENTARY INCOME			
Legacies		1,198,050	849,723
Grants and Gifts for Capital purposes	11	264,961	436,643
Investment Income	8	888,633	861,213
Surplus on Sale of Property		116,785	22,567
Assets transferred from Associated Trusts		—	642
		<u>£1,940,989</u>	<u>£1,399,733</u>
TRANSFERS AND APPROPRIATIONS TO SPECIFIC FUNDS			
Transfers:			
Development Fund	9	337,921	685,459
Legacies Pool	9	1,258,994	769,492
Specific Purposes Fund	9	157,431	101,944
Scholarship Fund	10	30	30
General Fund	12	635	653
		<u>£1,755,011</u>	<u>£1,557,578</u>
Appropriations:			
Development Fund	9	185,978	—
Excess of Expenditure over Income after Transfer to Funds Financed by Legacies Pool	9	—	(157,845)
		<u>£1,940,989</u>	<u>£1,399,733</u>

See Chapter 7.6

Exhibit 7.6.2 Overseas Division Reserve Fund

9. RESERVE FUNDS			
Legacy equalisation at 1st January 1981	£	£	£
Legacies received during the year		201,710	474,350
Less: Proportion credited to income and expenditure account			
Legacies	204,685		
Ireland	3,727	208,412	(6,702)
Other reserves at 1st January 1981		110,898	
Surplus after extraordinary items on general income and expenditure account		78,668	
Less: Transfer to property fund	23,390		
Transfer to general income and expenditure account	100,000	123,390	64,172
At 31st December 1981			£531,820

See Chapter 7.6

Other names for balances on these 'main' accounts include:

Excess of Income over expenditure	(DSR p84)
Balance Available for Capital Expenditure and transfer to General Fund	(MHA p88)
Surplus on working	(MHA p90)
Balance Carried Forward	(WDAF p90, WDF p93)
Surplus (deficit) for the year transferred to Accumulated funds	(HM p100, LNF p93)

Additional complications occur where movement statements are nested inside other movement statements. The Methodist Homes for the Aged (MHA) 'Branches Income and Expenditure Account' balance, called 'surplus on working', of £174,724 becomes an income item in the MHA 'Income and Expenditure account' (see exhibit 7.6.3). Similarly, though in a much smaller way, the 'Chester House Publications Account' surplus of £573 becomes an expenditure item in the Division of Education and Youth (DEY) 'Income and Expenditure account'.

Though these various interlinkings may be difficult to follow in the accounts, it is possible to follow them and in most cases the nodes which link to the other statements in the accounts are clear. The biggest difficulty lies in the fact that certain statements in the chain of statements may be in the notes resulting in continual reference backwards and forwards through the statements. Perhaps it would have been easier to follow had all the movement statements referring to a particular fund been on a single page (as with say the Glasgow Diocese).

The amount of detail shown on the face of the movement statements varies considerably from statement to statement as can be seen by the varying number of breakdown statements shown in the analysis of structure in table 7.6.1. The breakdown statements are used to keep detail from the face of the movement or independent statements and so to highlight the items in the prime statement. There are of course differences in the amount of detail available to be shown in any movement statement but even where there is a similar amount of total detail in the accounting report there is a wide variation on how much of this is shown on the face of the statement. Some statements contain most of the detailed

Exhibit 7.6.3. Methodist Homes For the Aged - Linking of Income and Expenditure Accounts

METHODIST HOMES FOR THE AGED

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30th SEPTEMBER 1981

1980	CHARITABLE INCOME	General Purposes	Branches	Total
346,783	Donations and Appeals.....	221,434✓	106,427✓	327,861
13,666	Covenanted Gifts (including tax recovered).....	19,884✓	4,402✓	24,286
23,091	Flower Fund.....	24,732✓	962✓	25,694
5,569	Charity Shops (Net).....	1,352✓	1,300✓	2,652
286	Christmas Cards.....	1,976✓		1,976
389,395		269,378	113,091	382,469
814,262	Legacies.....	1,058,478✓	46,206✓	1,104,684
1,203,657		1,327,856	159,297	1,487,153
	OTHER INCOME			
158,032	Interest and Dividends (Gross).....		156,352✓	
11,598	Rents.....		15,541✓	
5,201	Commission.....		5,307✓	
1,378,488				177,200✓
94,138	Surplus on Sale of Securities and Property.....			216✓
(309,618)	Securities Sale of Rights.....			174,724✓
	Net Income of Branches (page 4).....			£1,839,293
£1,163,008				
	The above income has been applied as follows:			
	EXPENDITURE			
206,237	Head Office Administrative Expenses.....	220,925✓		
182,000	Less: Charged to Branches.....	210,000✓		
24,237			10,925	
128,367	Publicity.....		134,959✓	
1,978	Committee Expenses.....		2,282✓	
7,342	Staff Pensions.....		8,693✓	
879	Bad Debt written off.....			
	Contribution to Branches			
	Income and Expenditure Account (page 4).....		46,198✓	
11,921	Less: Maintenance Support Fund Income.....		6,178✓	40,020
	Net Expenditure on Staff Flatlets.....			11,602✓
174,724				208,481
988,284	Balance available for Capital Expenditure			1,630,812
£1,163,008	transferred to General Fund.....			£1,839,293

METHODIST HOMES FOR THE AGED

BRANCHES INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30th SEPTEMBER 1981

1980	BRANCH INCOME	
1,725,674	Residents' Payments.....	2,319,069✓
337,354	Grants from Local Authorities.....	495,098✓
2,063,028		2,814,167
	Contribution from the Auxiliary Fund of the	
	Ministers' Retirement Fund.....	2,000✓
	Contribution from MHA Central Funds.....	46,198✓
£2,063,028		2,862,365
	BRANCH EXPENDITURE	
380,135	Provisions.....	416,187✓
57,372	Household Expenses.....	54,089✓
1,092,397	Wages, National Insurance and Pension.....	1,304,978✓
294,307	Fuel and Light.....	331,106✓
24,034	Laundry and Cleaning.....	30,779✓
70,322	Rates and Water.....	84,585✓
18,611	Telephone.....	22,606✓
25,256	Insurance.....	30,034✓
4,131	Printing, Stationery and Postage.....	4,595✓
10,669	Garden Expenses.....	7,093✓
	Repairs and Renewals:	
137,177	Property.....	126,097✓
48,682	Equipment.....	51,695✓
6,045	Transfers from Reserve.....	(7,984)✓
11,655	Travelling and Removal Expenses.....	10,574✓
182,000	Head Office Charge.....	210,000✓
9,853	Sundries.....	11,207✓
£2,372,346		£2,687,641
£(309,618)	SURPLUS ON WORKING	£174,724

REPORT OF THE AUDITORS

We have audited the accounts set out above in accordance with approved Auditing Standards. Some of the Branch results included have been reported on by other Auditors.

In our opinion, subject to there being no depreciation charge as required by Statements of Standard Accounting Practice No. 12, these accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs at 30th September 1981 and of the surplus and source and application of funds for the year ended on that date.

8th January 1982

HOPE, AGAR & CO
Chartered Accountants

information in notes (eg NCH and Property Division) whilst others place most of it on the face of the statement (eg DEY).

The pattern of disclosure on the face of the statement appears to be that if including the detail would make the statement longer than a single page or if it contains minor items which nevertheless need to be disclosed (eg grants) then the detail is relegated to notes, otherwise it will be placed on the face of the accounts. It would be interesting to explore further how this practice affects the way that users read the accounts and access information.

Movement statements may give details of expenditure either by nature, ie on what type of expense money has been used, or by function, ie on what the money has been employed to achieve. The breakdown of this between the main movement statements is given in table 7.6.2.

It should be noted that the breakdown of the Methodist Church into broadly functional organisational divisions and committees

Table 7.6.2 Analysis of major Movement Statements into those analysing expense by nature and those by function

<u>Nature</u>		<u>Function</u>	
DSR	2	HMF	26
MHA	7	DEY	36
MHA	8	International Hses	49
WDAF	12	Overseas Divn	52
WDF	16	Ministries Divn	96
MRF	20	Gen Purposes Fnd	104
FFHN	24	NCH	111
LMF	30		
MPS	32		
DEY	37		
Managing Trustees	39		
Westminster Coll	41		
Southlands Coll	43		
Meth Res Schools	46		
Property Divn	59		
Meth Chch Purp	69		
Archives & Hist	73		
*Divn Finance	80		
*MM Retirement Fnd	86		
Wld Meth Brit Ctte	89		
Meth Publishng Hse	94		

Notes: 1. Numbers refer to the references in table 7.6.1
 2. In statements with an asterisk '*' 'Function' may be equivalent to 'Nature'.

means that each set of accounts covers a broad functional area, supplemented by the fact that certain committees and boards have funds set aside for specified functional purposes.

The 'income and expenditure' style movement statements discussed above show in some detail the reasons for the movement in the fund balances in the balance sheet. Virtually all of the fund balances seem to be kept on an 'accrual' basis in at least some sense of the word, but the accounts do not on the whole give adequate information about which of the possible accrual bases has been used. In chapter 3.2 we saw that accounts could be prepared on a commitment basis, contract basis, performance basis, cash basis or accrual basis. It is possible to identify that depreciation is included in some movement statements, indicating that accounts are probably prepared on an accruals basis whereas in others such an easy definition is not possible as no depreciation is present (possibly because there are no fixed assets owned by the fund). In some cases of course there is probably little difference between the cash and accruals basis but this is not discernible in the accounts.

Some of the boards and committees administer a number of special funds for which detailed accounts are presented. In three cases (Overseas Division, DEY and Property Division) the movement on these special fund accounts is summarised in a table showing opening balance, closing balance and receipts and payments (or income and expenditure). In all these cases the funds were both custodian trustee funds and restricted funds with a few designated funds.

Although not strictly 'movements on fund balances' statements, there are a number of statements relating to movement on 'reserves'. On the whole, reserve accounting is not used in commercial companies except that profit may be kept in reserves rather than being distributed. In the Methodist Church the reserves are used to smooth expenditure charged against receipts and to smooth receipts against expenditure. We therefore see amounts being transferred to reserves from the income and expenditure account eg for maintenance in DSR, and then

expenditure is charged to the reserve rather than to the I&E account. We also see some income, legacies in particular, credited to reserves and only a portion transferred to the I&E account each year (see exhibit 7.6.2)

Though these various balance sheet accounts are called 'reserves' they are really funds designated by management for specific purposes. The funds' specific use is to smooth out items of receipts and expenditure such as legacies and repairs ensuring that sufficient resources are kept for major repairs and that large one-off donations are not consumed in one year. This shows that here, even though on the face of it the accounts follow the business model fairly strictly, there is a reluctance to 'match' a year's receipts with a year's expenditure thus producing an 'operating' statement.

The use of reserve accounts here suggests that the important aspect of finance for the organisation is not level of operating surplus in any one year but that there is smooth funding from year to year. As much of the expenditure which takes place is of a long term nature eg payment of employment expenses and regular grants, then short term fluctuations in income eg by the receipt of legacies, may really be irrelevant and the important items to report in the accounts are the long term trends of receipts and payments, something which the accounts do in their present form.

In other churches it is policy for legacies to be placed into endowment funds as capital and this reflects a similar policy to the use of legacy equalization accounts used over much shorter periods. Although this is criticised in the literature (eg Bird and Morgan-Jones, 1981) from an operating point of view it may well reflect one way of dealing with a serious management problem in these organisations.

Movement Statements - Sources and Applications of Funds

Though the first set of movements statements referred to above identified movement on fund balances there are six other accounting statements in the Agenda which are called 'Source and Application of Funds Statements' (SAFs). These statements are the direct equivalent of the now common company statement of the same

name and in all six cases the statements set out the reasons for the movement of working capital or net current assets. A copy of one of these statements together with the related balance sheet and income and expenditure account is shown as exhibit 7.6.4.

The six boards and committees which prepare SAFs are DSR, Overseas Division, Finance Division, MM Retirement Fund, Ministries Division and NCH. The DEY specifically note that they believe that the information which a SAF would contain is already contained in the accounts and so none is produced. A study of the six SAFs produced reveals little more information than that already contained in the rest of the accounts, except that movements on investments and fixed assets are shown. As with the SSAF for Liverpool Diocese however the statements here only include the balance on movement of the various accounts and not the total sources and uses of funds which is probably of far more interest in these church accounts. Comparative figures for sources of funds have not been prepared for MET due to the complexity of the task.

Movement Statements - Fixed Assets and Depreciation

A number of the accounting reports detail the acquisition and disposal of fixed assets during the year and the movements on depreciation. Each of these statements takes the form:

Balance at beginning of year	x
Purchases	y
<u>Less</u> Sales	<u>z</u>
Balance at Close of year	<u>x+y-z</u>
Depreciation at beginning of year	a
<u>Less</u> due to sales	<u>b</u>
Plus allocation for year	<u>c</u>
Balance at Close of year	<u>a-b+c</u>

and these are exactly the same as their commercial equivalent. In addition to showing movement on the assets the statements might also show a breakdown of the assets between groups of assets and be described in table 7.6.1 as 'Bdown/Mvt'.

Exhibit 7.6.4. Source and Application of Funds Statement**METHODIST CHURCH DIVISION OF SOCIAL RESPONSIBILITY****STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR YEAR ENDED 31st AUGUST 1981**

SOURCE OF FUNDS	1981	1980
Proceeds from Sale of Fixed Assets.....	100	—
Legacies Received during year.....	1,250	4,198
Net Additions to Reserves.....	—	1,227
Adjustment for items not involving the movement of Funds:-		
Depreciation.....	959	538
Amount transferred from Healing and Pastoral Ministry Committee.....	1,030	—
Surplus on Income and Expenditure Account.....	845	7,443
	<u>4,184</u>	<u>13,406</u>
Increase in Amount held on behalf of Joint Fund for Multi-Racial Projects.....		5,845
	<u>£4,184</u>	<u>£19,251</u>
 APPLICATION OF FUNDS		
Addition to Fixed Assets.....	2,776	317
Addition to Investments.....	9,999	—
Net Decrease to Reserves.....	647	—
	<u>13,422</u>	<u>317</u>
Reduction in amount held on behalf of Joint Fund for Multi-Racial Projects.....	8,210	—
	<u>£21,632</u>	<u>£317</u>
 (DECREASE) INCREASE IN NET CURRENT ASSETS.....	<u>£(17,448)</u>	<u>£18,934</u>
Increase in Stocks.....	6,212	934
Increase in Debtors and Prepayments.....	401	1,670
Decrease in Creditors.....	1,490	970
(Decrease) Increase in Amount on Deposit.....	(25,228)	14,669
(Decrease) Increase in Amount due to Common Cash and Cash in Hand.....	(323)	691
	<u>£(17,448)</u>	<u>£18,934</u>

METHODIST CHURCH DIVISION OF SOCIAL RESPONSIBILITY**BALANCE SHEET AS AT 31st AUGUST 1981**

	Note	1981 £	1980 £
FIXED ASSETS	1	67,355	65,672
INVESTMENTS Central Finance Board at cost..... (Market Value £71,036 1980 £62,007)		60,000	50,001
CURRENT ASSETS Stocks.....	2	9,322	3,110
Debtors and Prepayments.....		7,503	7,102
Central Finance Board Deposit Fund.....		12,874	38,102
Amount due from Common Cash.....		637	1,001
Cash in Hand.....		50	9
		<u>30,386</u>	<u>49,324</u>
Less Creditors.....		<u>9,686</u>	<u>11,176</u>
NET CURRENT ASSETS		<u>20,700</u>	<u>38,148</u>
		<u>£148,055</u>	<u>£153,821</u>
 REPRESENTING: ACCUMULATED FUNDS	3	133,327	131,266
MAINTENANCE RESERVE FUNDS	4	3,263	3,910
JOINT FUND FOR MULTI-RACIAL PROJECTS	5	10,435	18,645
METHODIST HEALING FELLOWSHIP	6	1,030	—
		<u>£148,055</u>	<u>£153,821</u>

METHODIST CHURCH DIVISION OF SOCIAL RESPONSIBILITY**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st AUGUST 1981**

	Note	1981 £	1980 £
INCOME Mission and Service Fund.....		42,600	—
District Contributions less Rebates.....		—	40,174
Subscriptions and Donations.....		4,972	1,996
Grants Receivable.....	7	32,270	24,600
Surplus from Sale of Literature and Publications.....		4,398	6,319
Investment Income and Interest.....		9,942	9,679
		<u>£94,182</u>	<u>£82,768</u>
 EXPENDITURE Salaries and Allowances.....		52,457	41,546
Accountancy.....		5,800	4,800
Office Administration.....		19,024	15,205
Maintenance.....	4	1,600	2,700
Depreciation.....	1	959	538
Committee and Conference Expenses.....		10,760	9,132
Deputation Costs less Contributions.....		1,032	359
Contribution to Other Organisations.....		1,308	779
Audit Fee.....		282	266
Legal and Professional Fees.....		115	—
		<u>£93,337</u>	<u>£75,325</u>
EXCESS OF INCOME OVER EXPENDITURE FOR YEAR		<u>£ 845</u>	<u>£ 7,443</u>

The Balance Sheets

Exhibit 7.6.5 gives two of the 30 balance sheets found in the Agenda. Most of the balance sheets are very similar to commercial balance sheets though there are differences in terminology eg the 'balance sheet' of the World Methodist Council is called a 'statement of funds'.

The balance sheets have, in the main, the assets of a number of funds reported in them and are as such 'consolidated' balance sheets conforming to the schematic shown in figure 8.3.2 in chapter 8. One or two of the balance sheets eg Methodist Church General Purposes Fund (exhibit 7.6.6) are aggregated (see figure 8.3.1 in chapter 8). Only a few funds have a single fund balance and even those with a single purpose, eg World Development Fund, have three separate funds for accumulated, designated and restricted funds.

The asset and liability items shown in the balance sheets follow the commercial terminology of fixed assets, investments, current assets and current liabilities. These categories look at the nature of the asset. In the aggregate style balance sheet the assets are further grouped as to the fund to which they belong which means that these balance sheets demonstrate restriction as to use, though the restrictions are rarely detailed in the accounts.

Where there are fixed assets they may be included at cost less depreciation or, as in the case of the Home Mission Fund, be included at a nominal value of £1 and thus effectively written off on acquisition.

Although most of the balance sheets are themselves consolidated or aggregated statements there is no single overall consolidated balance sheet for the Methodist Church Headquarters, probably due to two factors: no-one sees the need for such a statement (see Chapter 16) and there would be numerous practical difficulties in preparing one.

Exhibit 7.6.5. Balance Sheets of the Methodist Church.

METHODIST CHURCH DIVISION OF MINISTRIES				
BALANCE SHEET 31st AUGUST 1981				
		31st August 1981	31st August 1980	
		£	£	£
LAND AND BUILDINGS				
Freehold and Leasehold Properties at cost including Improvements and Alterations - Note 1.....		401,798		292,321
FURNITURE, FITTINGS AND EQUIPMENT at cost				
less: depreciation to date.....		2,987		2,048
INVESTMENTS				
(Market Value £816,455 1980 £458,984).....		817,201		459,320
SPECIAL FUNDS				
Properties.....		19,591		
Investments (Market Value £720,117 1980 £473,309).....		488,204	297,389	
Debtors and Cash.....		55,793	45,897	343,286
CURRENT ASSETS				
Stocks on Hand at cost.....		4,847	2,758	
Central Finance Board Deposits.....		251,150	200,650	
Income Tax Recoverable.....		2,528	866	
Debtors, Prepayments and Accrued Interest.....		65,687	53,881	
		324,212	258,155	
Less: Creditors.....	46,829		(45,624)	
Amount due to Common Cash less Cash at Bank and in Hand.....	37,323	84,152	(20,955)	191,576
		<u>£2,025,634</u>		<u>£1,288,551</u>
Represented by:				
ACCUMULATED FUNDS Note 2				
General.....		879,398	783,389	
Wesley Deaconess Order.....		340,711		783,389
CAPITAL FUND Note 3		1,220,109		52,837
RESERVES Note 4		121,872		
Property Maintenance and Renewals.....		75,356	67,595	
Manse Repairs and Furnishing.....		3,535	2,769	
Legacies Equalisation.....		23,445	29,800	
Publications.....		10,000	4,000	104,164
SPECIAL FUNDS				
College Building and Extension Fund.....		19,827	42,646	
Ministerial Training Endowment, Scholarship and Prize Funds.....		307,745	296,256	
Wesley Deaconess Order Designated Funds.....		231,383		
Other Special, Endowment and Prize Funds.....		4,633	4,384	343,286
SURPLUS ON COLLEGE ACCOUNTS Note 6			7,729	4,875
		<u>£2,025,634</u>		<u>£1,288,551</u>

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NATIONAL CHILDREN'S HOME				
BALANCE SHEET				
31st MARCH 1981				
	Note	1981	1980	
		£	£	
ACCUMULATED FUNDS (SPECIAL PURPOSES)				
Reserve Funds	9	8,448,663	7,184,299	
Endowment Funds	10	535,070	502,443	
		<u>8,983,733</u>	<u>7,686,742</u>	
GENERAL FUNDS				
Capital Account	12	12,959,061	11,084,434	
Working Capital Account	13	1,550,000	1,718,663	
		<u>£23,492,794</u>	<u>£20,489,839</u>	
Represented by:				
Fixed Assets	14	12,677,669	10,872,080	
Investments:				
Accumulated Funds (Special Purposes)	15	8,983,733	7,669,738	
General Funds	15	383,517	6,360	
		<u>9,367,250</u>	<u>7,676,098</u>	
Current Assets:				
Stocks	16	231,523	200,586	
Income Tax Recoverable		92,019	74,469	
Debtors and Prepayments		2,199,145	2,805,941	
Cash at Bank and in Hand		115,873	256,388	
		<u>2,638,560</u>	<u>3,337,384</u>	
Current Liabilities:				
Bank Overdraft		216,484	—	
Sundry Creditors		946,987	1,358,011	
Loan Accounts		27,214	37,712	
		<u>1,190,685</u>	<u>1,395,723</u>	
Net Current Assets		<u>1,447,875</u>	<u>1,941,661</u>	
		<u>£23,492,794</u>	<u>£20,489,839</u>	

7.6.2 Context and Purpose of the accounting reports

The annual audited accounts are presented in the context of the annual reports to conference and as such have a considerable stewardship potential. The long delay between the accounting date and the date of publication means that the accounts can be of little help for comment by Conference on the current financial year which, by the date of the Conference, is nine months gone.

The accounts are full of information about the finances of the church during the previous financial year and they are printed in smaller type than the rest of the report, possibly for economy reasons. The prose reports which the accounts accompany are likewise very full of information and include a review of the year's work of the committees and boards as well as raising points for discussion and debate. On the whole, apart from committees whose main function is finance or finance related matters, there is little reference to financial numbers and information in the text of the reports.

The Agenda is distributed to all those who attend the annual Conference in any particular year and as we have seen in chapter 5 the membership of Conference is very fluid with few individuals continuing in membership from year to year - though many individual members in any one year would have attended Conference in earlier years.

The very full reports and accounts together with this fluid membership suggest that the Agenda is a historical record of past events and an analysis of the way the church is moving. This is an information source for present church members, and particularly conference members for whom it is the basis of the Conference discussions, and for any future historians.

Despite the large amount of accounting information included in the Agenda, some of the accounts, notably those of the Home Mission Division and Methodist International Houses, are summaries of the full accounts produced (the Home Mission Fund report omits the notes to the accounts). As we shall see in chapter 16 several of the Divisions produce accounts for the

Exhibit 7.6.6. An aggregated Balance Sheet from the Methodist Church Accounts

METHODIST CHURCH GENERAL PURPOSES FUND			
BALANCE SHEET as at 31st August 1981			
	Note	1981	1980
	1	25,300	26,161
FIXED ASSETS			
INVESTMENTS AT COST			
General	140,001	101,784	
Benjamin Hancox Fund	55,028	55,028	
(Market Value £268,946 — 1980 £222,779)		195,029	156,812
JOHN ATKINSON MASON BEQUEST			
Investment at Cost	5,768	5,768	
(Market Value £8,145 — 1980 £6,702)			
Amount due from Common Cash	3,639	3,113	
		9,407	8,881
CPD RESERVE INVESTMENT			
Central Finance Board Deposit Fund		15,370	13,462
CURRENT ASSETS			
Central Finance Board Deposit Fund	75,000	64,000	
Debtors and Payments in Advance	7,343	3,639	
Cash in Hand	2	24	
	82,345	67,663	
Less: Creditors	(21,594)	(9,311)	
Amount due to Common Cash	(2,792)	(1,945)	
		57,959	56,407
		<u>£303,065</u>	<u>£261,723</u>
REPRESENTED BY:			
ACCUMULATED FUNDS	2	195,388	158,520
BENJAMIN HANCOX FUND	3	55,028	55,028
JOHN ATKINSON MASON BEQUEST	4	9,407	8,881
CPD RESERVE	5	15,370	13,462
OTHER RESERVES	6	27,872	25,832
		<u>£303,065</u>	<u>£261,723</u>

division which are fuller than the accounts in the Agenda. This lends support to the idea that the presence of accounts in the Agenda is as important as their content, an idea consistent with the hypothesis that publication of accounts might be published as much for symbolic reasons as for information.

7.6.3 Information in the accounts

The accounts for each particular board or committee accompany the reports in the Agenda for that board or committee. Thus the accounts are directly related to the committee responsible for carrying out the work reflected in the accounts. There are however no overall statements which summarise all the activities of the church and so it is not possible for the reader to obtain an overview of the total position either of the funds available to the church or of the work requiring funds of the church.

Lateness of presentation of the accounts means that they contain information which is nearly a year out of date. This means that they cannot be of much use for short-term decision making of users. However, the accounts contain a great deal of information which may help users to understand what is happening in the church. All these accounts have comparisons with previous years figures but as there are on the whole no detailed budgets it is clear that there is no opportunity to compare the outcomes with individual budgets.

Table 7.6.1 Breakdown of the Methodist Church Accounts to show structure

No	First Name of Statement Page	Status	Link	Item Link	Measurement Focus	Measurement Basis
<u>Division of Social Responsibility (DSR)</u>						
1	84 Balance Sheet	Independent	0	-	Fund Balances	Net Assets
4	86 Audit Report	Comment	1-3	-	-	-
3a	85 Fixed Assets	Bdown/Mvt	1	Fixed Assets	Net Assets	Cost less Depn
3b	85 Stocks	Explanation	1	Curr Assets	-	-
3f	85 Meth Healing Fellowship	Explanation	1	Fund	-	-
3c	85 Accumulated Funds	Movement	1	Funds	Fund Balance	?
2	84 Inc & Expend Account	Movement	3c	?	Excess Income	I&E
3g	85 Grants	Breakdown	2	Grants Recd	Grant Total	Grants receivable
3d	85 Reserve Accounts	Movement	1	Funds	Fund Balance	Allocation/Expense
3e	85 Jnt Fnd Mlt Raci Project	Movement	1	Fund	Fund Balance	?
5	86 Stmt of Source & Appn Fnds	Movement	1	Net C Assets	Net C Assets	
<u>Methodist Homes for the Aged (MHA)</u>						
6	87 Balance Sheet	Independent	0	-	Fund Balances	Net Assets
9	89 Audit Report	Comment	6-9	-	-	-
7	88 Income and Exp Acct	Movement	6	General Fnd	Income	?
8	89 Branches Income & Exp Act	Movement	7	Surplus	Surplus	I&E
<u>World Development Action Fund (WDAF)</u>						
10	90 Balance Sheet	Independent	0	-	Fund Balances	Current Assets
11	90 Audit Rept	Comment	10-13	-	-	-
13e	92 Devt New Fund	Explanation	-	-	-	-
12	90 Inc and Exp Acct	Movement	10	Bal C Fwd	Balncc C Fwd	?
13c	91 Devt Advoc and Admin	Breakdown	12	Expendtre	Expenditure	?
13d	91 Devt Grants	Breakdown	12	Grants Mle	Expenditure	?
13a	91 Devt Education Account	Movement	10	Fund	Fund balance	I&E
13b	91 Devt designated gifts	Movement	10	Fund	Fund balance	?
<u>World Development Fund (WDF)</u>						
14	93 Balance Sheet	Independent	0	-	Fund Balances	Current Assets
15	93 Audit Report	Comment	14-17	-	-	-
16	93 Inc and Exp Acct	Movement	14	Bal C Fwd	Balncc C Fwd	?
17a	94 Grants Made	Breakdown	16	Grants	Grants	?
17b	94 Advocacy and Admin	Breakdown	16	Expenditure	Expenditure	?
<u>Methodist Relief Fund (MRF)</u>						
18	94 Balance Sheet	Independent	0	-	Fund Balances	Current Assets
19	94 Audit Report	Comment	18-21	-	-	-
20	95 Inc and Exp Acct	Movement	18	Bal C Fwd	Balncc C Fwd	?
21c	96 Advocacy and Admin	Breakdown	20	Expenditure	Expenditure	Expenditure
21d	96 Grants	Breakdown	20	Grants	Grants	Grants
21a	95 Capital Fund	Movement	18	Fund	Fund Balance	Receipts
21b	95 Designated Gifts	Movement	18	Fund	Fund Balance	?
<u>Fund For Human Need (FFHN)</u>						
22	97 Balance Sheet	Independent	0	-	Fund Balances	Current Assets
23	97 Audit Report	Comment	22-24	-	-	-
24	97 Inc and Exp Acct	Movement	22	Bal C Fwd	Balncc C Fwd	I&E
25c	98 Advocacy and Admin	Breakdown	24	Expenditure	Expenditure	Expenditure
25d	98 Grants	Breakdown	24	Grants	Grants	Expenditure
25a	98 Scholship Fund	Movement	22	Fund	Fund Balance	R&P
25b	98 Designated Gifts	Movement	22	Fund	Fund balance	?

No	1st Page	Name of Statement	Status	Link	Item Link	Measurement Focus	Measurement Basis
<u>Home Mission Fund (HMF)</u>							
27	102	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
26	100	Inc and Exp Acct	Movement	27	Fund	Surplus	I&E
<u>London Mission Fund (LMF)</u>							
28	104	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
29	104	Audit Report	Comment	28-30	-	-	-
30	105	Summary of I & E	Movement	28	Fund	Deficit	?
<u>Methodist Press Service (MPS)</u>							
31	129	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
33	129	Audit Report	Comment	31-32	-	-	-
32	129	Inc & Exp Acct	Movement	31	Fund	Excess Expend	?
<u>Division of Education and Youth (DEY)</u>							
34	157	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
35	157	Audit Report	Comment	34-38	-	-	-
38a	160	Accounting policies	Explanation	34-38	-	-	-
38o	163	VAT Contingent Liability	Explanation	36	-	-	-
38b	160	Properties	Bdown/Mvt	34	Assets	?	Cost of Assets (No Depn)
38c	160	Other Fixed Assets	Bdown/Mvt	34	Assets	Assets	Cost less Depn
38g	161	Creditors	Breakdown	34	Creditors	Creditors	?
38h	161	Accumulated Funds	Movements	34	Acc Fund	Fund Balances	?
36	158	Inc and Exp Acct	Movement	38h	Fund	Excess Expend	?
38j	162	Regnl Staff programme	Breakdown	36	Expense	Net Expendtre	I&E
38k	162	Grants	Breakdown	36	Grant inc	Income	Income
38m	163	General incl Divn Admin	Breakdown	36	Expenditure	Expenditure	Expenditure
38l	163	Chester Hse Publications	Movement	36	Net Expend	Net Expendtre	P&L
38d	160	Capital Reserve Fund	Movement	34	Fund	Fund Balance	?
38e	161	Trust Funds	Movement (Summ)	34	Funds	Fund Balances	?
38f	161	Special Purpose Funds	Movements (Summ)	34	Funds	Fund Balances	?
38i	162	Reps and Maint Reserve	Movements	34	Funds	Fund Balances	?
38n	163	Chester House Hostel	Movement	34	Fund	Fund Balance	Funds
37	159	Chester Hse I&E Acct	Movement	38n	Deficit	Deficit	I&E
<u>Division of Education and Youth Colleges Managing Trustees Account</u>							
40	164	Balance Sheet	Independent	0	-	Assets/Liab	?
40a	164	Audit Rpt	Comment	-	-	-	-
39	164	I&E Acct	Movement	40	Reserve	Deficit	?
<u>Westminster College Estate</u>							
42	165	Balance Sheet	Independent	0	-	Assets/Liab	?
42a	164	Audit Rpt	Comment	-	-	-	-
41	165	I&E Acct	Movement	42	Fund	Balance	?
<u>Southlands College Estate</u>							
44	166	Balance Sheet	Independent	0	-	Assets/Liab	?
45	166	Audit Rep	Comment	43-44	-	-	-
43	166	I&E Acct	Movement	44	Fund	Balance	?
<u>Methodist Residential Schools and Methodist Secondary Education Trustees</u>							
47	167	Consol Balance Sheet	Independent	0	-	Assets/liab	?
46b	167	Audit Report	Comment	46-47	-	-	-
46a	167	Consol. Acct	Movement	47	I&E	Surplus	?

No	1st Page	Name of Statement	Status	Link	Item Link	Measurement Focus	Measurement Basis
<u>Methodist International Houses</u>							
50	169	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
49	168	Audit Report	Comment	47-51	-	-	-
51	169	Notes	Explanations	50	-	-	-
48	168	Inc & Exp Act	Movement	49	None	Excess Income	I&E
<u>Overseas Division</u>							
54	186	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
57	191	Audit Report	Comment	-	-	-	-
55a	187	Accounting Policies	Explanation	52-55	-	-	-
55h	188	Property Fund	Explanation	54	Fund	-	-
55r	190	Loans and Deposits	Explanation	54	Liabilities	-	-
55t	190	Contingent Liabilities	Explanation	54	?	?	?
55n	189	Mortgages	Explanation	54	Assets	-	-
55o	189	Advance Grants and Loans	Breakdown	54	Assets	Assets	Bal outstanding
55p	189	General Fund Investments	Breakdown	54	Assets	Assets	Cost or Valuation
55s	190	Assets for Special Funds	Breakdown	54	Assets	Assets	Cost or Valuation
55m	189	Properties	Edown/Mvt	54	Assets	Assets	Cost less grants
53	185	Designated & Special R&P	Movement	54	Funds	Fund Balance	R&P
55l	189	Special Funds	Movement	53	Funds	Fund Balance	R&P
55i	188	Reserve Funds	Movement	54	Fund	Fund Balance	?
55j	188	Working Capital Funds	Movement	54	Fund	Fund Balance	?
55k	188	Designated Funds	Movement	54	Fund	Fund Balance	R&P
52	185	General I&E Acct	Movement	54	Resve Funds	Surplus	I&E
55b	187	Home Districts Income	Breakdown	52	Income	Net Income	I&E
55c	187	Mission and Service Fnd	Explanation	52	Income	-	-
55d	187	Mission House List	Explanation	52	-	-	-
55e	187	William Leech	Breakdown	52	Income	Income	?
55f	188	Investment Income	Breakdown	52	Income	Income	?
55g	188	Transfer from Reserves	Explanation	52	Income	-	-
56	191	Srcce and Appn of Funds	Movement	54	Net C Assets	Net C Assts	Net C Assets
<u>Property Division</u>							
58	210	Balance Sheet	Independent	0	-	Fund Balances	Net C Assets
61	212	Audit Report	Comment	58-60	-	-	-
60a	211	Accounting Policies	Explanation	58-60	-	-	-
60e	212	Grants to Blg Schemes	Explanation	58	?	?	?
60i	212	Contingent Liability	Explanation	58	Expenditure	?	?
60b	211	Mvt on Trust Funds	Movement	58	Funds	Fund Balances	?
60c	212	Investments	Movement	58	Assets	Assets	?
60d	212	Manse Loans	Movement	58	Assets	Assets	?
59	211	General Fund Rev Acct	Movement	58	Fund	Surplus	?
60f	212	Staff Salaries & Exps	Breakdown	59	Expenditure	Expenditure	?
60g	212	Office Expenses	Breakdown	59	Expenditure	Expenditure	?
60h	212	Other Expenses	Breakdown	59	Expenditure	Expenditure	?
<u>Oymru District</u>							
63	213	Balance Sheet	Independent	0	-	Capital A/c	Net Assets
64	213	Audit Report	Comment	62-63	-	-	-
62	213	R & P Acct	Movement	63	Capital	Surplus	R&P

No	1st Page	Name of Statement	Status	Link	Item Link	Measurement Focus	Measurement Basis
<u>Relief and Extension in Scotland</u>							
68	215	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
66	215	Grants Acct	Movement	68	Fund	Balance	?
65	215	Revenue Acct	Movement	66	Balance	Balance	?
67	215	Loans Acct	Movement	68	Creditors	Balance	?
<u>Methodist Church Purposes</u>							
70	218	Balance Sheet	Independent	0	-	Fund Balances	Net Assets
71a	218	Accounting Policies	Explanation	-	-	-	-
71c	218	Investments	Explanation	70	Assets	Assets	Cost/valuation
71b	218	Fixed Assets	Movement	70	Assets	Assets	Net Book Value
69	218	Inc and Exp Acct	Movement	70	Fund	Excess Income	?
71d	219	Property Division	Explanation	69	Income	-	-
<u>Archives and History Committee</u>							
74	223	Balance Sheet	Independent	0	-	Funds/Reserves	Net Assets
75	223	Audit Report	Comment	72-74	-	-	-
72	222	Revenue Account	Movement	74	Fund	Surplus	?
73	222	Special Purchase Fund	Movement	74	Fund	Surplus	?
<u>Methodist Ministers Retirement Fund Valuation Balance Sheet</u>							
76	228	Valn Balance Sheet	Independent	0	PV Fut Contb	?	?
77	228	Valn Balance Sheet	Independent	0	PV Fut Contb	?	?
<u>Division of Finance</u>							
78	237	Balance Sheet	Independent	0	Fund/Reserves	Fund Balances	?
79	237	Auditors Report	Comment	78-83	-	-	-
82	239	Reserves and Provns	Breakdown	78	Reserves	Reserves	I&E
80	238	Income and Exp Act	Movement	78	Fund	Deficit	I&E
81	239	Grants Receivable	Breakdown	80	Grants	Grants	?
83	240	Source and Appn Funds	Movement	78	Wkg Cap Mvt	?	?
<u>Methodist Ministers Retirement Fund</u>							
84	241	Balance Sheet	Independent	0	-	Funds Employed	Net C Assets
85	241	Audit Rept	Comment	84-88	-	-	-
88a	243	Accounting Policies	Explanation	84-88	-	-	-
88b	243	Actuarial Rept	Explanation	84-88	-	-	-
88c	243	Wesley Deaconess Order	Explanation	84	-	-	-
86	242	Pensions & Grants	Movement	84	Fund	Fund Balance	?
87	243	Source & Appn Fnds	Movement	84	Net C Assets	?	?
<u>World Methodist Council British Committee</u>							
90	253	Statement of Funds	Independent	0	-	-	?
91	253	Audit Report	Comment	89-90	-	-	-
89	252	Inc & Exp	Movement	90	Rev Surplus	Balance Cfd	I&E
89b	252	Provision for next Conference	Movement	90	Rev Surplus	Balance Cfd	I&E
<u>Methodist Publishing House</u>							
92	255	Balance Sheet	Independent	0	-	-	?
93	255	Audit Report	Comment	92-95	-	-	-
95a	256	Acctng Policies	Explanation	92-95	-	-	-
95b	256	Extraordinary Items	Explanation	92-95	-	-	-
95c	256	Stock	Explanation	92	Assets	-	-
94	256	Income and Exp Acct	Movement	92	Fund	Fund Balance	?

No	1st Page	Name of Statement	Status	Link	Item Link	Measurement Focus	Measurement Basis
<u>Division of Ministries</u>							
97	283	Balance Sheet	Independent	0	-	Fund Balances	F+C assets
100	286	Audit Report	Comment	96-99	-	-	-
98f	285	College Accts	Explanation	96	-	-	-
98a	284	Land & Bldgs	Movement	97	Assets	Assets Cost	Assets Cost
98b	284	Accum Funds	Movement	97	Funds	Fund Balances	I&E
96	282	Inc & Expend Acct	Movement	98b	Pt Fund Mvt	Surplus	I&E
98e	284	Wesley Deaconess Order	Movement	98b	Fund	Surplus	I&E
98c	284	Capital Fnd	Movement	97	Fund	Fund balance	?
98d	284	Reserves	Movement	97	Reserves	Reserve Balances	I&E
99	286	Source & Appln Fnds	Movement	97	Net C Assets	Net C Assets	Funds
<u>Wesley Deaconesses Order General Retiring Fund</u>							
101	287	Balance Sheet	Independent	-	-	Acc Fund	Net C Assets
102	287	Audit Rept	Comment	101-103	-	-	-
103	287	Acc Fnd	Movement	101	Fund	Fund Balance	??(Pension Fund)
<u>General Purposes Fund</u>							
105	303	Balance Sheet	Independent	-	-	Fund Balances	F+C Assets
106a	303	Fixed Assets	Bdown/Mvt	105	Assets	Net Asset Val	Net Value
106c	304	Benjamin Hancox Fnd	Bdown/Mvt	105	Fund	Fund Balance	I&E
106d	304	J A Mason Bequest	Bdown/Mvt	105	Fund	Fund Balance	I&E
106f	304	Other Reserves	Bdown/Mvt	105	Reserves	Reserve Bal	I&E
106e	304	CPD Reserve	Movement	105	Fund	Fund Balance	I&E
106b	303	Accumulated Funds	Movement	105	Fund	Fund Balance	I&E
104	302	Inc & Expend Acct	Movement	106b	Pt Fund Mvt	Excess Income	I&E
106g	304	Conference Office	Breakdown	104	Expenditure	Expenditure	Expenditure
106h	304	Conference Expenses	Breakdown	104	Expenditure	Expenditure	Expenditure
106i	304	Grants and Allocations	Breakdown	104	Expenditure	Expenditure	Expenditure
<u>Connexional Advance Fund</u>							
108	316	Balance Sheet	Independent	-	-	Captl Empld C Assets	-
109	316	Audit Certificate	Comment	107-108	-	-	-
107	316	Inc & Expend Acct	Movement	108	Cptl Empl Mvt	Incr in Fund	I&E
<u>European Relations Committee</u>							
110	320	R & P Acct	Independent	-	-	Acct Balance	Acct Balance

No	1st Page	Name of Statement	Status	Link	Item Link	Measurement Focus	Measurement Basis
<u>National Children's Home</u>							
112	337	Balance Sheet	Independent	-	-	Fund Balances	F+C Assets
114	338	Audit Report	Comment	-	-	-	-
115	339	Accounting Policies	Explanation	111-114	-	-	-
116q	346	Loan Accounts	Explanation	112	-	-	-
116r	346	Contingent Liabilities	Explanation	112	-	-	-
116o	345	Investments	Breakdown	112	Invests	Investments	Cost
116p	345	Stocks	Breakdown	112	Assets	Assets	Cost or LMV
116m	343	Gen Fnd Wkg Cap Acct	Movement	112	Fund	Fund Balances	?
116n	344	Fixed Assets	Bdown/Mvt	112	F Assets	Net Book Val	NBV
116i	342	Reserve Funds	(Bdown/Mvt	112	Fund	Fund Bals	I&E?
116j	343	Endowments Funds	(Bdown/Mvt	112	Fund	Fund Bals	I&E
116l	343	Gen Fnd Capital Acct	(Movement	112	Fund	Fund Balance	I&E?
111	336	Income and Expend Stmt	Movement	116i,j,l	Funds	Bal to Approp	I&E
116a	340	Maint & Care of Children	Breakdown	111	Expenditure	Expenditure	Expenditure
116b	340	Administration	Breakdown	111	Expenditure	Expenditure	Expenditure
116c	340	Oth Optng Expenditure	Breakdown	111	Expenditure	Expenditure	Expenditure
116d	341	Voluntary Income	Breakdown	111	Income	Income	Income
116e	341	Fees & Contribs	Breakdown	111	Income	Income	Income
116f	341	Grants	Breakdown	111	Income	Income	Income
116g	341	Other Operating Income	Breakdown	111	Income	Income	Income
116h	341	Investment Income	Breakdown	111	Income	Income	Income
116k	343	Grants/Gifts Capital Purp	Breakdown	111	Income	Income	Income
113	338	Source & Appn Fnds	Movement	112	Ch Wkg Captl	Wkg Capital	Wkg Captial
116t	346	Superannuation Fnd	Explanation	112	-	-	-
116s	346	Associated Trusts	Independent	-	-	Fund Balances	I&E
<u>Ecumenical Committee</u>							
118	352	Statement of Fnd	Independent	-	-	Fund Balance	Net C Assets
119	352	Audit Rept	Comment	117-118	-	-	-
117	351	Inc & Expend Acct	Movement	118	Fund	Fund Balance	I&E

Chapter 8 Conclusions about the accounts of the churches

8.1 Introduction

The last chapter described the five sets of accounts in some detail using the framework developed in chapter 6. In this chapter the more important findings from the last chapter are brought together into a single set of conclusions and these are discussed further under five headings: content and purpose; structure, with particular emphasis on movement statements and balance sheets; sources of funding; working capital and information in the accounts.

8.2 Context and Purpose of the accounts .

The annual accounts of the five churches studied are issued for the AGM of the church and this must be taken to imply a stewardship role for the accounts. The accounts are not used to arrive at any sort of monetary valuation of the organisation but they may be used, along with the other information in the reports to the AGM, to arrive at some sort of overall 'valuation' of the present working of the church.

Most of the accounts are presented along with other textual reports and they are clearly available to affect the policy decisions at the AGM even though at the AGM they may be 'taken as read' rather than expounded thoroughly. This position amongst the largely non-accounting prose reports identifies accounts as only one of a large range of subject matter available for discussion at the AGM.

We also saw that the accounts on the whole contained a great amount of detail and ventured the hypothesis that this detail was needed because the accounts are used for management purposes. As we shall see in chapter 16, this is not the case for four of the five churches studied.

The accounts may possibly affect the decisions of users both as individuals and as members of local churches. This aspect is explored in the next section of the study. Although the accounts themselves do not suggest any more than this about purpose, the next two sections will explore this in much more detail.

8.3 Structure

Our analysis of the five sets of accounts under study has confirmed that individual accounting statements can successfully be classified under the seven headings: independent, movement, breakdown, explanation, comment allocation and restatement. The one caveat to this is that certain statements may combine two classes of statement eg the movement/breakdown where fixed assets movements are shown by class of asset and the independent/movement statement where movements on accumulated funds are included in the balance sheet.

Classifying the statements into these seven classes allows us to analyse the structure of the accounting report and in each of the five churches we have seen that independent statements, usually balance sheets, are able to exist by themselves. All the other statements explain, comment on, restate, breakdown or give movements on either an independent statement (balance sheet) between two dates or other statement which is itself related to an independent statement. The accounting reports in the study may at the simplest level be classified according to the number and relationship of the independent statements included in the accounts. At the one extreme are the reports with a single balance sheet (GGO) and at the other reports with a large number of balance sheets (MET).

The problem with classifying reports at this simple level is that the independent statements are not all similar. In a few reports the independent statements represent a single 'fund' or pool of resources for carrying out one group of operations but in the vast majority of accounting reports the independent statements represent more than one 'fund' eg an accumulated fund, a designated fund and an endowment fund. These multifund balance sheets fall into three distinct categories: consolidated statements where the assets relating to each of the constituent funds are consolidated together, aggregated statements where the balance sheet shows separately the assets related to each of the constituent funds and mixed statements which combine both aggregated and consolidated assets.

In the remainder of this section we shall concentrate discussion on the two main types of statements found: movement statements (chapter 8.3.1) and independent statements (chapter 8.3.2).

8.3.1 Movement Statements

If we turn to the movement statements we see that by far the majority of movement statements are explaining changes in fund balances between one year end and the next and in only a few cases do movement statements relate to fixed assets (Methodist Church only) or to changes in working capital (Methodist church and Liverpool Diocese). This concentration on the fund as the main movement statement confirms that view that accounting in these churches is mainly interested in the movement of funds rather than overall operations of the organisation.

Though the reasons for this concentration on funds might be put down to historical accident and legal necessity there are three other possible reasons which are of particular interest:

1. The funds themselves represent convenient functional groups within which similar activities take place. Funds therefore represent functions of the organisation and are a useful focus for both management and fund raising purposes. We have seen that in all the churches, except RCC and GGO, fund accounting reflects to a large extent the functional and management boundaries in the organisation.
2. The overall financial problem of management in these organisations is that of raising funds and as this is done by appeals, such appeals are likely to be more effective if they relate to a specific area of work eg training of clergy, or church buildings, than if they relate to a general area 'contributions to central funds'. The phenomenon of a single central fund raising, though operative in all but one of the churches (GGO) (which has adopted this for 1983 onwards), had only recently come into operation in MET and so does not yet have a strong influence in that organisation. This could explain in large part why a large number of separate fund accounts exist in that organisation.
3. A further argument, which could be regarded as the corollary of the above but is essentially a separate argument, is that

though these organisations are central or regional organisations there is no pressure for them to be seen as one organisation and so to produce any sort of corporate image. Accordingly there is no pressure to produce an overall statement from the organisation's management nor from supporters. As a later chapter (13) indicates, several respondents to the questionnaire indicated that any sort of overall summary of accounts would be a waste of money, though many would find a summary useful.

In each of these areas accounts can be seen to have a role either in assisting with the structure of the management or assisting with fund raising.

In contrast to the abundance of fund movements statements there are only seven statements called 'source and application of funds'. In all seven cases these statements analyse movements in working capital balances and it is extremely difficult to see what additional information of value these add to the information already in the accounts. The statements show purchase and sale of fixed assets and investments but they do this overall for the organisation and take no cognisance of the funds that the purchases and sales relate to. It is not immediately clear that working capital is a concept of real value in these organisations but this is discussed further below in section 8.6.

The accounts of the five cases demonstrate quite clearly the complexity of the structure which is to be found in NPO accounts. They also illustrate the large volume of information which can be found in NPO accounts. Though only one organisation (GGO) reports pence, most of the accounting reports give details of figures in the accounts in great detail with fairly small amounts (some under £10) reported and a considerable breakdown of payments into expense categories. Undoubtedly the small amounts are partly due to the nature of the organisation but the amount of breakdown may be indicative of the nature of the agency relationship existing between the preparers and receivers of accounts.

The explanation of the large amounts of detail may be in the

nature of stewardship reporting in these organisations. No single performance indicator exists in churches and one way around this absence, for stewardship purposes, may be to report in detail on how money has been spent, leaving accounting report recipients the task of judging the efficacy of the spending. If this hypothesis were correct then accounting reports which contain large amounts of data might be regarded as more reliable than those without the detail and thus fulfil the stewardship requirement more adequately. Detailed questions about this were not included in the questionnaire or the interviews and so this study cannot throw further light on this but there is an indication that further research may be of value as it would enable us to know whether this detail could be readily dispensed with.

We have seen that there is no single measurement basis in the accounts under study with examples of accounts being prepared under a number of measurement conventions from cash basis to accrual accounting. In many of the accounting reports it is not clear which measurement basis has been used (eg Church of Scotland) nor in some cases whether a measurement basis has been used consistently within any particular statement. This consistency complication is particularly apparent in a movement statement where expenditure may be reported on an 'accrual' basis whilst income is reported on a cash receipts basis. It is equally not clear whether there would be any significant difference in reported figures if they were based on say a transactions basis as against a cash basis. Perhaps the establishment of a 'norm' (possibly an accounting standard?) in this area would help users.

The analysis of the measurement basis for these accounts suffers from two particular problems: the lack of a common measurement focus (in movement statements in particular) and the lack of suitable terminology to describe the different bases.

The accounts under study demonstrate that in movement statements there are a number of different names possible for the 'bottom line' of a movement statement ranging from 'operating surplus' to 'excess of income over expenditure' to 'balance'. In any

particular movement statement several of these names may be used for either sub-totals or final lines, either within a single statement or in the linked chain of statements. In most movement statements in this study there is an ultimate 'bottom line' and this is the net change in the fund balance between the beginning and end of the period. The measurement basis of this bottom line is necessarily directly linked to how the fund balance is measured and this may vary from cash to full accrual (ie including fixed and current liabilities).

These accounts demonstrate that though the final bottom line is consistently a fund balance, sub-total lines may be used to draw attention to a particular aspect of the statement eg there may be an 'operating surplus' line followed by an appropriation type account (see exhibit 7.6.1). Though some authors see this as potentially deceptive (see for example Bird and Morgan Jones, 1981) it is illustrative of the wide variety of interpretation which can be put into fund movements statements without specifying a measurement basis.

It would be helpful in the analysis of these NPO accounts if all fund movement statements could have at least have one common focus and as 'change in fund balance' is common to virtually all accounts this would seem a reasonable lowest common denominator. Common acceptance of a single focus would assist in discussing the measurement basis as discussion would be focussed on the following four issues:

1. What items can be legitimately withdrawn from the fund?
2. What items can be used to increase the fund?
3. Can the existence of the fund balance be justified?
4. Is the balance of the fund in the books represented by values of the assets owned by the fund?

These issues are closely linked to some of the management problems of these NPOs such as will there be enough funds to carry out a particular task.

Concentration on the fund accounts does not necessarily enable the measurement of the total cost of operating a particular

project or an organisation as a whole, especially where several funds may be involved in a particular project. The fact that fund movements measures are in such wide use indicates that these may well be useful measures in practice and that there has been little pressure to produce other 'operation' costing statements including overall statements. If fund statements are useful in practice then there may be a number of reasons for this. Two are germane to our discussion here: firstly, that total operations cost is not a meaningful measure in these organisations and secondly, that the aspect of an operation cost which is important is how it is to be funded ie its cash or funds flow implications, and these are best identified by the use of fund accounting.

In a multifund environment costs of individual operations are liable to be incurred in a number of fund accounts. The production of an overall operating cost statement would entail adding together all the costs from the various fund accounts to produce an overall spending picture. Such an overall cost statement would be limited to describing the overall cost in the terms of the individual fund accounts. As we have seen, the analysis of expenditure in churches is most likely to be by the nature of the expenditure and so any operating cost statement based on such source fund accounts would itself be restricted to analysing cost by nature. If all the underlying fund accounts have expenditure analysed by function then of course the overall cost statement could be prepared by function. However if a functional statement is required from a set of funds analysed by nature of cost and, as seems to be the case in churches, many of the costs paid from a fund account are joint supplies eg secretary's salaries then any overall operating cost statement by function can only be prepared by an allocation process, an area full of problems of judgement.

Any statement intending to show operating costs and operating revenues would need to identify the costs of operating for a period and the revenue which resulted from those operations. If a particular operation by its nature is not revenue earning (eg pastoral visiting, feeding the hungry, granting money to a less wealthy church) what value should be included as revenue? The

revenue could be regarded as the direct grants received for the service or the money received as a direct result of the operation eg fees or sales resulting from the service provided. Direct grants are not revenues resulting from operations but are from which the operation results, ie the causality is the opposite to that normally used in a trading environment. In addition the terms of grants may be such that should all the grant not be consumed then it is returnable, ie it is not related to the level of service but to the level of expenditure.

Money received as a direct result of the operation eg student fees, is direct operating revenue in direct parallel with trading sales. It may however be deliberately less than cost. Including this item in an operating statement without any direct grants or valuation for services rendered would produce a net operating cost statement and this is the only type of operating statement found in the churches under study (exhibit 7.6.1). Statements including grants are never described in these cases as 'operating statements' but usually as 'income and expenditure accounts'. The operating statements which exist in the study are usually part of an overall fund statement where the operating deficit is shown as being financed by funds from grants or donations.

A synthesis for this is that the term 'operating statement' should really be used to relate operating costs to revenue generated by that operation. Operating statements should not include revenue used to instigate that operation as these are effectively subsidies. If this attitude is taken then the conversion of many of the fund statements in this study into operating statements would entail providing a section which identifies operating expenditures and deducting from this income which was generated by that expenditure. The resulting deficit would be carried forward into an appropriation account for funding from grants and donations.

Although the above discussion illustrates that in theory we could have at least two distinct movement statements for operations: fund movements and operating statements, in practice the accounts presented are either 'Income and Expenditure Accounts' or

'Receipts and Payments Accounts' with only a few minor accounts described as 'movements on funds'. This illustrates one of the problems of terminology in the lack of suitably accepted terms to describe the function of the accounting statements.

A related problem of terminology occurs in describing the measurement basis. Many of the audit reports refer to accounts being prepared under an 'historic cost' convention or basis and yet it is not at all clear whether this also means an accruals basis or not. In the Methodist Church notes describe the treatment of many individual items but there are very few cases where the basis for identifying charges to accounts has been described as 'accrual' or 'cash' or any other such term. This could be because there is no single basis used in the accounts eg 'accrual' accounting being used for expenditure and 'cash' basis for income but it may also be due to the fact that we have no suitable terminology to describe the various bases. We saw in COS accounts that accounts were described as 'receipts and payments' accounts and had depreciation charged.

This discussion of the measurement basis related to the point at which income and expenditure are recognised in the accounting reports (see chapter 3.2). Convention has it that a 'receipts and payments' accounts recognises transactions when cash is exchanged and 'income and expenditure' accounts recognise transactions when inputs are consumed (expenditure) and outputs are generated (sales). Logically however the measurement basis of the fund movement statement must depend directly on the fund it is related to (the prime fund). If the prime fund is represented by cash alone (with no other assets) then the movement statement must be on a cash basis. If the prime fund contains all manner of assets then the movement statement must include movements on all assets represented in the prime fund (eg including depreciated assets). Of course the independent statement may be adjusted to suit the type of movement statement required but they must match in this way.

If any part of a fund movement statement intends to measure something other than the assets included in the prime fund (eg an

operating statement including depreciation within a fund account relating to a prime fund without fixed assets) then part of the statement must adjust the balance from the operating statement element of the statement to the fund measurement basis. This is done in PSO 'statements of source and application of funds' when depreciation is added back to the operating surplus. The clear statement of these aspects of fund accounts demands a clear understanding of these underlying issues and as we saw in the literature in chapter 3 this is not clearly documented in the literature. It is not surprising therefore that the accounts studied demonstrate confused thinking.

8.3.2 The Independent Statements

The purpose of all these independent (balance sheet) statements appears to be to give an account of the resources valued in some accounting numbers, which relate to a particular fund or funds. There is no indication in the balance sheets that an overall value of the organisation is being presented, rather that at least some of the assets remaining to the control of the board are identified.

We have seen in the descriptions above a number of interesting features in the independent statements (balance sheets) of the churches. Of these features three are taken up for discussion here:

1. There is no single focus (such as owners' equity) for most of the balance sheets. Instead, balance sheets have multiple foci in the form of fund balances.
2. There are some balance sheets which do not include all the assets held by the church.
3. There are some balance sheets which can be best described as 'aggregate' statements consisting of several balance sheets presented together in a 'layered' construction (eg LPL).

The key to understanding these features is in understanding what effect the process of fund accounting is likely to have on the form of the balance sheet. We may explore this briefly by spending a little time looking at the way in which fund accounting would affect the underlying business equation.

In a business operation where A = Value of future resources held (ie an asset) and L = Value of a future resource outflow (ie a liability) then the normal equation used is that the total funds employed F_t (normally the owner's equity) is as follows:

$$F_t = \sum A - \sum L \quad \dots\dots\dots (1)$$

This equation may be considerably expanded by the separation of fixed and current assets and liabilities and the separation of minority interests etc.

We are aware however that in a non-profit organisation, assets may be provided for specific restricted purposes in such a way that there is a relationship that specific assets and liabilities

relate to a particular fund. In some cases these assets and liabilities may be clearly distinguishable from other assets and liabilities (eg a school minibus or a specific investment) and in some cases indistinguishable (eg cash) from other assets and liabilities held. In either case the relationship between individual funds and respective net assets is undeniable. This relationship is expressed in equation (2):

$$F_f = \sum A_f - \sum L_f \quad \text{..... (2)}$$

where f represents a fund provided for a particular purpose. The balance sheet in these cases should therefore more properly be defined as:

$$\sum F = \sum A - \sum L \quad \text{..... (3)}$$

that is the sum of the value of all funds is equal to the sum of the value of all funds assets and the sum of value of all funds liabilities. This does not necessarily imply that the sum of all funds is a meaningful measure, merely that it is equal to the sum of the assets and of the liabilities. Each sum may of course not be a meaningful measure.

This relationship is in fact a far more general relationship than that given in equation (1) which is in fact a special case of equation (3) where the relationship $F_t = \sum F$ has the meaning that the total funds in the balance sheet is the same thing as the sum of the individual funds. As was explained in chapter 3.3 this latter relationship may not hold where there are restricted, endowment or even designated funds which may not be meaningfully added together. For this study in which individual funds are of importance we need to restrict ourselves to definition (3) as being the more general one.

This more general definition leads to two specific expectations about the form of the balance sheet:

- 1) We should not be surprised to find no single fund equivalent to shareholder's equity in a PSO.
- 2) We might find specific assets and liabilities related to specific funds on the face of the balance sheet.

There are also certain alternative presentation of balance sheet which present themselves as possibilities:

- a) That rather than a single balance sheet there may be a number

of individual ones, one for each fund and that in each case the relationship shown in equation 2 holds.

- b) That where a single balance sheet is present it is in fact an aggregate balance sheet with a number of individual balance sheets 'stacked' into a single statement. Here the presentation follows the relationship:

$$\begin{aligned}
 F_{f1} &= \sum A_{f1} - \sum L_{f1} \\
 + F_{f2} &= \sum A_{f2} - \sum L_{f2} \\
 + \dots\dots\dots \\
 + F_{fn} &= \sum A_{fn} - \sum L_{fn}
 \end{aligned}$$

where fn represents the fund.

As we have seen all these presentations are found in the accounts of the churches in the study. There are aggregate balance sheets in LPL and GGO, multiple funds in virtually all the balance sheets and a number of balance sheets appear in MET.

The schematic balance sheets presented in figures 8.3.1 to 8.3.3 display the main features of the different types of balance sheet found in the study. Usually those shown in figures 8.3.1 and 8.3.3 are presented in a horizontal format and that of figure 8.3.2 is presented in a vertical format. All three balance sheets are attempts to present three dimensions of asset information in two dimensional space. A columnar solution may be adopted where there are only two or three funds but this becomes impossible with a large number of funds.

Identification of three types of balance sheets suggests that at the very least there are significant practical problems about presenting the balance sheets of NPOs. It is also possible to see the problem of presenting assets in two dimensions ie by category and fund group as a conceptual dilemma and thus as a serious challenge to Anthony's assertion (FASB 1978) that there are no conceptual problems related to the balance sheet of NPOs. There is much room to experiment with different forms of balance sheet with fund accounts (see Ashford 1981) and to further understand the consolidation/aggregation issue.

Figure 8.3.1 An aggregated Balance Sheet (Schematic)

<u>Balance Sheet as at 31.12.xx</u>					
<u>Endowment Fund</u>			<u>Endowment Fund</u>		
Opening Balance	10,000		Investments	9,500	
Increase for year	2,500		Bank Balance	2,500	
			Cash in hand	500	
Closing Balance	12,500	12,500			12,500
<u>Current Fund</u>			<u>Current Fund</u>		
Opening Balance	2,500		Fixed Assets	3,160	
Decrease for year	160		Deposit Accounts	1,450	
Legacies	2,340		Bank Balance	390	
Closing Balance	5,000	5,000			5,000
<u>Restricted Fund</u>			<u>Restricted Fund</u>		
Opening Balance		5,190	Investments	5,150	
			Bank Balance	40	
					5,190
		22,690			22,690

Figure 8.3.2 A Consolidated Balance Sheet (Schematic)Balance Sheet as at 31.12.xx

Fixed Assets	3,160
Investments	14,650
Bank Deposits	1,450
Bank Balances	2,930
Cash	500
	<u>22,690</u>

Represented by:

Endowment Fund	12,500
Current Fund	1,450
Restricted Fund	5,190
	<u>22,690</u>

Figure 8.3.3

A consolidated/aggregated statement

<u>Balance Sheet as at 31.12.xx</u>					
<u>Endowment Fund</u>			<u>Fixed Assets</u>		
Opening Balance	10,000		Current Fund		3,160
Increase for year	2,500				
			<u>Investments</u>		
Closing Balance	12,500	12,500	Endowment Fund	9,500	
			Restricted Fund	5,150	
					14,650
<u>Current Fund</u>			<u>Bank Deposits</u>		
Opening Balance	2,500		Endowment Fund		1,450
Decrease for year	160-				
Legacies	2,340				
			<u>Bank Balances</u>		
Closing Balance	5,000	5,000	Endowment Fund	2,500	
			Current Fund	390	
			Restricted Fund	40	
					2,930
<u>Restricted Fund</u>			<u>Cash</u>		
Opening Balance		5,190	Endowment Fund		500
		22,690			22,690

8.4 Information in the reports

It has proved quite difficult to identify what information is included in the accounts because this very largely depends on the perceptions and needs of users. However we have suggested that it may be possible for readers to gather information about a number of areas:

1. The amount of funds available within an organisation or the state of funds, although much of this is on a fund by fund basis and not consolidated, especially in MET. We have noted that it might not be immediately clear from the balance sheet which assets are represented by each fund and this is perhaps an area that could be improved by an accounting standard. None of the five churches gave details of restrictions on their restricted funds and in none of the churches was a clear overall position of funds available.
2. Movement of funds, again usually on a fragmented basis with no consolidated position except for certain overall fund movement statements in GGO and COS. The movement of funds is shown in considerable detail in nearly all the churches though fragmentation by fund accounting makes it difficult to discover any operations type statements.
3. Past year comparative information was available in all the churches though budget information was only present in two churches (RCC and LPL). In both cases the budget figures were put alongside the amounts for the current year but in the LPL case the budget/actual comparison did not cover all expenditure and in the RCC case it did not relate to actual expenditure, only projected expenditure.
4. Information about sources of funds as detailed in the next section of the chapter (8.5).
5. In two or three churches some details of the structure of the church organisation and how it relates to the accounts. This was particularly obvious in MET and COS where the accounts clearly followed the committee structure of the church though less noticeable in GGO, LPL and RCC where the committee structure was slightly different from the accounts.

6. In all churches a general impression of the work being done by the church could be gained, but usually in a fragmented way, because of both the committee structure and fund accounting. It was therefore difficult to comprehend the totality of any church's operation.

We should note clearly that there is little in the accounts of any of the churches to identify constraints under which the particular church is working or the efficiency or effectiveness with which the management has dealt with resources. The absence of both of these areas may be due to the impossibility of using accounts to convey this information. Some of the information necessary may be contained in verbal and prose reports to the AGMs but it has not been possible to include an analysis of this due to lack of resources. Alternatively it may be that this information is not relevant for churches and is therefore excluded from reports. It seems however that the first of these suggestions, i.e. the impossibility of conveying this information in accounts, is the more likely explanation as the churches are very much involved in the provision of public goods which are subject to the '3E's' criteria.

8.5 Sources of Funding

We have seen in the discussion of the accounting reports of the churches that, apart from a few isolated instances, the accounting statements attempt to communicate information about how funds have been expended and are not overall statements of 'results of activity'. We have also seen that whilst the statements are very largely composed of funds used for similar operations, they are in no sense 'operating statements'.

The descriptions of the accounting reports enables us to isolate four sources of funds which are prevalent in the statements: Donations, Obligatory Contributions, Entrepreneurial Receipts and Interest Income. This financing of churches is a useful insight which has been gained from the study of the accounts and so each of these sources will be discussed in turn.

8.5.1 Donations

Donations are made to either particular funds or to the work of the church generally. The donations may be of two kinds: restricted, their use being restricted to certain expenditure constraints, or unrestricted and generally available for the church management to use at their discretion. We saw also that donations may be either of a capital or non-capital nature with donations of a capital nature being restricted in that only the income could be used whereas the non-capital donation could be used in full immediately.

We have also seen that though a gift may be unrestricted by the donor and/or non-capital, it may be designated by the management as being restricted or capital. In the case of designation by management the gift may at any time be reverted back to its original status simply by changing the operating rules. The designation may be done for the sake of financial expediency eg to ensure that funds benefit a number of years and not just the present financial period and it may be done so that a one-off large donation does not upset the regular flow of donations.

Legacies are one type of donation which may be treated as 'semi-capital' by bringing it to credit the church's general funds over a period of say ten years through the use of a legacy

equilization reserve (LER). These LERs and designated capital donations are effectively the same type of operation in that the donation either is held to be a stream of donations over a period of years rather than a single donation. The difference between the LER and the designated capital donation is that the capital donation is for an infinite period of years whilst the LER is for a fixed period of years.

One of the important outcomes of organisations' having capital, designated capital and restricted donations is that administrative procedures have to be instituted to manage the funds and this may result in separate bodies being set up for convenience, particularly in the case of investment management where we see some form of Unit Trust scheme in all the churches.

We should note that donations are not a major form of funding in profit-seeking organisations apart from the area of investment grants.

8.5.2 Obligatory Contributions

Church headquarters may be partly viewed as membership organisations with individual local churches as members. They do not however elicit any fixed membership dues from their member churches, instead raising funds either by soliciting donations from individual church members or requesting specific contributions from local churches. These contributions serve a number of purposes as they are applied to cover all the purposes of the church which were described in the previous chapter. From the point of view of the contributing church the contributions can then become:

1. Contributions towards central services provided for the local church by the central church eg legitimisation, administrative services, pastoral services, advisory services.
2. Contributions towards joint action on matters of mutual concern eg nuclear weapons, missionary training and sending, social action.
3. Redistribution of income from richer to poorer churches both at home and overseas.

There are certain activities which would come into more than one heading eg clergy training. The three areas may be seen as: Membership dues where the primary beneficiaries are the local churches themselves; Cooperative action where the primary beneficiaries are those outside local churches; and Redistributive action where payments directly benefit some other local church. All these activities must provide some sort of 'satisfaction' to the local church or they would not contribute to them.

8.5.3 Entrepreneurial Receipts

These are receipts which are gained by the church undertaking trading activities. Almost without exception these entrepreneurial receipts are merely by-products of an operation run by the church whose prime aim is not the production of profit but the furthering of some other objective of the church.

Examples are book publication profits where the major aim is the production of literature (Methodist Publishing House, COS Publications Dept, SCAN Ltd, etc) and the administration of church buildings and conference centres where the main aim is the provision of accommodation and facilities. None of these activities was a major contribution to the funds of any of the churches in the study.

8.5.4 Interest Income

Interest (and investment) income of the churches should really be split into two distinct parts: that related to endowments and that related to the investment of surplus working capital. The former investment income is quite clearly that stream of income which has already been discussed above under the heading of donations. The latter has not been discussed and it is more like the entrepreneurial receipts discussed above. This interest income is earned on the investment of receipts not immediately needed. Such income is earned in the sense that the churches use the resources at its disposal to create more resources.

Unfortunately it is not possible to identify from the accounts which part of the investment and interest income is that earned on these current resources. This is mainly because part of the

'capital' funds may be kept on short term deposits along with the working capital funds and interest income on both (and sometimes on long term investments as well) is reported in a single figure. This source of income may be quite important in some churches and the establishment of common cash pools as in the COS and MET is a way of exploiting this.

8.5.5 Tax Reliefs

These four sources of funds cover the major areas of direct funding for the churches. There is however one final area of funding which is not readily visible in the accounting reports and that is tax reliefs. All the churches in the study are entitled to tax relief of several kinds and these are detailed in table 8.5.1. It should be noted that virtually none of these tax reliefs appear in the accounts of the churches as the reliefs do not present themselves to the churches as funding but rather as increases in the value of donations eg legacies, or decreases in the cost of services eg rates relief. The one area which does appear in one or two cases is the tax reclaim on Deeds of Covenant (annual payments) which is seen by churches as increasing the value of a gift and enters the accounts as a lump sum repayment from the Inland Revenue each year.

All these tax reliefs provide valuable sources of funds for the churches but the absence of separate disclosure makes it impossible to quantify these benefits. It is clear that the majority of the benefit derived from deeds of covenant (annual payments) is obtained at local church level though some donations to the central church are covenanted. One particularly large item of covenanted giving is the William Leech donation to the Methodist Church Overseas Division which has been described in detail in Bird and Morgan-Jones (1981). One final thing to note about income tax relief is that it is given provided the expenditure is on charitable purposes. This means that technically the income is taxable unless spent, though no cases of this having been applied have appeared in the literature.

Table 8.5.1 Sources of Tax relief enjoyed by charities

<u>Income Tax</u>	(S360 of Income and Corporation Taxes Act 1970)
Provided income from each source is used solely for charitable purposes, the following income is exempt:	
1. Tax under Schedules A to D on rents and profits on lands etc belonging to the charity.	
2. Tax under Schedule B on woodlands occupied by the charity.	
3. Tax under Schedules C and F on interest, annuities and investments.	
4. Tax under Schedule D on yearly interest and other annual payments.	
5. Tax under Schedule D on profits of a trade carried on by a charity if:	
a) the trade is exercised in the course of the primary purpose of the charity.	
or b) the work in connection with the trade is carried out mainly by beneficiaries of the charity.	
<u>Corporation Tax</u>	(S250(4) of Income and Corporation Taxes Act 1970)
Similar to income tax but for companies	
<u>Capital Gains Tax</u>	(S360(2) of Income and Corporation Taxes Act 1970)
Exemption for chargeable gains of a charity from CGT	
Exemption for donor of CGT payable on a gift to a charity	
<u>Capital Transfer Tax</u>	(Finance Act 1975)
Gifts during donors lifetime free of CTT	
Gifts on or within one year of death exempt up to aggregate of £250,000	
<u>Development Land Tax</u>	(S24 Development Land Tax Act 1976 & S111 Finance Act 1980)
Exemption from DLT on the disposal of land	
<u>Covenanted Donations - additional relief</u>	(S248 ICT Act 1970 as amended)
Companies may deduct gross payment from its profits in computing corporation tax liability.	
Individuals may claim income tax relief over the basic rate on annual payments to charities over £3,000 begun after 5.4.81.	
<u>Rates Relief</u>	(General Rate Act 1967)
Mandatory Relief of 50% for buildings used for charitable purposes	
Discretionary Relief of up to a further 50% may be granted by rating authorities.	
<u>Stamp duty</u>	(S129 Finance Act 1982)
Not chargeable on a Deed of Covenant or annual payments of over 3 years.	
<u>National Insurance Surcharge</u>	(S57 Finance Act 1977)
Charities are exempt from paying the surcharge.	

Source: Craigmyle Guide to Charitable Giving and Taxation (1982)

8.6 Working Capital

As the sources of funds clearly indicate, funds in the churches are provided for either the general or specific needs of the church. The nature of the organisations is such that money contributed is intended to be spent and that this should be done either directly on the work of the church or on purchasing fixed assets and investments. Usually the funds are provided in advance of the spending taking place and so the church has sufficient funds available to operate from day to day. These working capital funds are available because of timing differences in receipts and payments rather than because funds were contributed for the purpose of providing a permanent working capital source. The cash inflows are susceptible to considerable fluctuation from day to day and so the state of working capital is volatile.

Despite this theoretical position an analysis of the accounts under study indicates that none of the churches display a shortage of liquid funds. This is in spite of the fact that only one of the organisations obviously had a working capital reserve (National Children's Home of the Methodist Church, Agenda p 337). In the rest of the organisations working capital seems to be provided through one of four means:

1. The most common way in which working capital is provided is by building up an accumulated fund, part of which is represented by working capital assets. This fund is directly analogous to the business way of operating and gives the impression that the churches have an 'equity'. In fact the accumulated fund is composed of three elements: (1) either receipts spent on investments for future general benefit of the church or (2) receipts spent on fixed assets for future benefit of the church or (3) receipts kept back for future spending which are the part of the accumulated fund used as working capital. As the accumulated fund is not described in this way it is perhaps incorrectly named.

2. The second source of working capital is related to the first and entails having carried forward balances on individual funds. In the case of GGO this is extremely easy to identify as these balances are clearly shown in the balance sheet and average about 25% of the annual expenditure of the Diocese. These balances act as a cushion to iron out minor fluctuations in the income and expenditure from year to year and they provide working capital for day to day use.
3. The third working capital source is the amount put away to reserves. Whilst the main reason for reserves may be to even out expenditure, particularly on repairs, over a number of years, the effect is to provide working capital for day to day running of the church.
4. Finally working capital may be obtained by simply pooling the cash available at any one time and thus using the balance available on one fund to support another temporarily out of funds. The balances may be uninvested balances of endowment funds or money received in advance of the expenditure being made. This final source of working capital is not available under strict fund accounting where money would not be loaned in this way but none of the churches in the study seems to operate in this way, rather they may have a common cash arrangement (Methodist Church) or operate linked overdrafts (GGO). This operation is often invisible in the accounts but it does allow the churches to make best use of available resources.

These four sources of working capital provision are clearly significantly different from the provision of working capital in the PSO. There can be no doubt that some working capital is needed by NPOs, even if simply to smooth out the flow of cash. Accordingly management of working capital is needed and has obviously been a significant area of concern for the larger churches. In both COS and MET there are common pools of funds for the management of working capital operating as internal banking procedures. In GGO there are offsetting overdraft arrangements and in LPL a single common bank account. For the smaller NPO the management of working capital, particularly inter-fund borrowing,

may however be a quite severe problem though no evidence for this has been produced in this study.

A final observation on working capital is that its very existence involves an opportunity cost of interest foregone on funds available. NPOs normally have a number of funds and it is possible for a single (wealthy?) fund to bear a disproportionate share of this opportunity cost. There may be a case for auditors ensuring that this opportunity cost is borne 'fairly' by all funds.

8.7 Brief Summary

In this section we have undertaken a descriptive study of the accounts of the five churches. The novel approach to description, undertaken because of a lack of an adequate framework in the literature, is not a perfect one but it has allowed meaningful analysis of the structure, content and context of accounting reports. This chapter has brought together a number of the findings which are summarised in more detail in chapter 18.

Among the findings are five of special interest: that the structure of church accounts varies considerably from church to church; that there are two distinct types of balance sheet, consolidated and aggregated; that there are problems in identifying the measurement basis a church uses, possibly caused by misunderstanding of what bases there are; that fund accounting occurs in all the churches and may be therefore a naturally occurring phenomenon; and finally that consolidated accounts are not extensively used.

Useful insights have been gained into the way churches are funded and we discussed how this related to the economics of NPOs. Finally we gained some insight into the meaning of 'working capital' in the context of churches.

This concludes the section describing church accounts and the next chapter begins the next section of the empirical work: on the questionnaire survey of users.

