

Not-For-Profit Accounting Standards: Should Churches and Private Enterprise Sing from the Same Hymnbook?

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This study examines the implications of alternative conceptual frameworks put forth by the Accounting Standards Board and the Public Sector Accounting Standards Board in a position paper regarding the future of financial reporting by not-for-profit organizations. The study explores whether there is submerged material related to the response of the Anglican Church of Canada to the standard setters' Invitation to Comment. A paucity of research is extant on accounting standards in religious organizations; this paper provides a case study on the Anglican Church of Canada.

INTRODUCTION

In 2009, the Anglican Church of Canada (ACC) issued a press release in response to the Accounting Standards Board (AcSB) Invitation of Comment (ITC) on not-for-profit (NFP) accounting standards in which the ACC indicated they would support essentially the status quo: private enterprise standards supplemented for NFPs. The press release was issued by the ACC in which Michael Herrera, treasurer, stressed the importance of a coordinated 'industry' response to this issue. Herrera indicated the ACC had preliminary meetings with the Presbyterian Church in Canada "so that it is not seen as an Anglican issue or a Presbyterian issue, but rather as a faith-based issue" (Williams, 2009).

While the ACC's response could be viewed as lobbying (Walker and Robinson, 1993), the Church's issuance of a press release, engagement of its auditors and consultation with the Presbyterian Church suggests there are other underlying issues. It is unlikely the ACC was engaging in a lobbying effort since the Church's preference reflected the views of the standard setters as outlined in the ITC. Therefore, the church did not need to lobby the standard setters to consider an alternate viewpoint. Another possibility is that the response could be viewed as the visible portion of the iceberg since its visibility confirms the existence of submerged material (Hodges and Mellett, 2002). In their paper (Hodges and Mellett, 2002) discuss the iceberg effect in the context of accounting standard-setting. Moreover, the authors suggest that additional research be conducted into a single aspect of standard-setting.

Motivation for this study originated with the ACCs unusual step of issuing a press release announcing its position on the ITC. Since the written response and press release did not provide detailed analysis supporting their position, we thought it would be worthwhile to conduct research to gain a better understanding of how they reached their conclusions and to ascertain if there were underlying submerged issues. This paper uses a case study to examine church reaction to the December, 2008 Invitation to

Comment (ITC) in order to gain an in-depth understanding of the views of professional accountants responding on behalf of religious organizations. The objective of this paper is to examine the iceberg effect by exploring whether there is submerged material underlying the ACC's views on the following alternative accounting standards proposed in the ITC: (a) separate accounting standards for the NFP sector; (b) private enterprise standards supplemented by NFP standards; (c) existing public sector standards supplemented by NFP standards; and (d) International Financial Reporting Standards (IFRS).

The study explores whether there is submerged material related to the ACC's response to the ITC through semi-structured interviews with the key players involved in the church's formal response and through an analysis of the ACCs written submission. The study compares the written response to respondents' views as expressed in the semi-structured interviews. The research responds to Hodges and Mellett's (2002) call to investigate the hidden parts of a response through accessing all principal actors who prepared the ACC's submission.

There is a substantial body of literature pertaining to standard-setting in the private and public sectors, but the iceberg effect, particularly as it relates to religious organizations has not been examined. Furthermore, there is little research exclusively focusing on standard-setting for religious organizations as a segment of the NFP sector. It is important to conduct this study since the current increased focus on harmonization of accounting standards may result in insufficient consideration of the needs of users of religious organizations' financial reports. Furthermore, the study illustrates that reliance on written submissions may not necessarily provide a comprehensive understanding of the underlying reasons (iceberg effect) associated with an organization's position. The paper is organized as follows: the next section provides a literature review of standard setting and prior research on NFP accounting, the third section explains the context for the study, the fourth section presents the findings, discussion and analysis are provided in the fifth section and conclusions are included in the sixth section.

LITERATURE REVIEW

The role of standards, whether they relate to accounting or other areas, serves three main functions: protection of citizen interests where quality is difficult to evaluate, provision of a basis for comparison of alternatives, and coordination of joint action (Baylin et al, 1996). Baylin et al. (1996) postulated that accounting standards serve all three purposes since they facilitate the safeguarding of investors and government by ensuring the statements are objective, they enable investors to compare companies' performance, and they provide a cost effective method of coordinating action. The legitimization of standards is challenging since they may be advantageous for some parties, while being disadvantageous to others. Nevertheless, Baylin et al. (1996) contended that standard-setting must generate community support and be perceived as legitimate.

The Canadian standard-setting environment has been described by Richardson (2009) as a network approach to regulation. Although Canadian standard-setting is a participative process, there is no guarantee that participants will have any impact on the standards that are eventually adopted. There tends to be minimal contribution to the process, and preparers rather than users are more likely to participate (Durocher et al., 2007). Several studies have indicated that motivation for participation is driven by preparer's perceptions of potential impact, particularly the economic impact, of the standards (Dechow et al., 1996; Hill et al., 2001; Saeman, 1997).

Richardson (2009) suggests Canada is more susceptible than other countries to international influence as illustrated by the CICA's movement, over time, from a domestic focus to one of harmonization, with the United States (U.S.) generally accepted accounting principles (GAAP) in 1999, to the adoption of IFRS. Richardson (2009) attributes Canada's standard-setting approach to its private nature, with no government oversight body similar to that of Financial Accounting Standards Board (FASB) in the U.S. Consequently, Canadian standard-setting reflects social and market forces more rapidly than other countries that are subject to government oversight (Richardson, 2009).

Richardson's (2009) study of the regulatory networks for Canadian standard-setting found that it was influenced by three main groups: domestic security regulators, international security/financial market

regulators, and the international accounting profession. As a result of trying to accommodate these diverse groups, tension has been created by the conflicting needs to have technical accounting standards legitimated by professionals, while at the same time, ensuring they are accepted by the wider community of users who may sometimes be negatively impacted by these standards (Baylin et al, 1996). Indeed, the focus on capital markets may diminish the concerns of the NFP sector, particularly religious organizations, since their needs may not play a significant role in the standard-setting process. However, it could be argued that the AcSB does in fact consider NFP views since it has established a Not-for-Profit Organizations Advisory Committee (AdCom) that is responsible for advising the AcSB on the suitability of standards for NFP organizations.

Much of the prior literature on accounting for religious organizations has focused on three main themes. First, several researchers have explored the inadequacies of accounting practices, poor internal control and lack of expertise in financial management in churches (Ellis, 1974; Keister, 1974; Leathers and Sanders, 1972; Prentice, 1981; Rowe and Giroux, 1986; and Zietlow, 1989). The second major area of research has described good accounting practices in contrast to poor practices (Cunningham and Reemsnyder, 1983; Faircloth, 1988; Hardy, L. & Ballis (2005); Harper and Harper, 1988; Jacobs (2005)). The third area examined the differences between spiritual and non-spiritual or secular and non-secular aspects of churches that need to be considered in the study of accounting systems (Arndt and McCabe, 1986; Booth, 1993; Boyce, 1984; Irvine (2005); Laughlin, 1988 and 1990). These three themes did not include an assessment of accounting standards for religious organizations.

While research has been conducted on NFP accounting, it did not focus on accounting standards for religious organizations within the NFP sector. Prior research on NFP accounting focuses on the adoption of accrual accounting in response to institutional pressure to present a corporate image (Irvine, 2011); a comparative analysis of NFP accounting standards in Canada, United Kingdom, United States and Spain (Torres and Pina, 2003); an examination of California's Non-profit Integrity Act (Neely, 2011) and the implications of the AICPA's Statement of Position on joint cost standards (Roberts, 2005). However, NFP accounting research has not focused on accounting standards for privately-funded religious organizations and how they might differ from the standards needed by publicly-funded NFPs.

Christensen et al (2003) attribute the lack of research on NFP standard-setting to the newness of standard setters' interest in NFP entities, lack of easily accessible data and the wide diversity of the NFP sector. A review of the literature published since 2003 followed up Christensen's (2003) study and found there continues to be a paucity of literature on NFP accounting standard setting. The NFP sector represents many diverse areas including municipalities, universities, and religious organizations; therefore, it may be challenging to adequately represent the interests of all NFP stakeholder groups. While several researchers (Baylin et al., 1996; Durocher et al., 2007; Richardson, 2009) have explored various aspects of the accounting standard-setting processes, these studies did not specifically examine standard setting for religious organizations. Furthermore, prior research has not fully explored the views underpinning written submissions made to standard setters by religious organizations.

Typically, NFP respondents do not have the in-house professional resources to develop responses to standard setters' discussion papers and exposure drafts. This view of the limited resources of the NFP sector was also acknowledged by the AcSB (2011, Section 29). Consequently, given limited resources, when a NFP group such as the ACC, issues a press release regarding its response, further investigation is warranted to ascertain the existence of submerged information (Hodges and Mellett, 2002).

CONTEXT FOR THE STUDY

While initiatives of standard-setters to achieve global comparability through international accounting standards impacts publicly accountable commercial enterprises, there are also implications for the not-for-profit (NFP) sector. Religious organizations are a major component of the NFP sector. NFP organizations have a significant impact on the Canadian economy as this sector includes over 160,000 not-for-profit organizations (NFPOs) comprised of 139 million members with \$112 billion in revenues. One-third of the revenue is associated with hospitals and universities, with \$75 billion reported by all other NFPOs

(AcSB/PSAB, 2008). Of the \$75 billion, 49% of NFP revenues are derived from governments (AcSB/PSAB, 2008). The wide array of NFPOs can be grouped into six broad categories: colleges and universities, hospitals, professional and trade organizations, voluntary health and welfare organizations, philanthropic organizations, and religious organizations (Holder, 1987).

When the ITC was issued, accounting for the Canadian NFP sector was governed by accounting standards for private enterprises, supplemented by specific guidance pertaining to NFP issues in the 4400 series (CICA). In December, 2008, the Accounting Standards Board (AcSB) and the Public Sector Accounting Standards Board (PSAB) jointly issued ITC position papers regarding the future of financial reporting for NFPOs. The standard setters consider NFP as one sector. They do not distinguish between religious organizations and other organizations within this sector.

Before examining the implications of the four main alternative accounting standards, an understanding of Canada's standard-setting process and how it considers the needs of the NFP sector is helpful in understanding the context for this study. Accounting and auditing standards in Canada are established by three standard-setting boards: the accounting standards board (AcSB), the Auditing and Assurance Standards Board (AASB) and the public sector Accounting Standards Board (PSAB). All three boards are created and funded by the Canadian Institute of Chartered Accountants (CICA) (Richardson, 2008). The CICA is a self-regulated and self-supported professional association responsible for setting accounting and auditing standards for business, government, and not-for-profit organizations (CICAa).

As noted earlier, this research is based on a case study of the ACC. On a world-wide basis, the Anglican community is comprised of approximately 70 million members in 38 self-governing provinces representing 164 countries. The General Synod is the governing body of the Anglican Church of Canada. There are about 680,000 members in 1,800 parishes in Canada (Anglican Church of Canada, 2009). The ACCs consolidated financial statements include only the General Synod, the Missionary Society and the Anglican Journal. It excludes other entities such as diocese, parishes, the Anglican Foundation and the Primate's World Development Relief Fund. These entities are separately registered and issue their own financial statements. The main revenue (approximately 67%) of the Synod is derived from contributions from the Dioceses with the remainder coming from donations. Its annual revenues are approximately \$12 million and its assets total \$18 million. The response of the ACC to the ITC was prepared on behalf of all entities of the ACC. While there are other stakeholders impacted by the ACC's financial reporting, this study focuses on an in-depth examination of the views of the Church's professional accountants who prepared the response in order to ascertain the reasoning underlying their views.

METHODOLOGY

The methodology employed is comprised of a documentary review of the ACC written responses to the ITC as well as face-to-face in-depth interviews with all four church professional accountants, who were involved in preparing the response to the ITC. A representative from the PCC was interviewed since the ACC had discussions with the PCC in developing its response. The four respondents were the only players involved in analyzing the options set out in the ITC. The written response provides only the high-level opinion as to which option they supported. Consequently, it was necessary to conduct in-depth interviews to ascertain their views on all options.

In its strategic plan (AcSB, 2006), the accounting standards board acknowledged that 'one size does not fit all,' and planned to pursue separate financial reporting standards for public, private, and NFP organizations. The AcSB and PASB invited interested parties to comment on a series of questions (AcSB/PSAB, 2008). The ITC focused primarily on questions 2 and 3, which collectively presented five options: International Financial Reporting Standards (IFRS); private enterprise standards (without NFP supplementary series); private enterprise standards supplemented by NFP standards; public sector standards; or public sector standards supplemented by NFP standards. This ITC was applicable for all NFP organizations such as universities, healthcare boards, charities, and religious organizations. An overarching issue of the ITC was whether all NFPO's should apply the same primary source of generally accepted accounting principles (GAAP).

In-depth interviews were held in 2009 with four senior financial officials who were the only church respondents involved in preparing the ACCs response. Interviews were conducted at the respondent's offices, were from 1 to 2 hours duration each and were taped, transcribed and coded using NVivo software. The responses are coded as R1, R2, R3 and R4. The purpose of the interviews was to ascertain the views of church professional accountants regarding the alternatives proposed by the ITC. One option proposed in the ITC, adoption private enterprise standards with no supplementary NFP guidance, was excluded as it is unlikely to be a viable option to either the standard-setters or the users. This study included only four respondents because they were the only representatives involved in preparing the written response of behalf of the ACC.

Case studies are a multi-faceted research strategy which typically involves an in-depth examination of one organization, situation or community and employ quantitative and qualitative data from archival material, interviews, surveys and observations (Hill, 1993; Yin, 1994). Moreover, face-to-face interviews are useful to examine complex issues, allow for the maximum degree of probing, yield a better response rate, provide flexibility over question content and facilitate clarification of questions and terminology (Singleton and Straits, 2002). This research approach results in richer and more in-depth information than could be derived solely from a survey of a statistical sample of the population at large. Although case studies yield greater realism than quantitative methodologies, it must be recognized that they are time consuming, their findings cannot be generalized and their lack of rigorous control compromises validity (Bennett, 1991; Hill, 1993). While this case study cannot be generalized to all religious organizations since it is not based on a statistical sample, this methodology provides more in-depth and richer information than that which could be obtained from a large quantitative statistical sample.

CASE STUDY FINDINGS

The semi-structured interviews provided an opportunity to probe and identify additional perspectives on each of the four main alternatives. Table 1 provides a comparison of the ACC's written response to the responses given during the interviews.

Separate Accounting Standards for the NFP Sector

Of the main alternatives under consideration, separate accounting standards for the NFP sector would be the most complex and costly option. In its ITC, the AcSB rejected this alternative due to a number of concerns (AcSB/PASB, 2008): user needs and comprehension; requirement to teach and learn another set of GAAP standards; costs of developing and maintaining a stand-alone approach; and the likelihood that such standards would be substantially different from the current standards.

Relatively little support was expressed from respondents for developing separate standards for the NFP sector. In his response to the Accounting Standards Board, Michael Herrera, ACC Treasurer, stated the church does not support the option for all NFP organizations to follow one set of standards. Herrera noted that within the NFP sector, there is a wide array of organizations. Differences in mandates for universities, hospitals, community groups, and faith-based organizations make it extremely difficult to have one set of standards that would meet the needs of all NFPO users. Herrera stressed the importance of providing a choice for NFP accounting standards due to the differences among the various types of NFPOs:

Not-for-profits and charitable organizations need to be given a choice because we're not all alike...there are size issues, user differentials. A university or college is very different from a faith-based organization...and all of their users have very different needs (Williams, 2009).

TABLE 1
COMPARISON OF WRITTEN SUBMISSION AND INTERVIEW RESPONSES

ITC Alternatives	Written Submission	Interview Response
Separate NFP standards	Not supported – diverse NFP needs stressed	Little research done on separate NFP standards; Standard setters do not have a good understanding of NFPs
Private enterprise with NFP supplements	Supported	Supported, but noted areas of concern regarding interest on loans and post-retirement benefits; Net income not as meaningful as surplus or deficit; Stressed need for choice within NFP supplements; This alternative convenient, comfortable
Public sector with NFP supplements	Not supported – noted users and preparers more familiar with private enterprise standards	Public sector appropriate for certain NFPOs, but not for religious organizations since they are not government funded; Should keep number of standards to a more manageable level to aid understanding by stakeholders; Private and public sector NFPOs have used common standards for over a decade and are familiar with status quo
International Financial Reporting Standards (IFRS)	Not appropriate for religious organizations, but appropriate for large, complex NFPOs	Not appropriate for NFPOs because IFRS was developed for global comparability; Most NFPOs not able to support cost of implementing IFRS

While voicing preference for private enterprise GAAP, one respondent seemed to contradict himself by noting that little research has been done to develop a conceptual framework for NFPOs (CR3). This respondent contended that a simplified GAAP would be beneficial for NFPOs. Despite expressing preference for private enterprise GAAP with supplementary provisions for NFPOs, another respondent argued the AcSB and its advisors do not have a good understanding of NFPOs and are not sympathetic. Rather, they viewed standard setters as being focused on standardization and conformity (R2). Such standardization would not lend itself to new standards for the NFP sector.

In the written response to the ITC, the concept of developing a totally separate set of national standards for the NFP sector was rejected on the basis that the majority of the resulting standards would be the same as those of the for-profit sector, particularly in the area of accruals, financial instruments, and intangibles. Consequently, such an exercise would not be cost beneficial (R2 and R3). A respondent stated that, due to the diversity of the NFP sector, users of NFP financial statements do not have common needs, sophistication, or financial reporting requirements to support a one-size-fits-all approach (R2). Another respondent echoed this sentiment: “We do not believe that a single set of standards is likely to meet the needs of the entire sector, because of the diversity within the sector” (R3).

Lack of support for the development of stand-alone NFP accounting standards can be attributed to the perceived diversity within the NFP sector, which would make it challenging for one set of standards to be relevant for all groups. Respondents noted that even if NFP accounting standards were developed, it would be difficult to find common ground for all segments of the NFP sectors. For example, government-

funded organizations such as municipalities, universities, social organizations, and health-care operations have different reporting needs than charities, sports groups, and religious organizations. Respondents expressed concern that separate standards could lead to a proliferation of many different standards, stakeholder confusion, and opportunities to manipulate results.

Private Enterprise Standards Supplemented by NFP Standards

This alternative closely resembles the status quo. Under this option, standards for private enterprises would be supplemented by specific guidance dealing with the unique circumstances of NFPOs. These guidelines would be needed to support reporting on the service aspect of NFP's and would be similar to the existing 4400 series of the CICA Handbook. The AcSB stated that under this approach, reporting standards for NFPs would be closely aligned with private enterprise standards. The ITC noted this alternative is well understood and has served the needs of the sector well (AcSB/PASB, 2008).

In its official response to the ITC, the ACC clearly indicated its preference for private enterprise standards supplemented by NFP standards. However, Herrera also argued that, within NFP standards, unique needs exist for which guidance should be considered. Herrera expressed concern with charitable organizations using the same standards as publicly traded organizations since the NFP users would have very different needs than shareholders. (It should be noted that publicly accountable enterprises in Canada were not required to adopt IFRS until 2011). Herrera supported the development of choice within the NFP reporting supplements to acknowledge the variety of organizations within this sector (Williams, 2009).

The interviews revealed private enterprise GAAP with supplementary NFP standards was preferred by all respondents (R1, R2, R3 and R4). One respondent noted private enterprise GAAP is the most convenient, existing rules work for all NFPs, and the same flexibility and use of the existing standards (4400 series) should continue (R2). Another respondent stated that it was important to retain the restricted fund method of accounting that is provided in the 4400 series (CR3). A respondent indicated preference for private enterprise GAAP with the existing 4400 series because he was comfortable with it (R4). Respondents supported retaining supplementary standards within the private enterprise standards since some of the for-profit concepts, such as net income, are rarely relevant; rather, excess of deficiency of revenue over expenditures is more important (R2).

However, despite their support for private enterprise standards with NFP supplements, in the interviews, respondents highlighted a several areas of concern: (i) standards for financial instruments require the charging of interest on loans from national office to parishes when, in fact, interest is not really charged (R3 and R4); (ii) standards for post retirement benefits and the valuation of liabilities have created significant unfunded liabilities for some churches (R3 and R4); and (iii) net income is not comparable to private enterprise since churches are more interested in surplus/deficit, budgets and cash (R4). In addition, another respondent (R3) expressed concern regarding the "importance of continuously recognizing the financial stewardship paradigm underlying for-profit GAAP is not appropriate in the NFP sector" (R3). Moreover, an overriding concern among respondents was the diversity within the NFP sector. They believed accounting issues for churches were very different from other NFPOs, such as hospitals and universities. They stressed the importance of having choice within private sector GAAP through NFP supplements to address the unique needs of churches. This choice seems to be focused on the potential differing needs of private versus publicly funded NFPOs.

Public Sector Standards Supplemented by NFP Standards

This alternative involves adopting the existing public sector standards, but including supplements, similar to those proposed for the private enterprise standards, to deal with unique NFP circumstances. The AcSB noted the existing reporting differences between the public sector standards and GAAP as is currently applied by NFPOs would be beneficial in addressing concerns that arise in communicating financial results (AcSB/PASB, 2008). The ITC cited the main difference between government and NFP relates to their respective revenue sources. The AcSB contended that in both situations, stakeholders expect accountability for resources. Some of the concerns raised by the AcSB regarding this option were (AcSB/PASB, 2008): (a) users may not be familiar with public sector standards; and (b) training for

financial statement preparers and auditors would be needed for those not familiar with the public sector standards.

While some respondents acknowledged the public sector nature of certain NFPOs, there was consensus that public sector standards would not be suitable for religious organizations. When considering public sector standards, one respondent noted:

For certain NFPOs that operate in universities, schools and hospital sector and receive significant direct or indirect government funding, we recognize that financial accountability may be enabled by more closely aligning the reporting standards with those of government funding sources (R3).

Another respondent indicated:

A common set of standards have been used by the private and public sector NFPOs for the past decade and the NFPO users and preparers are familiar with the profit oriented GAAP. Therefore, we do not support adopting the public sector standards as the basis of NFPO standards (R2).

Citing that the majority of NFPOs are not government-sponsored organizations, the respondent did not believe public sector standards would be appropriate (R2). This respondent stressed the importance of keeping the number of acceptable accounting standards to a manageable level so they can be understood by stakeholders. While the same respondent stated that he did not support using public sector standards on the same basis as NFP standards (R2), at the same time he also supported providing the option for other NFPOs to choose the adoption of public sector standards if it made sense for their organizations, particularly for hospitals and universities (R2). In summary, respondents acknowledged that public sector standards may be appropriate for those NFPOs that receive substantial government funding. Consequently, they suggested those groups be given the choice to adopt public sector standards supplemented for NFPs if it met their needs.

International Financial Reporting Standards (IFRS)

The AcSB adopted IFRS as GAAP for publicly accountable enterprises for fiscal years starting after January 1, 2011 (AcSB, 2009). In addition, any other entity, including NFPOs, may elect to adopt IFRS on a voluntary basis. The ITC identified several issues with adopting IFRS for NFPOs (AcSB/PASB, 2008):

- i. IFRS were not developed with the needs of NFPOs in mind;
- ii. Adoption of IFRS for NFPOs would required financial statement preparers to make significant judgments in selecting among the options available within the IFRS standards; and
- iii. The AcSB indicated that additional guidance such as supplements for NFPOs could not be added to IFRS. Therefore, if NFPOs adopted IFRS, they would be required to adhere to full IFRS.

Results of the case study indicate respondents believed certain NFPOs would benefit from adoption of IFRS, but these standards would not be relevant for most churches. One respondent suggested IFRS would not be practical since “volunteer preparers are not equipped to handle standards such as IFRS; nor does the situation demand it” (R3). In a written response to the ITC, a respondent noted:

IFRS would completely overwhelm the capabilities of preparers and financial statement users of most churches, faith groups, sports teams....but we do not rule out the likelihood that for some NFPOs which are large, complex and financially sophisticated, IFRS may provide the most relevant financial statements (R3).

Another respondent noted that IFRS does not work for NFPOs since it was developed to provide global comparability for investors, and NFPOs do not have shareholders (R4). In a written response to the

ITC, one respondent argued that “the authors of the IRFS have made it clear those standards were not intended for and may not be suitable for use by NFPOs” (R2). This respondent believed that very few NFPOs would be able to justify the costs of implementing IFRS, particularly since these standards were not developed for the NFP sector (R2).

DISCUSSION AND ANALYSIS

The study shows that respondents preferred to adopt the proposed alternative that most closely resembled the existing standards: private enterprise with NFP supplements. While respondents acknowledged limitations of their preferred approach, ultimately, they were prepared to adopt it rather than implement new accounting standards. The respondents, who were all professional accountants, supported continued adherence to private enterprise standards supplemented for the NFP sector even though the interviews revealed they did not believe accompanying NFP supplements were necessarily the best fit to meet user needs. Overall, the ACC’s response to the ITC and its choice of private enterprise standards with NFP supplements is clearly a compromise position. Both the written response and the interviewees expressed the need for choice within the NFP supplemental standards. However, the interviewee responses provided detailed information regarding the specific choices at issue. For example, the charging of interest on loans was not an existing practice and would therefore have to be charged and then written off to satisfy the standards. The ACC’s choice of private enterprise with NFP supplements is based on a number of factors: training in new standards would not be required, staff costs associated with overtime during the conversion would be avoided and the time and costs associated with systems changes would be avoided.

Preference for this option may be one of expediency since it required minimal change in current accounting practices and was therefore easy to implement. Another potential reason for preference of the status quo relates to the potential costs associated with adopting new standards. Such costs would include training, systems changes, overtime for staff and additional audit fees. Many NFPOs lack the resources to implement new standards.

Despite expressing preference for the status quo, respondents believed the diverse NFP sector necessitated the option for NFPOs to choose from among the alternatives. This is true irrespective of whether separate NFP standards were developed or whether NFPOs continued to adhere to private enterprise standards with NFP supplements. For example, there was support for certain NFP’s, such as hospitals and universities, to adopt public sector standards or IFRS. Throughout the interviews, as respondents discussed the merits and challenges of the various alternative accounting standards, an underlying theme emerged: ‘one size does not fit all.’ Although the AcSB acknowledged this diversity in its strategic plan (AcSB, 2006), respondents believed that standard-setters preferred standardization.

The ACC interview respondents indicate a preference for industry specific standards within the NFP supplements to address the needs for religious organizations and charities. Their responses show under all options proposed in the ITC, the ACC respondents did not believe a new separate common set of NFP standards would meet their needs. They attribute this to the wide diversity within the NFP sector. All respondents noted during the interviews that the NFP standards should differentiate between those that are privately-funded (charities and religious organizations) and those that are publicly funded (universities and hospitals). However, it could be argued that industry specific standards, within the NFP standards would potentially cause confusion and make the NFP standards unnecessarily complex. While stand-alone NFP standards that provide choice through industry-specific standards for charities and publicly-funded organizations would be beneficial in meeting the needs of all NFPOs, the introduction of industry-specific standards would appear to be in conflict with the goal of standard-setters to attain global comparability.

The research found that public sector standards might be a viable option. Indeed, respondents fully supported the concept of choice whereby those NFP’s receiving substantial government funding would have the option of adopting public sector standards. Another key finding of the study relates to respondents’ perceptions of the Canadian standard-setting process and its impact on religious

organizations. The joint discussions held by the ACC with PCC before submitting a response to the ITC indicates the importance of this issue and the potential for a change in accounting standards to impact financial reporting (Durocher et al., 2007). The ACC and PCC discussions also reflect a desire to ensure standard-setters understood the response was on behalf of the 'industry' rather than a particular denomination. It appears this 'industry response' was used as a mechanism to ensure their responses conveyed more credibility and would be seriously considered by the standard-setters. The level of effort made by the ACC to respond to the ITC also reflects their belief that standard setters do not understand the unique reporting needs of religious organizations and are biased in favour of standardization rather than sector-specific standards. The ACC's inclusion of its auditors in analysis and formulation of its response suggests preparers believed they needed this additional credibility. Possibly, since ACC responded to the ITC, this reflects Durocher et al.'s (2007) conclusions that when individuals and groups participate, they expect to be impacted by proposed changes in accounting standards, and they also anticipate they might be able to influence the outcome.

While the ACC supported private enterprise with NFP supplements, at the same time concern was expressed both in the written response and in the interviews about a common set of NFP supplements within the private enterprise standards, it must be recognized that other NFPs may also have the same concerns. The main issue is with having publicly funded NFPOs such as hospitals, schools and universities, and privately funded organizations adhere to the same standards. The research found irrespective, if NFP standards were developed as stand-alone or as supplements within private enterprise or public sector, the respondents strongly believed there should be further delineation within NFP standards or supplements to accommodate charities that are privately versus publicly funded. This view was based on the perception that the goals, objectives and accountability are different for these two distinct types of NFP categories.

The findings of this research suggest the ACC's written response to the standard setters' ITC represented the visible portion of the iceberg. Despite the ACC's support for private enterprise standards with supplements for the NFP sector, our research found the Church's response was indeed the visible portion of the iceberg (Hodges and Mellett, 2002). The interviews revealed that there was significant submerged material underlying the ACC's response. Indeed, as illustrated in Table 1, the following points emerged from the interviews but were not reflected in the written response to the standard setters.

- 1) Respondents believed minimal research existed on the development of a conceptual framework for NFPO's. This seems to suggest that despite the respondents' concern with introducing another set of standards, there might be a willingness to consider it if more research is conducted. This viewpoint was expressed in the interviews, but not in the written submission.
- 2) Respondents' comments that the AcSB and its advisors do not have a good understanding of nonprofit accounting issues illustrates preparers' perceptions that standard-setters may not always fully consider the viewpoints of the community at large. The role of the AdCom as representatives of the NFP sector is questionable. Perhaps they did not fully consider the views of this sector's stakeholders. This might be explained by Canada's standard-setting approach which is dominated by security regulators and international accounting professionals (Richardson, 2009) and thus is not conducive to serious consideration of the views and needs of NFP groups. Consequently, Canadian accounting standard-setters are focused on standardization and global comparability and this appears to constrain the opportunity for the NFP sector, particularly religious organizations to have unique reporting needs considered in this increasingly 'one size fits all' harmonized environment.
- 3) There was considerable concern by all respondents that a 'one size fits all' approach is not appropriate due to the diversity within the NFP sector. This suggests respondents would be interested in sector-specific standards within the NFP supplements. The major submerged issue relates to the two distinct categories within the NFP sector: government-funded organizations (such as hospitals and universities) and privately-funded charities and religious organizations.
- 4) Even though the ACC supported the option for private enterprise standards within NFP supplements, concern was expressed by respondents that charitable organizations would be using the same standards as profit-oriented enterprises. Again, the official response seems to be sending a mixed

message. On the surface the ACC response supports private enterprise standards with NFP supplements, but when this topic was discussed in the interviews, the respondents indicated they were not totally comfortable with using profit-oriented standards. For example, respondents contended that surplus (deficit) is more meaningful for religious organizations than net income.

- 5) The research found certain private enterprise standards with NFP supplements do not reflect the ongoing practices of churches. For example, the standards require the charging of interest on loans made from national office to parishes, when, in fact, the church does not actually charge interest. A respondent explained that to meet the standards, they charge interest and then forgive it by writing it off. Clearly, this is an area where the practices of the church are not reflected in the accounting standards. When preparing their written response, ACC official did not raise these specific examples.

CONCLUSIONS

The objective of this paper was to investigate the submerged material underlying the ACC's response to the standard setters' ITC on NFP accounting. This paper has examined the submerged material below the iceberg which is represented by the responses in the semi-structured interviews. The paper has illustrated that it is important to identify and explore the submerged material in order to gain a greater understanding of the underlying issues which may not be clearly reflected in respondents' comments to the standard setters' discussion papers. The research extends the existing literature on church accounting by introducing the complexities of standard-setting by drawing on the 'iceberg concept' (Hodges and Mellett, 2002) to examine the submerged material underlying the ACC's written response to the standard setters' ITC.

As noted earlier, prior literature on church accounting focuses on three main themes: inadequate accounting practices and poor financial management; good versus poor practices; and secular aspects of accounting. This research adds a fourth critical area to church accounting literature through our examination of the response of the ACC to an ITC on accounting standards for NFPs. This study contributes to the literature on church accounting through its findings that professional church accountants' responses to standard setters does not fully reflect their views and can consequently represent the iceberg effect. Furthermore prior literature was internally focused, whereas the fourth area introduced in this study extends the research by concentrating on external factors influencing church accounting; namely accounting standards.

In addition to its contribution to the literature on church accounting, this paper also contributes to the literature on NFP accounting through its findings that church accountants viewed the standard setters' 'one size fits all' approach for NFP standards does not meet the needs of all types of NFPs. Specifically, respondents believed there should be a choice for privately-funded versus publicly funded NFPOs.

This study shows that the written responses to standard setters do not fully reflect the underlying views and perceptions of preparers. Indeed, this study clearly illustrates significant submerged material underlying the ACC's response to the standard setters. It reveals a great deal more than the feedback included in the formal written response. The interviews revealed that while the official response to the ITC indicated support for private enterprise standards with NFP supplements, respondents support for this option was by no means clear cut. The research found several key underlying issues which included concern about NFP organizations utilizing for-profit standards, lack of consideration of the diversity within the NFP sector and the importance of providing NFP's with the opportunity to use private enterprise supplemented for NFP, public sector standards or IFRS.

This study calls into question the value of user written feedback in the standard setting process. While the respondents did not fully agree with the private enterprise standards supplemented for NFPs, they may have been reluctant to express their true views/beliefs for fear that a new set of standards would be developed. Respondents freely admitted they did not want to learn new standards and did not have the necessary resources to implement them. Respondents indicated they wanted to use their limited resources to accomplish the goals of the church.

The research found the ACC's acceptance of the status quo was a compromise position. In fact, the ACC believed standards setters were biased towards conformity and did not have a good understanding of the issues impacting religious organizations both from a resource perspective and from the need to have choice within the NFP standards/supplements for privately and publicly-funded NFPOs. This viewpoint also reflects the context of standard-setting in Canada, particularly with respect to the current emphasis on IFRS and global comparability. The research findings also illustrate the need for greater consideration of the views of the wider user community. Of particular concern is the need to recognize the diversity within NFP sector and consequently a 'one size fits all' approach may not be appropriate.

The focus of this paper was to identify and analyze the submerged material that informed formal responses to the standard setters ITC. It is beyond the scope of this paper to analyze the approach taken by standard setters after they receive written submissions from users and preparers. Indeed, this is an area where further research is warranted.

This case study identified several concerns with accounting standards for NFPOs, and the manner in which standards are set. Our findings show the need to conduct more research on accounting standards for religious organizations, particularly the feasibility of separate NFP standards. Further research is warranted in the area of how Canada's standard setters consider the accounting needs of religious organizations relative to other publicly funded organizations. It is also important to examine standard setters' processes in incorporating responses to ITCs. Finally, there is also a wide scope for further research into the submerged material underlying written submissions to standard setters, not only by NFPO's, but by private enterprises and the public sector. Future research is suggested in this area to examine the views of other NFPOs, particularly those in the religious organization category to ascertain their views on NFP accounting standards. Indeed, further research is needed to examine how Canada's standard setting approach might be refined to address the needs of religious organizations with the NFP sector.

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