UNIVERSITY OF BIRMINGHAM
University of Birmingham
Research at Birmingham

Accounting and Reporting of Co-operatives in the UK

Mantzari, Elisavet; McCulloch, Maureen ; Rixon, Daphne; Mills, Cliff

Document Version
Publisher's PDF, also known as Version of record

Citation for published version (Harvard):
Mantzari, E, McCulloch, M, Rixon, D & Mills, C 2024, *Accounting and Reporting of Co-operatives in the UK: Practices, Challenges and Recommendations*. University of Birmingham.

Link to publication on Research at Birmingham portal

General rights
Unless a licence is specified above, all rights (including copyright and moral rights) in this document are retained by the authors and/or the copyright holders. The express permission of the copyright holder must be obtained for any use of this material other than for purposes permitted by law.

•Users may freely distribute the URL that is used to identify this publication.
•Users may download and/or print one copy of the publication from the University of Birmingham research portal for the purpose of private study or non-commercial research.
•User may use extracts from the document in line with the concept of 'fair dealing' under the Copyright, Designs and Patents Act 1988 (?)
•Users may not further distribute the material nor use it for the purposes of commercial gain.

Where a licence is displayed above, please note the terms and conditions of the licence govern your use of this document.

When citing, please reference the published version.

Take down policy
While the University of Birmingham exercises care and attention in making items available there are rare occasions when an item has been uploaded in error or has been deemed to be commercially or otherwise sensitive.

If you believe that this is the case for this document, please contact UBIRA@lists.bham.ac.uk providing details and we will remove access to the work immediately and investigate.

Download date: 20. Dec. 2024

Accounting and Reporting of Co-operatives in the UK: Practices, Challenges and Recommendations

Elisavet Mantzari
Maureen McCulloch
Daphne Rixon
Cliff Mills*

We research
We activate

birmingham.ac.uk

*Guest author acknowledged for advisory role in this research

Contents

Preface 2
Acknowledgments 3
Executive summary 4
1. Introduction and context 9
2. Background and Literature Review 11
2.1. Co-operative identity, values, and principles 11
2.2. Co-operative governance 11
2.3. Co-operative capital and finance 12
2.4. Accounting and reporting standards and practices of UK co-operatives 14
2.5. Literature on co-operative accounting 15
3. Research Approach 17
4. Findings 20
4.1. Accounting inconsistencies and expertise gaps 20
4.2. Accounting and reporting challenges for member value and participation 24
4.3. Accounting for economic participation 25
4.4. Accounting for democratic participation 28
4.5. Accounting issues specific to different types and sizes of co-operatives 29
4.6. Enhancing co-operative accounting and reporting 34
5. Recommendations 37
5.1. Co-operative-level recommendations 37
5.2. Sector-level recommendations 38
5.3. Policy-level recommendations 39
References 40
About the authors 43

Preface

Current accounting and reporting standards in the UK, designed for organisations typically classified as for-profit or non-profit, do not adequately reflect the nature, values, and principles of co-operatives. These limitations can hinder co-operatives from fulfilling their purpose and meeting the needs of their members and their community. This report is part of a broader initiative aimed at addressing these issues by developing a specific accounting framework for co-operatives in the UK.

This project builds upon the conceptual work led by an international academic network and the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) at St. Mary's University in Canada[1]. This groundwork culminated in a significant milestone in 2019 when the International Co-operative Alliance (ICA) adopted a resolution to explore the development of international accounting standards for co-operatives (ICA, 2019). Co-operatives UK, the national representative body for co-operatives, and its Co-operative Accounting Standards Committee (CASC), were instrumental in proposing this resolution.

In the UK, there is a precedent for the development of Statements of Recommended Practice (SORPs) tailored to specific sectors, some of which are then codified into law. This project marks an important step in advocating for new accounting regulations that reflect the distinct nature of co-operatives, with the ultimate goal of producing recommendations for a co-operative-specific accounting framework.

A UK Co-operative SORP group, a stakeholder panel comprised of co-operative professionals, accountants, policymakers, co-operative federations, and researchers, has been established to lay the groundwork for justifying and promoting regulatory change. The group provided vital input, feedback, and guidance throughout the research process and outcomes presented in this report. The past and present members of the group are listed below (in alphabetical order):

- Ian Adderley, Financial Conduct Authority, UK
- Ruth Buchanan, Head of Finance, Co-operatives UK, UK
- Elisavet Mantzari, University of Birmingham, UK
- Maureen McCulloch, University of Birmingham, UK/St. Mary's University, Canada
- Patrick Morrello, Third Sector Accountancy, UK
- Daphne Rixon, CEARC, Saint Mary's University, Canada
- John Sandford, Former Independent Chair of CASC, Co-operatives UK, UK
- Abbas Shapuri, Third Sector Accountancy, UK
- Vivian Woodell, The Midcounties Co-operative, UK

The project's first phase focuses on identifying existing accounting and reporting practices for co-operatives, as well as understanding their unique needs and challenges. These insights will inform the development of tailored accounting frameworks to improve co-operative financial accounting and reporting, enabling co-operatives to better demonstrate their social and economic contributions while upholding their core values and principles.

---

[1]For more information on existing projects aiming at building an international co-operative SORP please see: https://www.smu.ca/academics/sobey/cearc-isorp-project.html

Acknowledgments

We would like to sincerely thank the University of Birmingham for their financial support through the Business School's Research and Impact funds, and acknowledge the financial support received by the Economic and Social Research Council's Impact Acceleration Fund. We would also like to give special thanks to William Green, Hisham Farag, and Omiros Georgiou for their valuable guidance and support. We also extend our thanks to the Accounting Department and Tom Cuckston for their continued assistance throughout the project as well as the Birmingham Business School's Centre for Responsible Business for their endorsement.

We are deeply grateful to the members of the UK Co-operative SORP group for their time, knowledge-sharing, and recommendations, which have been essential to the completion of this project. This project was made possible through the support and collaboration with CEARC and Co-operatives UK and its Co-operative Accounting Standards Committee, who contributed their time, professional expertise, and data resources to ensure the project's success. Special acknowledgment is given to Louise Wilson for her dedicated research assistance.

Finally, we deeply appreciate the contributions of our interview participants, who generously shared their time and insights to support this research project. We would like to specifically thank Adrian Ashton, Jaime Boswell, Bob Cannell, Blase Lambert, James Lutener, Matt Pinnell, Mark Simmonds, and Kevin Wan.

Executive summary

This report explores the accounting and reporting practices and challenges faced by co-operatives in the UK, enterprises operating under principles of democratic control and mutual benefit. These defining principles set co-operatives apart from both investor-owned business and traditional for-profit or non-profit organisations. Accounting standards, such as the International Financial Reporting Standards (IFRS) and UK Generally Accepted Accounting Practice (GAAP), are tailored to investor-owned business and business driven by the profit motive, focusing primarily on increasing financial returns and shareholder value. As a result, these standards fail to adequately address the accountability needs of co-operatives, creating challenges for co-operatives in aligning their accounting practices and reporting with their purpose, core values, and governance structures.

Drawing on interviews with co-operative practitioners, accountants, researchers, and regulators, this report provides insights into current practices, the obstacles co-operatives face, and potential pathways for improvement. Its primary objectives are to explore the accounting landscape for UK co-operatives, highlight key challenges, and offer recommendations to better align accounting practices and frameworks with the core principles and values of co-operatives.

Key Findings

Fragmented reporting, expertise gaps, and inconsistent accounting practices: Co-operatives in the UK face challenges due to the lack of a co-operative-specific accounting framework, resulting in fragmented and inconsistent financial accounting and reporting. The various legal structures available to co-operatives require the use of different reporting formats and adherence to diverse regulations, creating confusion both within individual co-operatives and across the movement as a whole.

This issue is compounded by a shortage of accountants familiar with the co-operative ownership and governance model, as well as their financing structures. Investor-focused accounting standards like IFRS and FRS 102 often misalign with the co-operative model, particularly in the treatment of co-operative capital and profit allocation, leading to inaccuracies in reports.

Additionally, the co-operative ownership—emphasising shared control and common ownership—does not align with investor-oriented accounting frameworks. This misalignment creates challenges in accounting for transactions like mergers and acquisitions, and shared asset management, highlighting the need for co-operative-specific accounting solutions. Addressing these issues is essential for improving transparency, relevance, and consistency in co-operative accounting and reporting, making it more useful to members and their communities, and fostering a clearer understanding of the co-operative movement.

The reporting challenges of balancing economic and social objectives: Co-operatives face challenges in balancing their economic objectives and social purpose, while undertaking their business and associational functions. Striking this balance often complicates decision-making, particularly in competitive markets.

Accounting plays a critical role in measuring and communicating both economic and social objectives, yet traditional practices often prioritise financial metrics, overlooking co-operative principles such as democratic member control, economic participation, and concern for the community. While co-operatives are improving in articulating social objectives, there is still significant progress to be made, especially when compared to the articulation of financial objectives. As a result, co-operatives' broader contributions are frequently underrepresented in

financial reports. Integrating non-financial metrics into accounting frameworks would provide a more holistic view of the value and impact generated by co-operatives. This approach would enhance transparency and accountability while supporting balanced decision-making aligned with co-operative principles.

Challenges in accounting and reporting on member value: The inability to adequately capture and communicate the value that co-operatives generate for their members and the communities in which they operate is a critical issue in the accounting and reporting practices of many co-operatives.

Accounting standards and practices prioritise metrics designed to meet the needs of financial capital marginalising member and community value creation in terms of both financial and non-financial impacts. The reporting on social objectives is also of equal importance to external bodies as well.

Core co-operative characteristics, such as being values-based, centred on people's needs and aspirations, and being equitably governed, are not adequately reflected in traditional accounting reports. As discussed further in the following points, these reports often overlook key operational insights, governance practices, and economic participation elements important to members, including equitable returns and active member engagement.

Challenges in accounting for member economic participation and equitable governance: Current accounting and reporting frameworks and metrics fail to adequately capture member economic participation that involves members' financial contributions, democratic control, and benefits based on their transactions with the co-operative. Economic participation is often conflated with financial investment, overshadowing the diverse ways members contribute to and benefit from the co-operative.

The key mechanism for participation is transactional. This may become more limited, for example in larger co-operatives in the retail sector, leading to placing greater emphasis on building member participation. In worker co-operatives and co-operatives where the co-operative is the means through which transactions occur, this member economic participation should be more prominent in the reporting.

Co-operatives frequently do not distinguish between trade with members (mutual benefit) and non-members (market transactions), further complicating financial reporting and obscuring clarity on the nature of the co-operative's operations and alignment with its purpose. Moreover, the limitations in accounting for member contributions extend beyond economic and financial inputs to include non-financial contributions such as sweat equity—members' time, effort, and skills invested in starting and sustaining the co-operative's operations.

Reporting on governance and (economic) member participation is also inconsistent, with few co-operatives including metrics like AGM attendance, voting rates, and percentage of member trade. Interviewees suggested that aligning financial reports with members' interests, by incorporating accounting for economic participation and member control, could enhance member engagement and better reflect the co-operative features of equitable governance and mutual benefit.

Challenges in accounting for financial participation: Co-operatives face challenges in accounting for financial participation, particularly in classifying member capital as either equity or debt. Under current accounting standards co-operative capital is often classified as debt rather than equity, which artificially inflates liabilities and negatively impacts the reported financial performance of the co-operative. This complicates comparisons with other organisations and hinders efforts to secure external financing. This classification is problematic

because co-operative capital is fully risk-absorbing, functioning more like equity than traditional debt. While the potential for member withdrawal introduces some complexity, these withdrawals are typically governed by strict rules that limit their scope.

The complexity in managing withdrawable capital, particularly the classification of interest on share capital, including community shares, adds to the difficulties. Differences in how capital withdrawal rights are managed highlight tensions between existing accounting standards for profit-oriented businesses and co-operative principles, such as voluntary membership. To comply with accounting rules, co-operatives may impose restrictions on withdrawals, potentially compromising members' rights to freely exit the co-operative.

Indivisible reserves are integral to co-operative sustainability bolstering financial stability and deterring demutualisation. Current financial reporting system misrepresent these reserves because they prioritise investor returns. The collectively owned indivisible reserves in co-operatives are fundamentally different from typical at-risk capital. They should be safeguarded from creditors in the event of dissolution and reinvested into the broader co-operative movement.

However, indivisible reserves and other types of capital are currently grouped together under a single category, "capital," obscuring the fact that they are different categories of value. These reserves are not adequately represented in financial reports, leading to challenges in reflecting a co-operative's financial health, long-term sustainability, and adherence to co-operative principles such as member economic participation.

Additionally, as noted earlier, financial contributions from members and non-members are not consistently differentiated in reports. Patronage dividends—a foundational element of co-operative profit distribution—are also inconsistently reported, affecting both profit figures and borrowing covenants.

Developing a co-operative-specific accounting framework: Findings indicate a strong need for a co-operative-specific Statement of Recommended Practice (SORP) and accounting framework in the UK.

The absence of such standards leads to inconsistent financial reporting, and existing frameworks fail to address the purposes of co-operatives. The lack of tailored guidance creates challenges in regulatory compliance, particularly in adhering to both public and private sector rules, such as state aid regulations.

A co-operative-specific accounting framework would provide clarity, improve compliance, and better reflect the interconnected economic and social purposes of co-operatives.

Recommendations

Co-operative-level recommendations

Enhanced member-focused accounting and reporting: Co-operatives should deepen their focus on producing member-centred financial and non-financial reports and metrics that account and report on member value creation directly related to the needs of members, and in line with the economic and democratic control and participation co-operative principles. This approach should go beyond traditional financial metrics by integrating impact narratives and non-financial indicators that reflect how co-operative actions translate into member benefits, such as improved wages, enhanced services, or participatory decision-making.

Simplified accounting and reporting: Co-operatives should simplify their financial language and include graphical summaries or dashboards, to improve accessibility. These changes will make reports more understandable for members without financial backgrounds, encouraging more informed participation and reinforcing the inclusive nature of co-operatives.

Differentiating between accounting for member and non-member transactions: Co-operatives should clarify the distinction between member and non-member transactions to highlight mutual benefits and transparency. It should be the foundation for advocating for different fiscal treatment of surpluses generated from member trade, particularly when that surplus is held in indivisible reserves. By clearly indicating which transactions reflect co-operative principles of member service and which are profit-oriented, co-operatives can better communicate their operational priorities and deepen member understanding of mutual benefits.

Accounting and reporting on sweat equity: Recognising the non-monetary contributions of members, or sweat equity, in reports can strengthen members' connection to the co-operative. Co-operatives should develop mechanisms to quantify and record these contributions in both financial and narrative reports. By acknowledging unpaid work and engagement, co-operatives can offer a holistic view of member involvement and reinforce the co-operatives' value.

Education and financial literacy programmes: Co-operatives should invest in financial literacy and education programmes to empower members. Offering workshops, resources, and guidance on co-operative accounting and finance will help members interpret accounting reports, participate more confidently in decision-making, and understand the financial health and goals of the co-operative. This ongoing education supports active member engagement and aligns with co-operative values of transparency and inclusivity.

Regular feedback mechanisms: Co-operatives should establish channels for members to provide feedback on accounting and reporting of co-operative performance and member value. Surveys, forums, or regular member meetings can create a continuous feedback loop, allowing members to voice concerns, suggest improvements, and increase their engagement with the co-operative's operations.

Sector-level recommendations

Co-operative-specific accounting guidelines: Co-operatives should establish consistent accounting guidelines that address the classification of co-operative capital, treatment of member distributions and patronage, revenue recognition, transfer of engagements, and other co-operative-specific accounting issues. Additionally, these guidelines should provide clear guidance on accounting for sweat equity, distinguishing transactions and participation between members and non-members, and recognising the unique contributions of members. Standardised guidelines will enhance transparency, improve comparability across co-operatives, and provide clarity for both financial professionals and members, reinforcing accountability and the value of co-operatives.

Standardising financial and non-financial accounting and reporting: Co-operatives should collaborate to develop and implement a comprehensive set of standardised financial and non-financial indicators to enable consistent reporting across co-operatives. These indicators could encompass measures of financial performance, such as profitability and growth, as well as metrics for member economic participation, democratic involvement, and member/customer satisfaction. Such standards would enhance comparability across the co-operative movement and underscore their unique values and impact.

Knowledge-sharing networks and resource platforms: Establishing a knowledge-sharing platform where co-operatives of all sizes can access best practices, especially in accounting and reporting, could foster a culture of shared learning. By sharing strategies for reporting on non-monetary contributions, social impact, and economic participation, co-operatives can reduce operational disparities within the movement and collectively enhance the quality of their reporting.

Training programs for co-operative accountants and members: Investing in training for co-operative accountants and members is essential to address the lack of professionals skilled in co-operative financial practices. This investment will improve the quality of financial reporting, reduce errors in accounting for unique co-operative elements, and ultimately increase the credibility and visibility of co-operative within the market. For members, it will foster a better understanding of co-operative finance and governance, empowering them to make informed decisions and strengthening overall transparency and trust.

Policy advocacy for co-operative accounting standards: To further support co-operatives, sector representatives should advocate for the inclusion of co-operative-specific accounting standards in national and international financial regulations. By engaging with policymakers and standard-setting bodies, the sector can promote the adoption of standards that recognise the unique financial and governance structures of co-operatives. This advocacy would strengthen the sector's alignment with regulatory frameworks and enhance co-operatives' visibility and legitimacy within the broader economic landscape.

Policy-level recommendations

Improving statutory filling and reporting for co-operatives: Current statutory reporting required by the registering authority (FCA) should be enhanced to better reflect co-operative operations. The authorities should provide more accounting guidance and conduct more regular compliance audits and reviews of co-operative filing. Co-operatives could also benefit from additional reporting requirements that address specific aspects, such changes in membership levels. Refining the depth and quality of these statutory reports would align them more closely with co-operative principles and support transparency and accountability in the movement.

Advocating for a co-operative-specific accounting framework: To address the misalignment between existing accounting standards and co-operative principles, and the strong tendency to view co-operatives through a company lens as the norm or standard against which any other enterprise should be assessed, co-operatives should advocate for a tailored Statement of Recommended Practice (SORP). Such a framework would support co-operatives by providing guidance on how co-operatives can appropriately account for their specific activities, emphasising their alternative approach to the market. It would improve the quality and consistency of financial reporting, enabling better comparability across the movement and enhancing relevance to their members and other users. A SORP would offer smaller co-operatives clear, tailored guidelines to simplify complex accounting processes.

Clarifying tax and reporting regulation for co-operatives: Regulatory frameworks should be refined to clarify the tax treatment of member versus non-member transactions, ensuring co-operatives consistently differentiate mutual trading activities. Additionally, clearer guidelines on how to account for co-operative capital would support sustainability across the movement.

1. Introduction and context

The International Co-operative Alliance (ICA), the global network representing co-operatives, encompasses approximately 3 million co-operatives worldwide, engaging 1.2 billion people. Co-operatives employ roughly 10% of the global workforce—more than multinational corporations (WCM, 2023).

In the UK, the democratic economy, with 9,342 independent businesses, including co-operatives and mutuals, provides a competitive alternative to investor-owned businesses (Co-operatives UK, 2024a). Democratic businesses share power and wealth, prioritise social good, and reinvest in their communities, generating a combined annual income of £165.7 billion annually. They serve members' interests, not distant shareholders, with over 68 million memberships reflecting a desire for joint ownership and control. Employing 1.3 million people, these businesses aim to empower livelihoods and promote community-driven economic growth.

Co-operatives play an important role in the UK economy and community development. Representing 83.2% of the democratic economy, co-operatives generate £42.7 billion annually (Co-operatives UK, 2024a). A co-operative is broadly defined as *"an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise"* (ICA, 2018).

Co-operatives are highly diverse, varying significantly in sector, size, and scope. They can be broadly categorised into different types—consumer/user, worker, producer, and multi-stakeholder—based on the International Labour Organization (ILO) Statistics on Cooperatives classification (ILO, 2020). Anchored in co-operative values and principles, focusing on social justice, equity, solidarity and democratic governance, co-operatives combine economic and social purposes.

Importantly, co-operatives offer an alternative business model to the dominant shareholder-value approach. They are based on the concept of mutual benefit and aim to transform economic activity by challenging capitalist norms and promoting sustainability (Novkovic, 2022).

Although the importance of the co-operative movement is evident in its resilience, effectiveness, job creation, innovation and ability to tackle systemic challenges, the need for co-operatives to account for their co-operative purposes and activities has been highlighted in literature (Adderley et al., 2021; McCulloch, 2019; Webb, 2017).

Currently, there are no specific accounting standards for the co-operative movement in the UK, and there is limited knowledge about how co-operatives do their accounting, as well as the implications this has on aligning their economic, social, and cultural objectives more effectively.

The accounting standards and formats currently available for co-operatives are broadly designed for two categories: (i) for-profit organisations, such as those following IFRS or its variants, which are developed from the perspective of private ownership and financial investment, with the primary aim of generating profit and maximising benefits for their owners; (ii) philanthropic or "not-for-profit" organisations, established to support a beneficiary group. These formats are designed to meet the reporting requirements of stakeholders, primarily donors, for entities whose main activities are non-trading. Neither approach adequately addresses the structure, values, and reporting needs of co-operatives, which operate on principles of mutual benefit and member participation.

The purpose of this research project is to investigate the current accounting and reporting practices of co-operatives, explore the accounting challenges they face, and identify potential solutions. In this report, we examine the accounting and reporting practices and challenges of co-operatives, focusing on both financial and non-financial information as they relate to their specific structures and purposes. The analysis emphasises how co-operatives account and report on their performance in financial and non-financial terms, particularly as a reflection of value creation for members, focusing on aspects such as member engagement and economic participation.

However, this report does not provide an in-depth exploration of sustainability accounting and reporting, including environmental impacts. This is recognised as a distinct and critical area for future investigation.

The report is organised into four additional sections, including a literature review, research methodology, findings, and recommendations. This study aims to contribute to enhancing co-operative accounting and the development of accounting standards that better align with co-operative values, ultimately empowering co-operatives to achieve both their economic and social purposes.

2. Background and Literature Review

2.1. Co-operative identity, values, and principles

In the UK, there is no legislative definition of a 'co-operative' and co-operatives can use any legal form they choose, including co-operative societies, community benefit societies, or companies limited by guarantee (Snaith, 2014). Each structure offers different levels of member control and rules regarding profit distribution, as discussed in more detail later.

The Financial Conduct Authority (FCA), the UK regulator of the financial services industry and the registering authority for societies, assesses co-operatives using two main criteria and reviews the society's rules, application forms, and financial documents to determine compliance. First, to qualify as a co-operative the entity should not be focused on generating profits primarily for interest, dividends, or bonuses (Co-operative and Community Benefit Societies Act 2014). Second, the FCA applies the definition set out by the ICA Statement, that is incorporated in international law (ILO, 2017).

As already mentioned, ICA's definition describes co-operatives as democratically controlled, jointly owned enterprises meeting shared economic, social, and cultural needs. The ICA also identifies a set of co-operative values that flow from the definition and seven principles that put in practice the co-operative values (see Table 1). These values and principles, including voluntary and open membership, democratic member control, member economic participation, and concern for community, have effects that set co-operatives apart from companies or corporations, and philanthropic or non-profit entities (Mazzarol et al., 2018; Mills, 2024).

2.2. Co-operative governance

Co-operatives are collective enterprises that enable members to achieve shared goals, such as securing decent work, accessing markets, and mitigating risks (Co-operatives UK, 2019; Novkovic et al., 2023a). Co-operatives are member-owned and democratically controlled enterprises, where control by members—whether customers, employees, producers, or a mix of these—is exercised through active engagement, such as patronage, usership, or work, rather than through financial investment.

They exist primarily to meet the needs and interests of their members, who are directly involved in the business, and the wider community, rather than to maximise profits for external shareholders. Members accept responsibilities with their membership. Joining a co-operative signifies a commitment to supporting a collective endeavour, involving responsibilities both toward the co-operative to advance its interests and to fellow members.

Each member has an equal vote in key decisions, regardless of the number of shares they hold. Therefore, unlike investor-owned and for-profit businesses, control in primary co-operatives is based on the "one member, one vote" principle (or some other equitable formula), irrespective of the number of shares a member holds. This means that the vote is tied to the person rather than their financial capital contribution. This structure ensures that decision-making is democratic and not dependent on the level of financial investment.

Governance systems in co-operatives are diverse and context-dependent, shaped by the dynamic interplay of structures and processes (ICA, 2015). The factors influencing governance include the nature of the relationship between members and the co-operative, the organisation's purpose, lifecycle stage, industry, regulatory and cultural context, and external pressures (e.g., Birchall, 2017; Novkovic et al., 2023b). Formal governance structures are shaped by ownership and control dynamics, the composition of governance bodies, and established rules and policies. In small worker co-operatives, for example, governance often features flat hierarchies,

with worker-members actively involved in daily operations and decision-making, typically favouring direct democracy. In contrast, large consumer co-operatives tend to adopt more formalised governance structures. These co-operatives often rely on representative democracy, where members elect the board, while member participation and engagement tend to be lower.

Governance influences accounting and reporting in co-operatives by shaping the priorities and accountability mechanisms that reflect their democratic structure and member-driven purpose and aspirations. Accounting can enhance the governance of co-operatives by providing transparent, comprehensive financial and non-financial information that supports informed decision-making, fosters member trust, and ensures alignment with the co-operative purpose.

Co-operative Values Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.
Co-operative Principles The co-operative principles are guidelines by which co-operatives put their values into practice. **1. Voluntary and Open Membership** Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination. **2. Democratic Member Control** Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner. **3. Member Economic Participation** Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership. **4. Autonomy and Independence** Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy. **5. Education, Training, and Information** Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation. **6. Co-operation among Co-operatives** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures. **7. Concern for Community** Co-operatives work for the sustainable development of their communities through policies approved by their members.

Table 1. Co-operative identity, values, and principles (ICA, 2018).

2.3. Co-operative capital and finance

Co-operative capital is distinctive from that found in investor-owned and for-profit businesses because of their participatory ownership structure and the fundamental values and principles that underpin the purpose and identity of co-operatives. Members are typically expected to share in the risk of the co-operative venture and contribute to its capital, embodying the principle of “self-help” (Adderley, 2024). Financial liability generally rests with the co-operative itself

rather than individual members. Limited liability co-operatives restrict members' liability to their invested share capital, thereby minimising personal financial risk.

Members contribute share capital on joining the co-operative and this capital is collectively owned by the members, not by external shareholders. Co-operative members may buy shares for many reasons depending on the type of co-operative it is. In a worker co-operative, a member will buy a share to participate as an owner with control of their workplace; a consumer co-operative member will buy a share in order to be able to buy from the co-operative; a producer in order to be able to sell through the co-operative.

The voluntary nature of co-operative membership (principle 1) means that members can resign from the co-operative at any time and withdraw (redeem) their capital to recover their investment. This stands in contrast to investor-owned businesses, where share capital cannot be redeemed unless the business is dissolved. The number of shares fluctuates as members join or leave, making co-operative capital variable, unlike the generally fixed capital in investor-owned businesses.

Voluntary and open membership also means that while the shareholders of investor-owned businesses are allowed to oppose the issuance of new shares due to share dilution concerns, co-operatives will typically issue new shares to new members typically at nominal value if share subscription is a condition of membership.

Co-operative shares are generally non-transferable as membership is a condition for holding shares and shares usually remain at their original (par) value, unlike shares in publicly traded companies whose prices fluctuate based on market conditions. This prevents the creation of a speculative market and ensures capital supports the co-operative mission of serving the needs of members rather than driving profit maximisation.

Unlike the control system in investor-owned businesses of "one share, one vote", the "one member, one vote" approach means that co-operatives are democratically controlled by members and members contributing more share capital do not have greater control than those contributing less (principle 2).

Based on the member economic participation principle (principle 3), the (economic) benefits to members should be in proportion to their transactions with the co-operative, instead of being in proportion to the shares that they hold as in the case of investor-owned businesses. For example, a consumer co-operative provides goods to its member shoppers at fair prices. A worker co-operative focuses on ensuring fair wages for its members who contribute their labor. Similarly, a producer co-operative strives to purchase goods from its member producers at fair prices.

These transactions are the primary mechanisms by which a co-operative seeks to serve and benefit its members and future members (see, for example, Law Commission, 2024).

Contrary to investor-owned businesses that are driven by the purpose of shareholder value and shareholder return maximisation, co-operative members are typically entitled to limited or no interest on members' capital, although they may receive limited interest on additional capital raised for operational needs.

At least part of the capital is considered common property, encouraging indivisible reserves, but with no statutory base in the UK (Mills, 2020). As a result, members can only claim their withdrawable capital, unlike in investor-owned businesses where shares represent a claim on net assets.

Participation in co-operative activities is prioritised over financial returns. Surpluses (profits) are generally reinvested in the co-operative to improve services, fund community projects, build reserves for future stability, or distributed among members based on their participation (e.g., a dividend based on purchases for consumer co-operatives or based on labour for worker co-operatives) rather than capital investment.

General features of co-operative share capital
○ Withdrawable, by the member (with consent of the co-operative)
○ Non-transferable, unless particular conditions are met
○ Par value, unless written down
○ Detached from voting rights (it is the membership, not the shareholding itself, that provides the voting right)
○ Reflective of joint ownership – with disinterested (equal or equitable) distribution (if any) on winding-up
○ Variable – the total number of shares in the co-operative will fluctuate.

Table 2: General features of co-operative share capital based on Adderley (2024).

Apart from membership capital, to raise funds, co-operatives can explore several other options, such as borrowing from banks, issuing bonds, securing grants and public funding, or utilising their reserves. To preserve democratic control, the raising of external capital (debt) often requires membership approval (principle 4). This differs from investor-owned businesses whose shareholders allow management to raise debt if it increases return to equity while preserving the credit or regulatory position of the business.

Selling assets or raising additional share capital are also options, though these choices should also align with the co-operative principles of autonomy, independence, and democratic control. Co-operatives often establish indivisible reserves, which cannot be distributed to members, ensuring the long-term sustainability of the co-operative as a shared asset across generations.

The regulator's position of asset locks in co-operative societies remains unclear, with most co-operatives voluntarily adopting asset locks in their rules.[2] Another form of financial support and share capital specific to community benefit societies are community shares. They are non-transferable and withdrawable and are typically used to fund local projects that promote community engagement and ownership.

In general, co-operatives use assets to serve member and community needs, adhering to co-operative principles. Asset use is restricted to prevent profit maximisation, and significant decisions, including investments or sales, generally need democratic approval. Legal and regulatory requirements may also impose additional constraints. If a co-operative dissolves, assets are usually transferred to another co-operative. Any member distributions are made equitably, reflecting collective ownership.

2.4. Accounting and reporting standards and practices of UK co-operatives

Most co-operatives in the UK are registered under either the Co-operative and Community Benefit Societies Act 2014 or as companies under the Companies Act 2006. The legal structure chosen impacts the accounting and reporting requirements. Co-operative societies are

[2]The FCA seek to give effect to entrenched rules (FCA, 2023b, para 3.4.4) but there is no statutory recognition yet. The following change has been passed, but is awaiting a secondary instrument (FCA, 2023c).

regulated by the FCA, while those registered as companies follow the rules of the Companies House.

Co-operatives in the UK typically follow UK Generally Accepted Accounting Practice (UK GAAP), which includes the Financial Reporting Standard (FRS) 102, while larger co-operatives may also apply International Financial Reporting Standards (IFRS). The Financial Reporting Council (FRC) is responsible for setting and regulating financial reporting standards.

The FRC takes guidance on accounting standards from the International Accounting Standards Board (IASB) and adjusts it to align with UK law, creating the UK FRSs as needed. FRS 102, for example, designed for general purpose financial statements and financial reporting for entities including non-companies and non-profit organisations, is applicable to most UK co-operatives. This standard is based on the IASB's IFRS for small to medium entities but adapted to comply with UK and Republic of Ireland company law.

Additionally, the FRC collaborates with SORP-making bodies to address sector-specific requirements. SORPs (Statements of Recommended Practice) offer tailored recommendations based on unique factors in their respective areas while adhering to IFRS and FRS guidelines. Currently, UK SORPs exist for sectors such as charities, further and higher education, social housing providers, authorised funds, investment trust companies, venture capital trusts, limited liability partnerships, and pension schemes.

All registered mutual societies are required to submit annual accounts and file an Annual Return with the FCA or Companies House, depending on their registration. This return includes information about the co-operative's financial status, governance, and membership. Alongside the Annual Return, co-operatives must also prepare and submit annual accounts prepared in accordance with applicable accounting standards. An external audit may be required depending on the size and turnover of the co-operative. Smaller co-operatives may be exempt from full audits but still need to prepare financial statements that comply with FRS 102 or FRS 105.

However, despite these statutory requirements, a review of society accounts submitted to the FCA revealed several key compliance issues (FCA, 2023a). Some auditors were not listed on the Register of Statutory Auditors, and certain societies failed to provide required audit reports.

A number of societies, including those with subsidiaries, did not submit audited accounts, and many reports lacked necessary auditor statements. Additional issues included missing share capital disclosures, unsigned accounts, and incorrect references to the Companies Act 2006 instead of the Co-operative and Community Benefit Societies Act 2014. Some societies also reported incorrect financial year-end dates, indicating a need for improved regulatory compliance.

2.5. Literature on co-operative accounting

Literature highlights an incongruence between the associative nature of co-operatives and mainstream performance measurement, accounting, and reporting approaches they rely on, thus, concealing the co-operative difference (e.g., Beaubien & Rixon, 2012; Maddocks, 2007; Novkovic et al., 2022; Puusa & Saastamoinen, 2021).

International studies, although limited, emphasise the unsuitability of formalised accounting standards and practice based on the needs of investor-owned and for-profit businesses and question their relevance in measuring and disclosing efficiency and effectiveness (e.g., Adderley et al., 2021; Hicks et al., 2007; Polo-Garrido, 2014). Robb, 2012; Webb, 2017). Current accounting formats do not fully reflect the financial reality of co-operatives, and a transparent view of financial profit generated from co-operative activities with members under conditions of mutual independence (Balaguer & Castellano, 2012; Maddocks, 2019a, 2019b, 2019c).

Literature also underlines the need to link co-operative reporting to member interests (Brown & Wing Wong, 2012). The imposition of external regulations designed for profit-maximising organisations may even lead co-operatives to engage in accounting window-dressing approaches (Hillier et al., 2008).

Co-operatives frequently report numerous key performance indicators (KPIs), but these tend to serve impression management rather than reflect adherence to co-operative principles (Corrigan & Rixon, 2017). This is further exacerbated by accounting standards that prioritise comparability for institutional investors over the stewardship values central to co-operatives (Robb, 2012).

There is broad consensus that inconsistency and variation in the application of accounting standards across co-operatives negatively impacts accountability. This affects both financial performance reporting and co-operative objectives. Scholars argue for the development of co-operative-specific standards and guidance to enhance transparency (Balaguer & Castellano, 2012; Polo-Garrido & Meliá-Martí, 2021), with increasing calls for standards tailored specifically to co-operatives (Adderley et al., 2021; Hicks et al., 2007; McCulloch, 2019).

Current accounting practices have been also met with dissatisfaction due to their emphasis on "financialisation", which prioritises financial returns and shareholder value (Chiapello, 2016; Collison et al., 2016). This approach extends to environmental, social, and governance (ESG) reporting, often perceived as superficial or mere "greenwashing" (Miles & Ringham, 2019).

Scholars across various fields argue that this narrow focus overlooks broader stewardship responsibilities, calling for a more comprehensive evaluation that incorporates social and co-operative values (e.g., Fine, 2018; Mazzucato, 2018).

3. Research Approach

To explore the current accounting and reporting practices of co-operatives, as well as the challenges they face, this study utilised semi-structured interviews to gather in-depth and contextualised views from co-operative practitioners. The interview questions were informed by prior literature and the discussions of the UK Co-operative SORP Working Group/Committee, ensuring relevance to co-operatives' ongoing concerns. The semi-structured format allowed for flexibility, enabling participants to provide detailed insights into their unique experiences and challenges with financial reporting and accounting standards.

Between January 2022 and July 2024, the research team conducted 38 interviews with representatives from a range of co-operatives in the UK, as well as with co-operative consultants, practitioners, researchers, and individuals representing financial regulators and Co-operatives UK, the national organisation that represents, supports, and advocates for co-operative businesses across the UK. The co-operatives involved varied in size, sector, and type, representing a diverse cross-section of the UK co-operative landscape. The interviewees were carefully selected to ensure that their specific knowledge of accounting and reporting issues, along with their expertise in co-operative financial management, could inform the study. The selected co-operatives represent a diverse range of organisations, spanning from small enterprises to large-scale operations. This report examines practices across various sectors, with the exception of credit unions, and incorporates all major types of co-operatives—producer, worker, consumer/user, and multi-stakeholder—providing a comprehensive perspective on the UK co-operative landscape (see Table 3).

The interviews were transcribed verbatim, and thematic analysis was employed to identify key themes and patterns. The research team developed a coding framework based on the interview guide, which was expanded as new themes emerged during the analysis process. This iterative approach allowed the research to capture both expected and unexpected insights from the participants. Major themes included the difficulties co-operatives face in applying standard accounting practices designed for investor-owned and for-profit businesses, the lack of tailored financial reporting standards for co-operatives, and the importance of balancing financial and social objectives. The analysis also highlighted variations in accounting practices among different types of co-operatives, revealing both shared challenges and sector-specific concerns. All participants were given the opportunity to review and provide feedback on the findings, ensuring that their perspectives were fairly represented in the research.

The findings from these interviews not only provide an understanding of the challenges and practices in co-operative accounting but also highlight opportunities for innovation and reform in financial reporting. These insights set the stage for the next section, which delves deeper into the thematic findings, offering a detailed exploration of the key challenges identified and the potential pathways forward for co-operatives seeking to align their financial practices with their purposes.

	Interviewee position	Co-operative type*	Sector
1	Co-operative accountant/ Researcher	Various	Various
2	Accounting Services	Consumer/User	Energy
3	Finance Director/Co-operative accountant	Consumer/User	Housing
4	Co-operative development consultant	Worker	Housing/Financing
5	Chief Financial Officer	Consumer/User	Retail and consumer goods
6	Chief Executive Officer	Worker	Technology/Finance
7	Co-operative development consultant	Various	Various
8	Co-operative adviser/ Co-development worker	Various	Retail and consumer goods
9	Director/ Research & Co-operative Development	Various	Various
10	Co-operative mentor/Partner	Worker	Various
11	Finance Officer	Worker	Retail and consumer goods
12	Director/Researcher	Worker/Multistakeholder	Technology
13	Co-operative accountant and auditor	Worker	Co-operative accounting services
14	Director	Producer	Agricultural
15	Director/Researcher/Consultant	Various	Various
16	Co-operative business adviser/ Director	Various	Various
17	Financial officer	Worker	Retail and consumer goods
18	Accounting systems developer	N/A	Agricultural
19	Accounting systems developer	N/A	Agricultural
20	Director/Strategist	Multistakeholder	Technology
21	Head of Accreditation	N/A	Tax
22	Director/Chief Executive	Consumer/Worker	Retail and consumer goods /Technology
23	Rural Business Consult	Producer	Agricultural
24	Co-operative accountant and auditor	Various	Various
25	Co-operative accountant and auditor	Worker	Co-operative accounting services
26	Co-operative lawyer and consultant	Various	Legal Services
27	Director	Consumer/User	Retail and consumer goods
28	Chief Executive Officer	Consumer/User	Energy
29	Director	Multistakeholder	Consumer association
30	Financial management expert	Consumer/User	Housing
31	Technical specialist	N/A	Regulator for mutual societies
32	Head of Finance/Co-operatives UK	Various	Various
33	Co-operative advisor	N/A	Community shares
34	Senior officer/ Co-operatives UK	Various	Various
35	Chief Financial Officer	Consumer/User	Retail and consumer goods
36	Director/ Strategic Adviser	Various	Various
37	Head of Financial Control	Consumer/User	Retail and consumer goods
38	Chief Executive Officer	Consumer/User	Housing

Table 3. List of interviewees.

**Categories based on the ILO classification (ILO, 2020):*
1. ***Producer Co-operatives**: These are owned and operated by individuals or businesses who produce goods or services. Members benefit through shared access to resources, collective bargaining, and market access, which helps them reduce costs and improve profitability.*
2. ***Worker Co-operatives**: Owned and managed by the employees themselves, worker co-operatives allow workers to directly control business decisions and share in the profits, fostering job security and workplace democracy.*
3. ***Consumer/user Co-operatives**: Owned by consumers, these co-operatives supply goods and services to their members, often with a focus on fair pricing, quality, and local community impact. Examples include retail and utility co-operatives.*
4. ***Multi-stakeholder Co-operatives**: These co-operatives include multiple types of members—such as workers, consumers, and producers—who collaborate to achieve shared objectives. They often address complex social or community needs, leveraging the diverse interests and strengths of their members.*

4. Findings

This section presents the key findings of the research, structured into three parts. First, it provides an overview of the general accounting challenges faced by co-operatives; second, it delves into specific issues related to accounting and reporting for economic and democratic member participation, including insights from different types and sizes of co-operatives; and third, it explores potential solutions suggested by interviewees to address these challenges.

4.1. Accounting inconsistencies and expertise gaps

Co-operatives encounter several challenges in achieving consistency and transparency in their financial reporting. This has significant implications for governance, financial management, and member as well as other stakeholder communication. The following section explores these issues.

Inconsistent practice leading to lack of accounting comparability and quality

Interviewees highlighted that co-operative financial reporting in the UK is fragmented and lacks co-ordination, with inconsistent approaches applied to similar transactions. As noted in Section 2.1, UK law does not provide a formal legal definition of a co-operative, nor does it prescribe specific accounting standards tailored to their unique structures. As a result, co-operatives adopt diverse reporting formats and submit their financial reports to various regulators.

A significant challenge arises from the incompatibility of existing accounting standards, such as FRS 102 and IFRS, with the distinctive nature of co-operative structures—particularly in areas such as share capital and profit allocation. This is particularly pronounced when co-operatives employ alternative capital structures, such as non-speculative share capital. Interviewees attributed the incompatibility between the co-operative ownership model and current financial reporting formats to a shift in accounting standards over the past 30 years, which have increasingly prioritised an investment-focused perspective over the concept of stewardship.

The misalignment between co-operative accounting practices and widely used standards, such as FRS 102 and IFRS, often results in confusion, sometimes portraying co-operatives as technically insolvent despite their sound financial health. Interviewees further noted inconsistencies in the reporting of interest payments, depreciation, and other financial metrics, which complicate financial management and communication with both members and external stakeholders. Applying IFRS in a co-operative context, for example, is especially problematic when reflecting member distributions in financial statements.

The co-operative movement faces difficulties in presenting its financial performance under these standards, as they do not fully accommodate the distinctive nature of co-operatives, including the accounting treatment of member investments and equity. Moreover, accounting standards influence co-operatives' profit reporting, which can negatively affect their banking covenants and access to financing opportunities.

Lack of expertise in co-operative accounting and auditing

Many professional accountants lack a comprehensive understanding of the distinctive nature of co-operatives, particularly in relation to their capital and profit structures. As one co-operative financial manager noted: "*There's a long history of co-ops being messed up by accountants who don't understand co-ops…[and] would-be co-op friendly accountants who actually aren't very good and make horrible mistakes".* This expertise gap poses significant challenges when co-operatives seek informed professional advice. As a result, financial reporting within the sector often becomes inconsistent and of substandard quality, as accountants are ill-equipped to

understand co-operative capital, particularly the difference between profit and surplus, and manage financing models and co-operative investment, such as community shares and non-appreciating capital. The necessity to address issues on a case-by-case basis not only increases costs but also prolongs problem-solving efforts. This inconsistency leads to confusion both at the organisational level, where members and even board members may struggle to interpret financial reports, and across the co-operative movement, where a unified approach to financial practices remains elusive. Moreover, the absence of tailored guidance for managing co-operative capital and profit structures exacerbates these issues, resulting in inconsistent financial reporting and sector-wide discrepancies.

The lack of regulatory and expert guidance on accounting for co-operatives also leads to inconsistencies and a lack of clarity on the terminology used to describe 'profit' (or 'co-operative surplus') and other terms such as capital, dividends, and patronage. Co-operatives express concerns that co-operative accounting is "*very hit and miss"* because accountancy firms *"know nothing about a co-op"* and accountants often *"tie themselves up in terrible knots over language to explain what they're doing."*

Issues on definition and recognition for the co-operative nature, principles, and values

Interviewees highlighted the persistent confusion surrounding the definition of a co-operative, which undermines its distinct identity and complicates both accounting and governance practices. The absence of a legal definition of co-operatives in the UK makes it challenging for co-operatives to attract investment and secure government support, as their unique nature remains ambiguous compared to conventional businesses.

Co-operatives must balance financial performance with social objectives, a dual mandate that should be clearly reflected in their financial disclosures. The tension between commercial success and fulfilling member-driven social purposes poses a unique reporting challenge. Capturing metrics related to member engagement, co-operative governance, and social responsibility is essential to convey the full scope of co-operative performance. This highlights the need for accounting standards that fully recognise the co-operative difference, integrating both financial and non-financial indicators.

Existing accounting standards and formats often obscure the distinctive nature of co-operatives, contributing to their reporting challenges. As one interviewee aptly noted, *"accounting principles are not designed to recognise the unique structure of co-operatives, where members are not simply shareholders extracting value but are the co-operative itself"*. A key challenge is the lack of recognition for co-operative values and principles within existing accounting frameworks. This fundamental misalignment leads to financial reports that inadequately reflect the social value and member benefits that co-operatives prioritise over profit maximisation.

Many co-operatives emphasised the need to recognise their distinctive purposeful and associative nature. Unlike investor-owned businesses that prioritise financial capital, co-operatives are fundamentally participatory organisations, focused on member engagement and the creation of social value rather than exclusively financial returns. Several interviewees noted that co-operative financial reports often fail to adequately capture these social contributions, such as community impact and member benefits, which are integral to the co-operative model. For instance, one co-operative business adviser observed that member benefits are frequently underreported during the establishment of co-operatives, despite their central importance. Another interviewee pointed to the potential for "community valuation" systems to replace traditional market-based valuations, particularly for community-owned assets, which may hold greater intrinsic social value than their market price reflects. While co-operative reporting frameworks often prioritise non-financial metrics like sustainability and community engagement,

they risk providing an incomplete picture of the co-operative's overall contributions by not sufficiently integrating these with financial performance.

This section outlined challenges in co-operative accounting, including inconsistent reporting, expertise gaps, and the failure of current standards to capture participation and social contributions. As member economic and democratic participation and control are core to co-operative identity, the findings in the next subsection will be structured through the lens of membership.

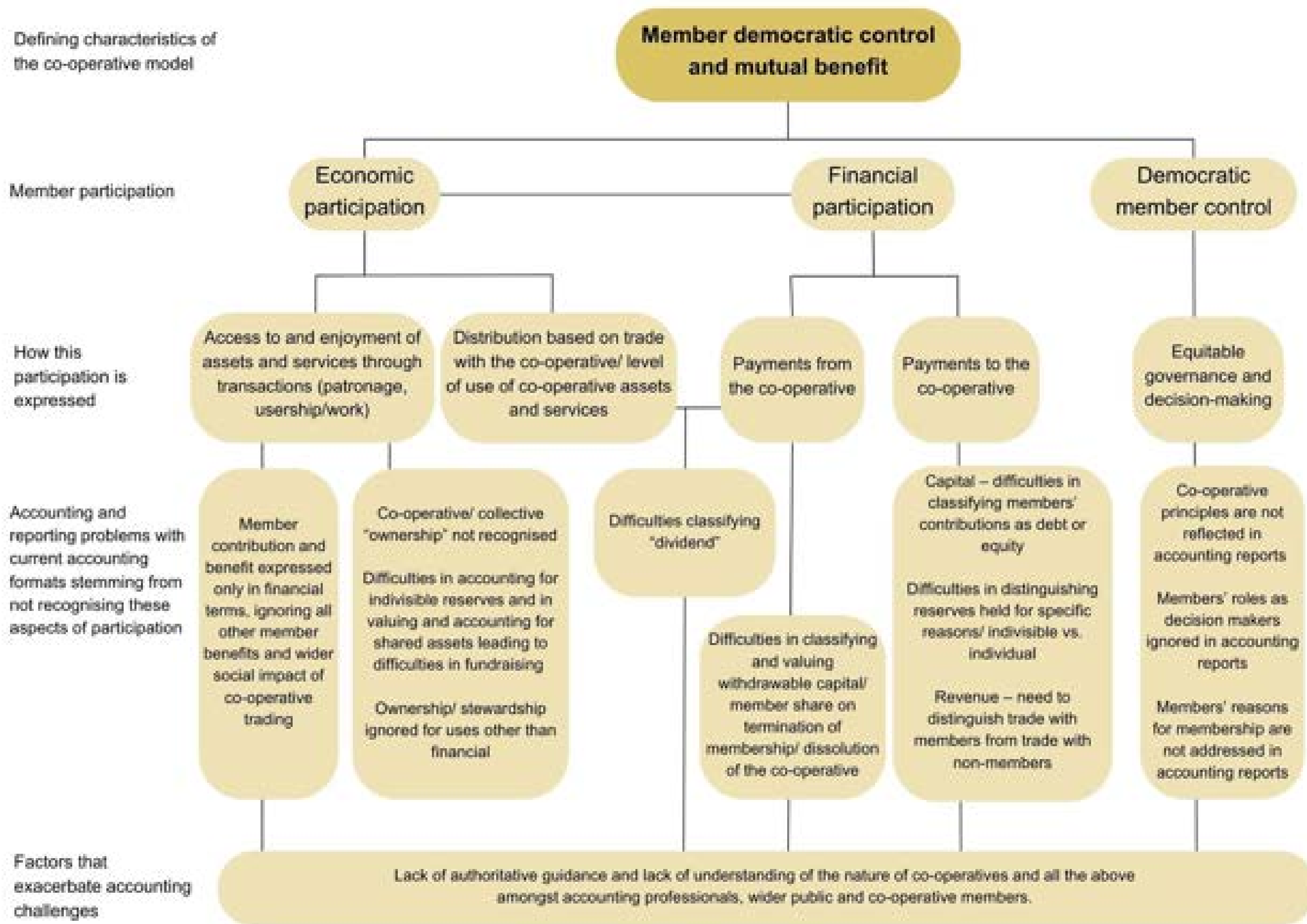

Diagram 1: Accounting and reporting challenges in relation to different forms of member participation in co-operatives.

4.2. Accounting and reporting challenges for member value and participation

One of the primary users for co-operative financial reports are the members themselves, as emphasised by many interviewees. Co-operatives exist for the benefit of their members and future members, while treating all stakeholder interests fairly. However, many expressed concerns that these reports often fail to adequately reflect the value that co-operatives provide to their members, diminishing their overall usefulness. In terms of how accounting is used, several participants noted that, when made accessible, members tend to prioritise management accounts designed for internal purposes over financial reports intended for external stakeholders. From the perspective of a co-operative financial manager: "*Whilst we try and conform as much to the statutory reporting requirements, we do have to bespoke the management accounts to help members understand the accounts better.*" This is largely because financial reports based on current accounting formats are typically oriented toward the needs of external users, lenders, and other providers of finance, rather than active co-operative members.

Members are generally motivated to join co-operatives not for financial returns, but to access and secure the co-operative's services and assets, and to benefit from economic participation through transactions as workers, producers, tenants, users, or consumers. The level of member engagement varies significantly, particularly in larger consumer co-operatives where engagement tends to be lower. Engagement often increases when members are concerned about specific issues or the long-term sustainability of the co-operative. The role that the co-operative plays in a member's life also influences engagement levels. For instance, a worker dependent on the co-operative for their livelihood is likely to be more engaged than a consumer member who can easily seek services elsewhere.

In co-operatives, the key benefits are derived from active participation rather than financial investment. Workers, for example, benefit from fair wages, good working conditions, and alignment between their values and those of the co-operative. Although some benefits, such as wages, are financial, they stem from members' economic participation rather than passive financial investment. In agricultural co-operatives, for example, producer members gain financially through collectively negotiated prices, while also having a say in policy decisions and access to valuable shared data that it is possible to amass through a membership organisation. Similarly, co-operative tenants benefit from not only reasonable rent but also security of tenure and influence over property management. Even community share investors appear to prioritise the protection of community assets over financial returns. Additionally, some interviewees highlighted that co-operative ownership fundamentally differs from traditional investor ownership. Co-operative ownership does not involve holding a proportional share of assets as commodities but rather grants members the right to access and utilise those assets. This distinction presents numerous challenges for co-operatives in differentiating between capital returns and economic participation, as explored in section 4.2.

The next section includes three interrelated sub-sections discussing challenges related to: i) accounting for economic participation, ii) accounting for financial participation, and iii) accounting for member democratic control and participation (see Diagram 1). We recognise the diverse ways co-operatives deliver benefits to their members, encompassing both transactional and non-transactional aspects. However, the fundamental mechanism for participation is transactional. Interview evidence highlights a strong focus on member value and perspectives, which we prioritise in our reporting of the findings. Our aim is also to provide actionable insights into how co-operatives can better serve their members. This emphasis does not diminish the importance of broader societal or non-transactional benefits but instead allows for a critical evaluation of co-operative success in fulfilling their foundational purpose: delivering value to their members and contributing positively to the communities in which they operate.

4.3. Accounting for economic participation

Economic participation in co-operatives refers to members' active involvement in the financial functioning of the co-operative, encompassing both their contribution to and democratic control over capital, as well as the benefits they receive, which are linked to their transactions or use of the co-operative assets and services, rather than their capital investment.

A key challenge in accounting and reporting for economic participation lies in adequately representing member contributions and benefits in a manner that goes beyond traditional financial metrics. Economic participation reflects varying levels of member engagement and activity, whether as consumers, producers, workers, tenants, or community co-owners, and the extent to which members benefit from the co-operative's services. Several interviewees noted that this distinction becomes particularly blurred when co-operatives interact with both members and non-members. For example, worker co-operatives may employ non-member staff, housing co-operatives may have non-member tenants, or consumer co-operatives may serve the broader public, thereby complicating the clear delineation of economic participation.

Additionally, co-operatives often do not differentiate between trade with members and non-members, even though trade with members is based on mutual benefit and not intended for private gain, unlike economic transactions with non-members. Interviewees observed that this distinction, often monitored in management accounts, is required in some European jurisdictions, where mutual trading with members is exempt from VAT because it is not designed to generate profit.

Current financial reports often fail to capture non-financial member benefits or data, such as membership numbers and engagement levels, leaving members uncertain about how well co-operative purposes are met. Financial reports rarely require disclosure of the social value generated by the co-operative's activities, unless it qualifies as a community benefit organisation.

Surplus (profit) distributions to members, based on their economic activity rather than financial investment, pose further challenges. There is confusion regarding whether these distributions should be classified as cost reductions for consumers, wage increases for workers, or final distributions for producers. Alternatively, some view them as post-profit distributions, which may significantly reduce the reported profit figures. The historical context was also highlighted by interviewees, particularly noting that the dividend in retail co-operatives was a post facto price adjustment. However, as the retail co-operative movement began phasing out the dividend in the 1960s and 1970s, it started to be seen, when paid as a level of interest, as a distribution of profits like a Public Limited Company, which was never their original purpose. Some interviewees advocated for recognising distributions based on economic participation above the profit line to ensure consistency, though current practices often treat distributions linked to financial investment differently. This inconsistency creates confusion, which will be further explored in section 4.2.3.

Finally, the issue of sweat equity—unpaid labour contributed by volunteers or founding members—was raised by interviewees across various sectors. While common in co-operatives, charities, and community enterprises, sweat equity is generally absent in investor-owned businesses. Although the cost of managing volunteers can be recorded as an expense, the value of their contributions is often overlooked, leading to an undervaluation of a co-operative's overall activities.

4.3.1. Accounting for financial participation

Financial participation in co-operatives refers to members' contributions to the co-operative's capital, their equitable share in its financial surplus, and their democratic control over financial decisions. While financial participation often involves equity (member shares) or loans, the primary goal is not financial gain but rather to facilitate economic participation or, in the case of community shares, to secure assets for collective benefit. The accounting challenges related to financial participation are broadly categorised into two areas: capital and revenue.

Capital

- **Nature and classification of member financial capital–equity vs. debt**

Interviewees pointed out that accounting standards designed for profit-driven business enterprises focus on investor ownership, treating equity primarily as a means of generating returns for shareholders. However, in the context of co-operatives, equity should be understood as the final layer of potential loss absorption. This means that equity serves as the ultimate buffer in case of financial distress, absorbing losses only after other financial resources, such as profits and reserves, have been exhausted. This perspective shifts the emphasis from maximising returns to protecting the co-operative's financial stability, ensuring that member contributions and the co-operative's capital structure are preserved during times of economic difficulty. By prioritising equity as a loss-absorbing mechanism, co-operatives can align their financial reporting with their core principles of shared risk, collective ownership, and long-term sustainability.

One of the key challenges in accounting for capital lies in the rigid classification of financial instruments as either equity or debt under IFRS and FRS 102. This classification has tightened in recent years, leading to considerable confusion within the co-operative movement. Some co-operatives have developed "workarounds" to navigate these challenges, but these are applied inconsistently across the movement.

Accounting for co-operative capital, often withdrawable or repayable at nominal value, is another challenge. This can range from small amounts in retail co-operatives to more significant sums in worker co-operatives or community shares investments. As one interviewee stressed: "too many of them [mutual societies] fail to account for share capital at all". When classified as debt rather than equity, this capital inflates liabilities on the balance sheet, potentially making co-operatives appear financially weaker and leading to technical insolvency. This inconsistency complicates comparisons between co-operatives and can hinder their ability to raise external financing.

Distributions, as noted above, depend on members' economic participation in the co-operative's performance (i.e. their level of trade), not their capital contribution. Members' equity may carry low fixed-rate interest. There is a need for accounting formats that recognise co-operative capital as distinct from debt.

Some interviewees stressed that withdrawable capital should never be treated as a liability unless the directors cannot refuse repayment, which was considered rare. If directors cannot refuse repayment, withdrawable capital should instead be treated as a liability.

- **Difficulty in distinguishing between funds held for different reasons and purposes**

Co-operatives often hold multiple types of funds, each serving distinct roles. Individual member funds typically reflect capital contributions from members and may be withdrawable or allocated for specific member-related purposes. In contrast, indivisible reserves are communal assets meant to support the long-term sustainability of the co-operative and cannot be distributed to

members, even in the event of dissolution. In many co-operatives, retained surpluses (profits) are held as indivisible reserves rather than being attributed to individual members through share price increases. From a legal perspective, the key point is that the reserves are properly protected and can never get into the hands of members, thereby enabling co-operatives to argue that they could be treated differently for tax purposes.

The difficulty in distinguishing between funds held for different reasons and purposes—such as individual member funds versus indivisible reserves—presents a significant challenge in financial reporting. The challenge arises when these various funds are not clearly differentiated in financial statements. The Statement of Changes in Equity is meant to track changes in equity, including the distribution of profits or losses and movements in reserves. However, the lack of clear categorisation obscures how much of the co-operative's capital is earmarked for individual members versus communal or future-oriented purposes, like reinvestment or maintaining financial stability.

- **Treatment of funds upon membership termination or co-operative dissolution**

When membership ends or a co-operative is dissolved, invested financial capital is typically repayable only at nominal value, presenting additional accounting complexities. The need to manage withdrawal requests while maintaining operational liquidity is a unique feature of co-operatives. In cases where a large number of members leave or if the co-operative is dissolved, the cumulative repayment obligation may strain the co-operative's liquidity and solvency, especially if these obligations are not adequately planned for in financial statements.

- **Development of "workarounds"**

Larger co-operatives, due to more available resources, are often better equipped to manage the of classifying debt, equity, and withdrawable capital. Various workarounds have emerged, such as classifying time-limited investments as equity during the investment period. However, these practices are often unknown or inaccessible to smaller co-operatives, which could benefit from broader awareness of such solutions.

Some co-operative boards allow capital to be withdrawable at their discretion, and can veto the redemption of shares, leading to further inconsistencies in the classification of capital. Practices like constraining the withdrawal of shares by co-operative boards illustrates how co-operatives adjust their practices to conform to international accounting standards. However, restricting members' rights to exit the co-operative when they wish is often seen to risk undermining the voluntary membership nature of membership.

Revenue (as financial contribution)

- **Differentiation between financial contributions by members and non-members**

In the UK, co-operatives are not required to differentiate between trade with members and non-members. However, many interviewees observed that member transactions are fundamentally mutual, conducted at cost and not for profit, as recognised under HMRC's mutual trading classification. In contrast, non-member transactions are not at cost, presenting a different financial relationship. While this differentiation is not currently reported, explicitly including it in financial statements was suggested as a way to enhance transparency and relevance. Such reporting would offer a clearer picture of how the co-operative aligns its financial activities with its core purpose.

- **Payment as expense or distribution**

Interest or patronage dividend
Interest payments—whether on debt or equity—do not appear as a business expense in the same way as distributions based on economic activity. Interest on debt is reported as a financing cost, while interest on equity appears in the Statement of Changes in Equity as a distribution after all types of costs. There is little consistency in the ways in which co-operatives treat this interest, and very limited advice forthcoming from professional advisers.

Patronage dividend
Profit as a surplus in co-operatives, is distributed according to member participation and trade rather than capital investment. However, patronage dividends are inconsistently reported either as reductions in trading profit (above the line) or as profit distribution (below the line). FRS 102 requires distributions based on economic participation to be reported above the line, which can reduce profit figures and affect borrowing covenants.

Wages
In worker co-operatives, the treatment of wages is similarly inconsistent, with a lack of understanding from professional advisers. UK tax rules favour dividends over wages, but dividends are recognised as returns on capital, not as payments for work. Wages that remunerate labour are seen as an organisational expense, while there is variability in how wages are treated across different co-operatives. Some worker co-operatives opt to pay a lower wage, often aligning with the living wage or minimum wage, and then distribute surplus earnings as dividends on members' nominal one-pound shares. This practice has been the subject of ongoing debate about whether it is allowable.

In summary, the accounting for financial participation in co-operatives presents significant challenges, particularly in the areas of capital classification and revenue reporting. The lack of consistent guidance and the prioritisation of external financial interests over co-operative principles further complicate efforts to reflect the unique nature of co-operative enterprises.

4.4. Accounting for democratic participation

Democratic participation in co-operatives refers to members' active involvement as owners in shaping the direction of the organisation, determining how its assets are managed, and addressing the collective purposes, needs, and aspirations of the membership. Central to this concept is the principle of equal decision-making power, where each member holds an equal vote in governance, ensuring that control is exercised democratically, irrespective of the size of their financial contribution.

4.4.1. Member participation and engagement

While co-operatives are not mandated to report on member engagement metrics—such as voting participation and meeting attendance—many voluntarily disclose data on member involvement in key democratic processes, such as annual general meetings (AGMs) and voting on resolutions. Engagement levels, however, vary across co-operative types and sizes. Smaller co-operatives and worker co-operatives tend to experience higher levels of member participation compared to larger consumer co-operatives. Some interviewees noted that limited member engagement is often linked to financial reports that do not provide adequate or relevant information for members to fully understand their co-operative. Others suggested that members only become actively engaged when specific issues or concerns regarding the co-operative's sustainability arise.

4.4.2. Governance structures

Though this report does not focus primarily on governance forms and structures, several interviewees highlighted relevant points. Governance, understood as the processes through which decisions about asset management and strategic direction are made, is foundational to the co-operative model.

Interviewees emphasised that adherence to co-operative principles remains essential to their organisations, but these principles are often underrepresented in formal reports, even in narrative sections. Some co-operatives mentioned in the interviews have adopted sociocracy as a governance framework, which involves delegating decision-making responsibilities to specialised circles. While this approach aligns closely with co-operative principles, it often remains invisible in reports accessible to external stakeholders.

This lack of transparency around democratic governance mechanisms contributes to a broader misunderstanding of co-operatives among professionals and the wider public. It was also highlighted that Corporate Governance Code firms are required to report on principal risks as investors seek assurance on how these risks are managed. The governance arrangements in a firm impact the management of risk. Therefore, a lack of transparency in accounts on governance could similarly indicate a lack of transparency on risk.

4.5. Accounting issues specific to different types and sizes of co-operatives

The size of a co-operative is a key factor influencing its accounting and reporting requirements, as well as its ability to meet those needs effectively and maintain high-quality reporting. Larger co-operatives often have more resources to invest in professional accounting expertise and systems, allowing them to handle complex reporting requirements more effectively. They are also more likely to develop or adopt accounting workarounds to address the limitations of conventional financial reporting standards, thus enhancing the quality of their reports.

In contrast, smaller co-operatives typically face resource constraints, making it difficult to access specialised accounting expertise tailored to their unique structures. This can result in inconsistent or lower-quality financial reporting, as smaller co-operatives often struggle with the complexity of compliance with investor-oriented standards that are not well-suited to their operations. Additionally, the capacity of smaller co-operatives to engage with and reflect non-financial metrics, such as member engagement and social impact, may be limited, affecting the comprehensiveness and relevance of their reports.

The vast range of co-operative sizes, combined with the diversity of sectors in which they operate and the varying accounting regulations they must comply with, presents significant challenges to effective collaboration on shared issues. These complexities have impeded the development of a cohesive body of knowledgeable advisers capable of serving the broader co-operative movement, rather than just specific co-operatives. This gap in expertise affects both tax and financial reporting.

Although resources such as guidance notes and handbooks from organisations like Co-operatives UK exist, they often target specific sectors. It has been highlighted that more concerted efforts are needed to educate co-operatives broadly, provide comprehensive guidance, and establish standardised practices that address these gaps across all co-operatives.

This research encompasses a variety of co-operatives and discusses a number of accounting challenges that are common and reflect wider issues across the co-operative movement. These issues include managing member equity, demonstrating social value, and balancing financial

resilience with co-operative principles. They also include the failure of traditional financial metrics to capture the co-operative difference and member and community impact, member financial literacy gaps, a general lack of member participation and engagement, a lack of accounting regulatory guidance, and a lack of specialised accountants and auditors. This section highlights some of the more distinct accounting challenges that various types of co-operatives face.

4.5.1. Worker co-operatives

Balancing growth, long-term sustainability and complexity: Worker co-operatives face challenges in balancing growth with their co-operative principles and ensuring fair compensation. Operational complexity increases as co-operatives grow, particularly in managing cash flow, resource allocation, and addressing space and labour constraints. These challenges often lead to financial distress or difficulty in meeting obligations. Worker co-operatives often operate with minimal capital contributions, such as a nominal £1 share per member.

While this structure ensures inclusivity, it can sometimes encourage short-term thinking, with a focus on immediate financial benefits over long-term sustainability. Cash flow concerns often dominate decision-making, overshadowing strategic reinvestment and financial planning.

However, worker co-operatives are generally considered less prone to short-termism compared to venture capitalists who seek high return in a short period to then cash in their investment, because worker co-operatives have non-financial goals. These goals might include, for example, enhancing worker well-being, promoting sustainable food systems, and supporting community development.

Developing a framework within accounting practices to capture and reflect these aspects was suggested as beneficial by interviewees. This could be modeled on the Charity SORP Trustees' Report, requiring co-operatives to report on their progress in achieving their stated aims and adherence to co-operative principles.

A key accounting issue is the inability of traditional financial reports to adequately capture the value created by co-operatives, making them sometimes less effective for internal decision-making. Interviewees emphasised the need for tailored financial management systems that align with co-operative goals and values, supporting long-term sustainability. However, it was argued that co-operatives frequently face challenges in maintaining robust management accounting systems due to limitations in time and expertise. A key underlying issue is the difficulty in attracting individuals with advanced financial expertise, as flat pay structures often cannot compete with the significantly higher salaries offered in other businesses.

Financial and non-financial metrics: Linked to the previous discussion, worker co-operatives often prioritise internal metrics, such as chargeable time and team profitability, over external financial reporting. Traditional financial ratios, like return on capital employed (ROCE) or asset-to-liability ratios, do not adequately reflect the value generated by worker co-operatives.

As with all types of co-operatives, transparency in financial reporting is considered crucial. Sharing financial data within the co-operative helps align individual goals with overall profitability while preserving values like collective decision-making. For instance, co-operatives may share quarterly revenue and expense breakdowns with members during general meetings. Worker co-operatives also often prioritise worker well-being, sustainable practices, and community

development over purely financial outcomes. Developing an accounting framework that reflects these non-financial goals—modelled on the Charity SORP Trustees' Report—would provide a more comprehensive view of their progress in achieving co-operative principles.

Wages and profit distribution: Accounting for wages in worker co-operatives presents challenges. Treating wages as a form of distribution based on economic participation rather than a cost borne by the co-operative, was suggested to better align with co-operative principles, emphasising democratic participation and profit-sharing. Moreover, debates within co-operatives about classifying higher wages as either operating expenses or distributed profits further complicate financial reporting, but it is considered as a distinction that significantly impacts how the co-operative's financial performance is perceived by its members.

Profit distribution in worker co-operatives is typically managed through payroll, with an emphasis on wage premiums rather than reinvestment. Determining fair premiums based on hours worked and membership tenure introduces complexities in profit allocation, making it challenging to balance fair compensation with sustainable growth. Some worker co-operatives' practice of distributing profits weekly as wage premiums impacts financial interpretations. Categorised as a wage cost, these distributions appear as unsustainable overhead rather than returns on capital, which can deter potential creditors and limit reinvestment opportunities. This dynamic further highlights the ongoing challenge for co-operative members: balancing immediate personal gains with long-term collective growth.

However, it was highlighted that, in practice, PAYE (Pay As You Earn) legislation restricts worker co-operatives to remunerating members through wages, though terminology in some guidelines referencing "dividends" has led to confusion. This misunderstanding has resulted in instances where co-operatives had to reverse practices and pay substantial back taxes and National Insurance Contributions

Worker co-operatives could improve clarity by distinguishing between members' wages, non-members' wages, and year-end bonuses in their financial reports. A year-end bonus could be presented as a distribution of surplus from the previous year but would still be subject to PAYE regulations. Adding specific lines in the profit and loss statement, such as "distribution of surplus to members" or "distribution to community/charity," would enhance transparency while complying with FRS 102.

4.5.2. Consumer and housing co-operatives

Accounting complexities and inadequacy of traditional accounting standards: Consumer co-operatives, such as retail co-operatives and housing co-operatives, encounter unique accounting challenges that stem from their distinctive ownership and operational structures. In consumer co-operatives, as discussed earlier in this report, one complexity lies in distinguishing transactions involving members from those with non-members, particularly when reporting on member participation in financial terms.

Since co-operative ownership is not based on investment for exchange, accounting for mergers and acquisitions between co-operatives—common among larger retail co-operatives—adds another layer of difficulty. These structural differences between co-operatives and traditional businesses complicate financial reporting, especially when it comes to managing grant funding, profits, and ensuring long-term financial stability.

A major issue co-operatives face is the inadequacy of traditional accounting standards, which often misrepresent core co-operative activities. In consumer co-operatives, member rewards,

such as dividends and discounts, are typically categorised as “leakage” or losses in conventional accounting frameworks. This distorts the co-operative’s financial performance, failing to capture its value proposition. Traditional accounting metrics, which emphasise profits, are poorly suited to the goals of co-operatives, where financial success is measured not just by revenue generation but by the tangible value provided to members and the broader community.

Reporting on surpluses, reserves, and member equity: Co-operatives encounter challenges in reporting surpluses, reserves, and member equity, particularly when explaining the necessity of reserves to cover long-term liabilities, like property maintenance. The accounting treatment of member equity, especially withdrawable shares, complicates financial reporting, as it raises concerns about liquidity and financial stability. Unlike traditional businesses, co-operatives can distribute profits to members even when they hold negative reserves, which demands careful financial management to balance immediate member rewards with long-term sustainability.

Integrating non-financial and engagement metrics: A significant challenge for co-operatives is the integration of non-financial metrics, such as member engagement and participation, into their financial reports. Accounting for member numbers and participation is particularly challenging for larger consumer co-operatives due to their vast scale and diversity of membership. Non-financial metrics are central to co-operative principles but add layers of complexity to the reporting process. The absence of standardised metrics for co-operatives makes it difficult to benchmark their performance against traditional businesses, particularly in the retail sector, where operational structures differ significantly. For example, co-operatives may struggle to track transactions with other co-operatives, a key element of Co-operative Principle 6, complicating their ability to measure and report on this vital aspect of their operations.

Balancing profitability, social responsibility, and growth: Co-operatives must continuously balance the tension between profitability, social responsibility, and growth. Consumer co-operatives, for instance, often prioritise sustainability and community investment over profit maximisation, making it difficult to compare them with traditional businesses. Housing co-operatives face long-term financial planning challenges, particularly in managing cyclical expenditures related to property maintenance. These challenges are compounded by undervalued assets and the lack of affordable finance options, which hinder their ability to maintain or expand operations. The emphasis on reinvesting profits into community projects, rather than paying dividends, aligns with co-operative values but is difficult to communicate to members expecting financial returns.

Regulatory and compliance pressures: Regulatory frameworks often fail to align with the unique structures of co-operatives, adding unnecessary complexity and cost to their operations. For example, housing co-operatives must report value-for-money metrics designed for large housing associations, which do not reflect their focus on maintaining existing housing stock. These inappropriate regulatory requirements add unnecessary complexity and cost. Co-operatives also face complex tax and VAT regulations, which require careful management to ensure compliance while staying true to their co-operative principles. In housing co-operatives, a lack of long-term financial planning, especially regarding reserves for major repairs, creates risks that threaten their sustainability.

Financing challenges: Access to affordable financing remains a significant obstacle for housing co-operatives, particularly for new developments or major renovations. Co-operatives that hold grants face further complexities in reporting grant funding, as opposed to reporting external investment or trading income. Ambiguity in this area can obscure potential problems regarding the co-operative’s future resilience, particularly as it transitions from a funded model to a more independent operational framework. Outdated asset valuations, especially for smaller,

non-registered housing associations, and a general lack of understanding from financial institutions about co-operatives result in higher borrowing rates. These financial constraints limit co-operatives' ability to grow or maintain their properties effectively. The sector's need for co-operative-specific financial solutions underscores the importance of recognising the distinct structures and goals of co-operatives in both housing and retail sectors, highlighting a gap in current financial services and reporting.

4.5.3. Producer co-operatives

Balancing transparency and competitive pressures: Producer co-operatives, particularly those operating within food supply chains, contend with the tension between the desire for transparency in financial success and the need to protect competitive business interests. One interviewee observed that excessive openness about financial performance can expose the co-operative to commercial pressures from customers.

Lack of standardised accounting benchmarks and formats: The industry lacks established benchmarks and standards for accounting in agricultural co-operatives, particularly in areas like cost allocation, depreciation, and labour cost calculations. This creates inefficiency in evaluating whether a co-operative is operating efficiently compared to others. Variations in how co-operatives lay out their financial accounts (some having only a few key headings, others with more detailed categories) create challenges in making meaningful comparisons between co-operatives and evaluating performance and costs.

Equity distribution and complexity: When forming co-operatives, determining equitable capital contributions from different-sized farms is a challenge. Contributions can include machinery or cash, but this process often involves complex decisions on how to value these assets fairly and avoid tax liabilities.

Governance and financial reporting: Governance structures vary, with some having robust systems of board meetings and minute-taking, while others may lack consistent governance. Ensuring consistent financial reporting that includes, metrics like the number of staff and hectares worked would improve clarity and management decision-making.

4.5.4. Multi-stakeholder co-operatives

Complexity of reporting multiple stakeholder interests: Different classes of members (e.g., workers, consumers, and investors) often have varied expectations, which complicates financial reporting, as the co-operative must provide different kinds of reports to satisfy the needs of different groups. For example, multi-stakeholder co-operatives may provide both formal financial statements and more accessible narrative reports for their investor members, illustrating the difficulty in balancing detailed accounting with understandable communication.

Inconsistent accounting practices and accounting for community share capital: Inconsistent accounting practices, particularly related to community share capital and its associated interest payments, create challenges in financial reporting. Changes in accounting methods over time lead to difficulties in comparing performance across periods, resulting in confusion and inconsistencies in profit and loss statements. These issues necessitate ongoing adjustments and explanations to ensure clarity in financial reports.

Resource constraints and engagement with non-financial reporting: Multi-stakeholder co-operatives face challenges in collecting non-financial data, such as social impact and member engagement metrics, as this process is resource intensive. Although important for reflecting co-operative values, systematically gathering and reporting this data requires significant time and resources, which some members may not prioritise.

4.5.5. Secondary co-operatives

Shared ownership of assets, particularly through secondary co-operatives, was described as "neutral" ownership. In such cases, the principle of one member, one vote prevents larger members from taking control of the shared assets for personal gain or excluding others.

Community ownership of assets, which is growing in popularity, follows a similar pattern. Secondary co-operatives made up of public sector organisations, private, and social business provide an effective model for the shared ownership of infrastructure assets. Such co-operative models that emphasise neutrality and shared access to digital infrastructure, for example, help in fostering collaboration between public and private sectors.

However, this structure introduces additional complexities in ensuring that financial transactions between sectors comply with state aid rules and are correctly represented in the co-operative's accounts.

Specific accounting challenges include dealing with innovative financial products like co-operative rights of use, where accounting practices for these transactions are still developing this form of ownership is difficult to capture within current accounting formats.

4.6. Enhancing co-operative accounting and reporting

4.6.1. Aligning co-operative accounting with co-operative values and principles

A key argument, derived from insights shared by interviewees, and a fundamental theme underpinning the various suggestions for improving co-operative accounting, is the need for accounting practices to align with the co-operative identity, values, and principles, ensuring that financial reporting reflects both the economic and social dimensions of co-operatives. This alignment promotes transparency, enhances member engagement, and reinforces the co-operative's commitment to democratic governance, equity, and community development, setting them apart from investor oriented and profit-driven businesses.

4.6.2. Enhancing member engagement and financial literacy

A critical aspect of improving accounting practices within co-operatives is ensuring that members are both financially literate and actively engaged in decision-making. Many members lack formal financial training, which limits their ability to engage with technical financial reports. To address this challenge, co-operatives should invest in financial education programs tailored to their members, demystifying financial terminology and empowering them to participate more fully in governance and financial planning. Using a framework and terminology aligned with co-operative values would simplify this task.

Simplifying financial reports is another key step in fostering better member engagement. By using more accessible language and incorporating narrative explanations or visual representations of key financial metrics, co-operatives can make financial information more understandable to non-expert members.

Adopting a two-tier reporting system, where detailed statutory accounts are complemented by simplified summaries that highlight key financial metrics, and demonstrate how these metrics tie in with members' concerns and benefits, member contributions, and social impact, would further enhance accessibility. By empowering members with the knowledge and tools to interpret and engage with financial reports, co-operatives can reinforce their commitment to democratic governance, equity, and community development.

4.6.3. Enhancing non-financial reporting and co-operative-specific social and environmental metrics

A key area for improving co-operative accounting lies in the integration of non-financial reporting to capture the full scope of a co-operative's impact, particularly in terms of social value, member engagement, and community development.

Traditional financial statements, which focus predominantly on profitability, often fail to represent the broader contributions co-operatives make to their communities and members. Interviewees emphasised the need for co-operatives to adopt frameworks that measure and report these non-financial outcomes.

Incorporating social and environmental metrics into annual reports would allow co-operatives to clearly demonstrate their alignment with key co-operative principles, such as democratic governance, sustainability, and concern for the community.

This approach would include tracking metrics related to member participation, co-operative trading, community investment, and environmental impact. By integrating these non-financial indicators, co-operatives can better communicate their unique value proposition to members, funders, and policymakers, enhancing transparency and reinforcing their dual commitment to economic and social objectives.

4.6.4. Narrative reporting and co-operative-specific indicators

A key suggestion from interviewees is to mandate the inclusion of non-financial information in the narrative sections of reports. Frameworks such as the Community Shares Handbook and FCA reporting requirements (Annual Return (AR30) form) provide useful guidelines for developing this approach.

Interviewees advocated for detailing operational costs and contributions made through sweat equity in these narrative sections, as well as incorporating co-operative-specific costs that capture the unique challenges and contributions of these organisations.

Furthermore, several participants suggested including co-operative-specific indicators in non-financial reports. These indicators would offer a more comprehensive view of co-operative performance, ensuring that both financial and social outcomes are represented, thereby differentiating co-operatives from traditional businesses driven purely by profit motives.

4.6.5. Strengthening collaboration with regulatory bodies and accounting professionals

To improve the quality of financial reporting, co-operatives should foster stronger collaboration with regulatory bodies and accounting professionals specialising in co-operative financial practices.

The current scarcity of accountants with expertise in co-operative accounting not only increases costs but also leads to suboptimal reporting standards. By investing in the education and training of accountants in co-operative-specific accounting principles, co-operatives can enhance the quality of their financial statements, ensuring they reflect both economic performance and social impact.

Additionally, building partnerships with regulatory bodies will allow co-operatives to advocate for frameworks that better align with their unique operational structures. This dual approach of cultivating specialised expertise and engaging with regulators will strengthen the co-operative financial ecosystem, enabling co-operatives to uphold their commitment to democratic governance, equity, and community impact.

4.6.6. Standardising performance metrics and benchmarks
The absence of standardised accounting benchmarks across the co-operative movement hinders the ability to compare performance and assess financial health.

Establishing co-operative-specific performance metrics would enable co-operatives to measure their success against relevant benchmarks, fostering a culture of continuous improvement and benefits.

These benchmarks could include measures of profitability, cost efficiency, member satisfaction, and social impact. By establishing common performance indicators, co-operatives can strengthen their credibility and demonstrate the movement's broader impact.

4.6.7. Developing a co-operative-specific accounting framework
While interviewees expressed reluctance to drastically change existing financial reporting formats, they unanimously recognised the need for further discussion and actions to develop co-operative-specific accounting solutions.

Current reporting standards often distort the financial realities of co-operatives, failing to fully capture the unique aspects of their operations, such as member participation and social value. A common solution proposed by interviewees is the development of a co-operative-specific Statement of Recommended Practice (SORP) or accounting framework that addresses these gaps.

A co-operative-specific SORP would provide tailored guidance on complex accounting issues, such as the treatment of co-operative capital, member dividends, and social value reporting, ensuring consistency across the sector.

This would not only streamline financial reporting for individual co-operatives, saving time and money, but also improve comparability between co-operatives and facilitate the consolidation of sector-wide data. Additionally, it could serve as a platform for developing and sharing best practices and provide professional advisers with clear guidelines to follow, reducing costs while enhancing the quality of financial reports.

Such a framework would bridge the gap between co-operative principles and existing accounting standards like IFRS and FRS 102, enabling co-operatives to better showcase their co-operative difference. By incorporating metrics related to member participation, community benefits, and social impact, a co-operative-specific SORP would provide a more holistic view of co-operative contributions, distinguishing them from investor-oriented and profit-driven businesses.

5. Recommendations

Based on the findings from the research, the following recommendations are aimed at addressing accounting challenges within co-operatives at three levels: individual co-operatives, the co-operative sector, and policy development. These recommendations seek to enhance accounting and reporting practices and standards, as well as create systems that better align with co-operative values and principles.

It is important to note that the relevance and applicability of these recommendations may vary depending on the size, resources, and sector of the co-operatives. Larger co-operatives may have the capacity to implement more robust systems, while smaller or resource-constrained co-operatives may require tailored approaches and additional support to minimise costs.

Therefore, as highlighted below, institutional and sectoral support mechanisms must be developed and adapted to address these differences, ensuring co-operatives of all sizes and types can adopt and implement effective accounting practices suited to their unique needs, capacities and purpose.

5.1. Co-operative-level recommendations

Enhanced member-focused accounting and reporting: Co-operatives should deepen their focus on producing member-centred financial and non-financial reports and metrics that account and report on member value creation directly related to the needs of members, and in line with the economic and democratic control and participation co-operative principles. This approach should go beyond traditional financial metrics by integrating impact narratives and non-financial indicators that reflect how co-operative actions translate into member benefits, such as improved wages, enhanced services, or participatory decision-making.

Simplified accounting and reporting: Co-operatives should simplify their financial language and include graphical summaries or dashboards, to improve accessibility. These changes will make reports more understandable for members without financial backgrounds, encouraging more informed participation and reinforcing the inclusive nature of co-operatives.

Differentiating between accounting for member and non-member transactions: Co-operatives should clarify the distinction between member and non-member transactions to highlight mutual benefits and transparency. This differentiation should be the foundation for advocating for different fiscal treatment of surpluses generated from member trade, particularly when that surplus is held in indivisible reserves. By clearly indicating which transactions reflect co-operative principles of member service and which are profit-oriented, co-operatives can better communicate their operational priorities and deepen member understanding of mutual benefits.

Accounting and reporting on sweat equity: Recognising the non-monetary contributions of members, or sweat equity, in reports can strengthen members' connection to the co-operative. Co-operatives should develop mechanisms to quantify and record these contributions in both financial and narrative reports. By acknowledging unpaid work and engagement, co-operatives can offer a holistic view of member involvement and reinforce the co-operatives' value.

Education and financial literacy programmes: Co-operatives should invest in financial literacy and education programmes to empower members. Offering workshops, resources, and guidance on co-operative accounting and finance will help members interpret accounting reports, participate more confidently in decision-making, and understand the financial health and

goals of the co-operative. This ongoing education supports active member engagement and aligns with co-operative values of transparency and inclusivity.

Regular feedback mechanisms: Co-operatives should establish channels for members to provide feedback on accounting and reporting of co-operative performance and member value. Surveys, forums, or regular member meetings can create a continuous feedback loop, allowing members to voice concerns, suggest improvements, and increase their engagement with the co-operative's operations.

5.2. Sector-level recommendations

Co-operative-specific accounting guidelines: Co-operatives should establish consistent accounting guidelines that address the classification of co-operative capital, treatment of member distributions and patronage, revenue recognition, transfer of engagements, and other co-operative-specific accounting issues. Additionally, these guidelines should provide clear guidance on accounting for sweat equity, distinguishing transactions and participation between members and non-members, and recognising the unique contributions of members. Standardised guidelines will enhance transparency, improve comparability across co-operatives, and provide clarity for both financial professionals and members, reinforcing accountability and the value of co-operatives.

Standardising financial and non-financial accounting and reporting: Co-operatives should collaborate to develop and implement a comprehensive set of standardised financial and non-financial indicators to enable consistent reporting across co-operatives. These indicators could encompass measures of financial performance, such as profitability and growth, as well as metrics for member economic participation, democratic involvement, and member/customer satisfaction. Such standards would enhance comparability across the co-operative movement and underscore its values and impact.

Knowledge-sharing networks and resource platforms: Establishing a knowledge-sharing platform where co-operatives of all sizes can access best practices, especially in accounting and reporting, could foster a culture of shared learning. By sharing strategies for reporting on non-monetary contributions, social impact, and economic participation, co-operatives can reduce operational disparities within the movement and collectively enhance the quality of their reporting.

Training programs for co-operative accountants and members: Investing in training for co-operative accountants and members is essential to address the lack of professionals skilled in co-operative financial practices. This investment will improve the quality of financial reporting, reduce errors in accounting for unique co-operative elements, and ultimately increase the credibility and visibility of co-operative within the market. For members, it will foster a better understanding of co-operative finance and governance, empowering them to make informed decisions and strengthening overall transparency and trust.

Policy advocacy for co-operative accounting standards: To further support co-operatives, sector representatives should advocate for the inclusion of co-operative-specific accounting standards in national and international financial regulations. By engaging with policymakers and standard-setting bodies, the sector can promote the adoption of standards that recognise the unique financial and governance structures of co-operatives. This advocacy would strengthen the sector's alignment with regulatory frameworks and enhance co-operatives' visibility and legitimacy within the broader economic landscape.

5.3. Policy-level recommendations

Improving statutory filling and reporting for co-operatives: Current statutory reporting required by the registering authority (FCA) should be enhanced to better reflect co-operative operations. The authorities should provide more accounting guidance and conduct more regular compliance audits and reviews of co-operative filing. Co-operatives could also benefit from additional reporting requirements that address specific aspects, such changes in membership levels. Refining the depth and quality of these statutory reports would align them more closely with co-operative principles and support transparency and accountability in the movement.

Advocating for a co-operative-specific accounting framework: To address the misalignment between existing accounting standards and co-operative principles—and the strong tendency to view co-operatives through a company lens as the norm or standard against which any other enterprise should be assessed—co-operatives should advocate for a tailored SORP. Such a framework would support co-operatives by providing guidance on how co-operatives can appropriately account for their specific activities, emphasising their alternative approach to the market. It would improve the quality and consistency of financial reporting, enabling better comparability across the movement and enhancing relevance to their members and other users. A SORP would offer smaller co-operatives clear, tailored guidelines to simplify complex accounting processes.

Clarifying tax and reporting regulation for co-operatives: Regulatory frameworks should be refined to clarify the tax treatment of member versus non-member transactions, ensuring co-operatives consistently differentiate mutual trading activities. Additionally, clearer guidelines on how to account for co-operative capital would support sustainability across the movement.

References

Adderley I. (2024). *Co-operatives: Linking Practice and Theory.* Co-op Press and UKSCS. Forthcoming.

Adderley, I., Mantzari, E., McCulloch, M. & Rixon, D. (2021) 'Accounting and reporting for co-operatives: a UK perspective', *Journal of Co-operative Studies*, 53(3), pp. 45–57.

Balaguer, J. I. G. & Castellano, C. J. P. (2012). The different conception of economic profit in cooperatives, *Journal of Co-Operative Accounting and Reporting*, 1(1), pp. 29–52.

Beaubien, L. & Rixon, D. (2012). Key performance indicators in co-operatives: directions and principles, *Journal of Co-operative Studies*, 45(2), pp. 5–15.

Birchall, J. (2017). The governance of large co-operative businesses (2nd edition). Co-operatives UK. Available at: https://www.uk.coop/resources/governance-large-co-operative-businesses#:~:text=In%20contrast%20to%20the%20conventional,meaningful%20influence%20over%20what%20the (Accessed: 4 December 2014).

Brown, A. M. & Wing Wong, C. (2012). Accounting and accountability of Eastern Highlands indigenous cooperative reporting, *Social and Environmental Accountability Journal*, 32(2), pp. 79–93.

Chiapello, E. (2016). How IFRS contribute to the financialization of capitalism. In D. Bensadon & N. Praquin (Eds.), *IFRS in a Global World*, pp. 71-84. Cham, Switzerland: Springer.

Collison, D., Jansson, A., Larsson-Olaison, U., Power, D. M., Cooper, C., Gray, R., Ferguson, J., Sikka, P., Millo, Y., Jonnergård, K., Djelic, M-L., Quattrone, P., Cooper, D. J., Carter, C., Liew, P., Coles, R. F., Robson, K., Chabrak, N., Stevenson, L., Willmott, H. and Veldman, J. (2016). *The Modern Corporation Statement on Accounting*. The Modern Corporation Project. Available at: https://ssrn.com/abstract=2863935 (Accessed: 4 December 2014).

Co-operatives UK (2024). *Co-operative and Mutual Economy*. Available at: https://www.uk.coop/sites/default/files/2024-09/Co-operative_Mutual_Economy_2024.pdf (Accessed: 4 December 2014).

Co-operatives UK (2019). *Co-operative Corporate Governance Code.* Available at: https://www.uk.coop/sites/default/files/2021-01/Co-op%20Corporate%20Gov%20Code.pdf (Accessed: 4 December 2014).

FCA (2023a). *Information on mutual societies accounts.* Available at: https://www.fca.org.uk/freedom-information/information-mutual-societies-accounts-november-2023 (Accessed: 4 December 2014).

FCA (2023b). *Registration Function under the Co-operative and Community Benefit Societies Act 2014 Guide*. Available at: https://www.handbook.fca.org.uk/handbook/RFCCBS/3/4.html (Accessed: 4 December 2014).

FCA (2023c). Co-operatives, Mutuals and Friendly Societies Act 2023. Available at: https://www.legislation.gov.uk/ukpga/2023/23 (Accessed: 4 December 2014).

Fine, B. (2018). *Theories of Social Capital: Researchers Behaving Badly*. Pluto Press.

Hicks, E., Maddocks, J., Robb, A. & Webb, T. (2007). Co-operative accountability and identity: an examination of reporting practices of Nova Scotia co-operatives, *Journal of Co-operative Studies*, 40(2), pp. 4–16.

Hillier, D., Hodgson, A., Stevenson-Clarke, P. & Lhaopadchan, S. (2008). Accounting window dressing and template regulation: A case study of the Australian credit union industry, *Journal of Business Ethics*, 83, pp. 579–593.

ILO (2020). *Statistics of Cooperatives: Concepts, classification, work and economic contribution measurements.* Available at: https://www.ilo.org/publications/statistics-cooperatives-concepts-classification-work-and-economic (Accessed: 4 December 2014).

International Co-operative Alliance (ICA) (2018). *Co-operative governance fit to build resilience in the face of complexity*. Available at: https://ica.coop/sites/default/files/basic-page-attachments/ica-governance-paper-en-2108946839.pdf (Accessed: 4 December 2014).

International Co-operative Alliance (ICA) (2018) *Cooperative identity, values & principles.* Available at: https://www.ica.coop/en/cooperatives/cooperative-identity (Accessed: 16 September 2024).

International Co-operative Alliance (ICA) (2019). *Developing accounting standards for co-operatives.* Available at: https://ica.coop/sites/default/files/2021-11/ICA_DEVELOPING_ACCOUNTING_STANDARDS_OCT%202019_EN.pdf (Accessed: 16 September 2024).

International Labour Organization (ILO) (2017) *R193 - Promotion of Cooperatives Recommendation, 2002 (No. 193).* Available at: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R193 (Accessed: 4 December 2014).

Law Commission (2024). *Review of the Co-operative and Community Benefit Societies Act 2014. Law Commission Consultation Paper No 264.* Available at: https://cloud-platform-e218f50a4812967ba1215eaecede923f.s3.amazonaws.com/uploads/sites/30/2024/09/Co-ops-consultation-final-1.pdf (Accessed: 4 December 2014).

Maddocks, J. (2007). *Towards an international statement of recommended practice (iSORP) for co-operative accounting and reporting.* CEARC Working Paper 1. Available at: https://www.smu.ca/webfiles/CEARC_Working_Paper_1_Nov_2007.pdf (Accessed: 16 September 2024).

Maddocks, J. (2019a). Accounting for co-operative community benefit: where membership meets community, *Journal of Co-operative Studies*, 52(2), pp. 11–18.

Maddocks, J. (2019b). Accounting for sweat equity, *Journal of Co-operative Studies*, 52(3), pp. 20–25.

Maddocks, J. (2019c). Developing a co-operative accountability model, *Journal of Co-operative Studies*, 52(1), pp. 13–19.

Mazzucato, M. (2018). *The Value of Everything: Making and Taking in the Global Economy*. Penguin UK.

Mazzarol, T., Clark, D., Reboud, S. & Limnios, E. M. (2018). Developing a conceptual framework for the co-operative and mutual enterprise business model, *Journal of Management & Organization*, 24(4), pp. 551–581.

McCulloch, M. (2019). Accounting for co-operative purposes: reclaiming the conversation. Concept paper on a SORP for co-operatives, *International Journal of Co-operative Accounting and Management*, 2(1), pp. 4–18. Available at: https://www.smu.ca/webfiles/10.36830-IJCAM.20191_McCulloch.pdf (Accessed: 4 December 2014).

Miles, S. & Ringham, K. (2019). The boundary of sustainability reporting: evidence from the FTSE100. *Accounting, Auditing & Accountability Journal*, 33(2), pp. 357–390.

Mills, C. (2020). A study of indivisible reserves in co-operatives in EU member states. *International Journal of Cooperative Law*, Issue III, pp. 186–217.

Mills, C. (2024). *The Nature of a Co-operative: A Reflective Piece*. Available at: https://legislation.coop/en/media/library/position-paper-legislation/nature-co-operative-reflective-piece (Accessed: 4 December 2014).

Novkovic, S. (2022) 'Cooperative identity as a yardstick for transformative change', *Annals of Public and Cooperative Economics*, 93(2), pp. 313–336.

Novkovic, S., Puusa, A. & Miner, K. (2022). Co-operative identity and the dual nature: from paradox to complementarities, *Journal of Co-operative Organization and Management*, 10(1), p. 100162.

Novković, S., McMahon, C. & Miner, K. (2023a). Introduction. In *Humanistic governance in democratic organizations: The cooperative difference* (pp. 1-12). Cham: Springer International Publishing.

Novković, S., McMahon, C. & Miner, K. (2023b). Cooperative Governance in Context. In *Humanistic governance in democratic organizations: The cooperative difference* (pp. 81-117). Cham: Springer International Publishing.

Polo-Garrido, F. (2014). The effects of the accounting reclassification of members' shares in cooperatives: an approach, in Accountability and social accounting for social and non-profit organizations. *Advances in Public Interest Accounting*, 17, pp. 129–149. Emerald Group Publishing Limited.

Polo-Garrido, F. & Meliá-Martí, E. (2021). Business combinations in cooperatives: a critical view of accounting standards', *Economic Research-Ekonomska Istraživanja*, 34(1), pp. 2522–2538.

Robb, A. (2012). Stewardship: the core of cooperative accounting', *Journal of Co-Operative Accounting and Reporting*, 1(1), Summer.

Snaith, I. (ed.) (2014) *Handbook of Co-operative and Community Benefit Society Law.* Jordans.

Webb, J. T. (2017). Accounting for co-operation, *Journal of Co-operative Accounting and Reporting*, 5(1), pp. 102–115. Available at: https://www.smu.ca/webfiles/AccountingforCo-operation.pdf (Accessed: 4 December 2014).

World Cooperative Monitor (WCM) (2023) *Exploring the cooperative economy. Report 2023.* Available at: https://monitor.coop/sites/default/files/2024-01/wcm_2023_3101.pdf (Accessed: 4 December 2014).

About the authors

Elisavet Mantzari is an Associate Professor in Accounting at the University of Birmingham. Her research interests cover a range of topics including international financial reporting standard-setting and practice, critical accounting theory and sustainability accounting. Central to her research activities is the exploration of accountability in the context of co-operatives. Elisavet has professional experience in business accounting and assurance. She is a trustee of the UK Society of Co-operative Studies, a member of the Diversity, Equity and Inclusion Committee of the European Accounting Association, and a committee member of the British Accounting and Finance Association's Interdisciplinary Perspectives special interest group.

Maureen McCulloch serves as an Adjunct Professor at St. Mary's University. From 2010 to 2022, she was a Senior Lecturer in Accounting at Oxford Brookes University. A Chartered Accountant by training, she initially qualified with Touche Ross (now Deloitte). Maureen holds an MPhil in Philosophy from the University of Sussex (1981) and earned a PhD in Organization and Management from Sheffield Hallam University in 2022. Over the course of her career, she has collaborated with a wide range of organisations within the social and solidarity economy, serving as a financial director and accountant.

Cliff Mills has spent more than 20 years working with the UK co-operative movement, at all levels. For most of that time, he has been involved in the modernisation of public services based on democratic, member-based governance. He has worked in a range of sectors including retail, health, social housing, education and youth services, and has undertaken a range of governance reviews for organisations exploring transformation. He has been involved in the modernisation of UK cooperative law through private members bills and currently is in dialogue with the UK Law Commission. Cliff works as a consultant in the social business team of Anthony Collins law firm, and is an active member of the international network of cooperative lawyers, Ius Cooperativum.

Daphne Rixon is an Associate Professor of Accounting, Saint Mary's University. She has a PhD from the University of Warwick, UK and is a Chartered Professional Accountant. Daphne has a very productive research program which has resulted in numerous peer-reviewed publications and conference presentations. She has won several research awards including the Emerald Literati Network 2018. Daphne is Editor-in-Chief of the International Journal of Co-operative Accounting and Management. She is also the Executive Director of the Centre of Excellence in Accounting and Reporting for Co-operatives. Daphne teaches managerial and cost accounting in the undergraduate program as well as Accounting and Reporting in the Master of Management for Co-operatives and Credit Unions program.