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**Public Benefit vs Private Entities:
A Fresh Look at Accounting
Principles**

By

Karen A Van Peurseem

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Public Benefit vs Private Entities: A Fresh Look at Accounting Principles

Karen A Van Peurse

Professor

The University of Waikato Management School

New Zealand

Abstract

The analysis evaluates how and whether accounting principles and assumptions developed for the private sector apply to Public Benefit Entities (PBEs). The broad concern is with the standard setter considering whether integration of the two sectors for promulgation is appropriate. In particular, a view is taken as to whether or not traditional private sector accounting principles and assumptions represent fundamental *conceptual* problems for PBEs. Examples, particularly within the New Zealand context, are raised and discussed. Results draw on the differences and similarities found to exist. Conclusions suggest the need for distinct standardisation where conceptual differences apply and modified-but-integrated standards where there may be adaptable or minor distinctions between the two sectors.

1. INTRODUCTION

Debates have long operated as to whether or not private sector accounting principles and assumptions are appropriate to public sector and charitable entities (e.g. Barton, 2005; Jones, 2000; Anthony, 1989). The questions surrounding this debate have centred upon whether or not the two sectors operate roughly within one common set of operating and economic principles or not. The question is not resolved by standard setters: The U.S. and the U.K. treat accounting standards for government and charitable entities separately from those for private enterprises. New Zealand incorporates public sector guidance into their private sector standards (NZICA, 2006). Australia is considering whether and how to incorporate the needs of public benefit entities (PBEs) into sector neutral standards (Pendleton, 2006; Barton, 2005), and international standard setters currently question whether PBEs fit within private sector models (Anonymous, 2006).

It is thus an interesting time to re-evaluate the place of public entity reporting within a private sector standard setting environment. While New Zealand, with which this paper is primarily concerned, has chosen to integrate the needs of both sectors into their traditional accounting standards, they too are at a decision point as they start to enact international accounting and audit guidance (Van Peurse, 2006).

The PBE sector includes, at its core, the sort of organisation that collects and applies or redistributes funds for some social, legal or economic purpose. PBEs would normally have political responsibilities driven by law and be held accountable to the public at large (Jones and Pendlebury, 1992, 1-10). Government departments, schools and hospitals operate from top-down budget allocations; charities depend on the donations of the public as well as of the public purse; and friendly societies rely on member fees and fund-raising activities. Political decisions drive many of the tax levies and budgets that provide its funding, as do the charitable decisions of donors and trustees (Van Peurse and Pratt, 1998). The private sector, in contrast and in its purest sense, rises or falls on the shoulders of its own entrepreneurial activities. Business enterprises operate in a competitive market, with prices and costs responding to economic incentives of supply-and-demand. A private sector entity can fail, and has a financial association with and obligation to its owners.

The following analysis has much to do with this distinction and its *essence*. In it, I attempt to evaluate how and whether the long-established private sector accounting principles apply to PBEs at all or in part. The question asked is whether private sector-PBE sector differences are so fundamental that they call for a different basis of reporting; or whether the distinctions, or elements of them, are not conceptual and can therefore be accommodated, with modification, within existing private sector standards. That is, this evaluation looks at the relevance of private sector accounting principles to PBEs in terms of whether the differences are conceptual or not, and implications for accounting standards. Ultimately, the analysis offers three classifications in terms of whether distinctions are:

- ‘conceptual’ with implications for creating new standards and concepts;
- ‘adaptable’ which, while presenting significant challenges to integrating standards, are conceptually the same and therefore may tolerate standards with adaptation; or finally
- minor or ‘equivalent’ to private sector principles and practices, and thus represent situations in which little adaptation is likely to be needed in order to apply private sector standards to PBEs.

I will use principles, assumptions and selected standard applications that have, over the last fifteen years or so, been promulgated by the New Zealand Society of Accountants (NZSA) (and its replacements including the current New Zealand Institute of Chartered Accountants (NZICA)). In doing so, I note that the earliest renditions of these standards – in particular related to concepts of concern here -- are drawn from ‘decision usefulness’ conceptual frameworks found in Australian and U.S. frameworks¹, and so represent a somewhat international focus for the time. The implications remain timely in today’s environment however as new decisions are being made as to whether it is appropriate to expect to produce a combined set of standards for the public and private sector in accounting.

1.1 Conceptual differences

Why are ‘conceptual’ differences so important? As Barton (2005) states:

¹ Generally referring to financial, economically-rational types of ‘decisions’.

The modes of operation of government and of the business sector are very different, and accounting standards must be tailored to meet the specific information needs of each sector (2005, p. 138).

Producing integrated standards for two sectors with different rationales for 'being' creates unique dilemmas. Ultimately, standard setters are charged with identifying principles and concepts representing the 'substance' of both practices, and creating accounting practices and measurement techniques that represent them in the best way possible.

'Enterprise' in industry, at its essence, is comprised of individual efforts toward profitability and the return of capital. 'Enterprise', with respect to PBEs however, will be far more political. Public budgets are a product of political intervention, negotiation and compromise. Charitable organisations rely on public largesse. This is the case in New Zealand as elsewhere (Lye, Perera and Rahman, 2004, p. 794; Jones, 2000). These differences are, in effect, of a different essence. The *raison d'etre* of the two thus differ at a foundational level, and they may not represent the same phenomenon of existence or purpose. This point is further argued in, for example, Barton (2005), Jones (2000), Guthrie (1998) and Van Peurse and Pratt (1998). It is this point which drives the analysis and recommendations to follow.

2. DIFFERENCE BY PRINCIPLE

In the following sections three possible categories will be considered for a number of common accounting principles. The principles come from such sources as textbooks and standards (e.g. Horngren and Harrison, 1989; Jones and Pendlebury, 1992; NZICA, 2006 and 1998). The categories are reflections on whether accounting standards, as represented by these principles, are most likely to be equivalent, adaptable or conceptually different when applied to PBEs.

2.1 The 'Adaptables'

Most of the principles considered are, in one way or another, adaptable to PBE needs (Table I). Each in this range of principles and concepts are considered in the discussion to follow.

2.1.1 *Accrual Accounting and Expenses*

Under the accrual basis, the effects of transactions and other events are recognised when they occur. They are then recorded in the accounting records, and reported in the financial reports, of the periods to which they relate. (ICANZ, 2004, SC Para 5.5).

Accrual accounting in general is an established principle of accounting, though it has not always been accepted in PBE organizations. The (now-dated) practice of fund accounting usually reserved space for ‘capital’ funds and ‘debt service’ funds that were operated on a cash or modified cash basis. In New Zealand, and prior to the 1989 Public Finance Act, cash reporting was the norm (Van Peurseem and Pratt, 1998; Lye, Perera and Rahman, 2004, p. 798). Now however, there seems to be a general consensus that an accrual basis should be used (Robinson, 1998; Barton, 2005, p. 143).

The accrual option has apparent validity at least as far as expenses are concerned: the expenses associated with achieving the objectives of the organisation should it seems be those recognised in the accounts. Like the private sector, it represents users’ interest in identifying the costs it took to bring achievements to fruition within a given period of time. As such accrual-based ‘expenses’ act as a somewhat crude indicator of resource efficiency. Conceptually, and at least with respect to expenses, there seems to be compatibility between the concept of (accrual-based) expenses in the two sectors. Special challenges exist in matching non-controllable costs to an enterprise, but these problems exist in business enterprises as well.

Table I: Accounting Principles and PBEs

Principle	PBE Implications	Example	Recommendation
<i>The Adaptables</i>			
Accrual concepts	Cash based statements may meet 'special' needs.	Capital or debt service or imposed cash budgets	May require special reports
Expenses (and accruals)	To accomplish PBE goals (financial or nonfinancial) expenses must be incurred.	School or road department running costs.	Special applications of existing practice.
Revenue: Inflows	Politically not economically driven; not directly derived from incurring costs	Government grants; tax transfers; private donations, legacies.	Disclose, consider periodicity and valuation
Equity (Owner's)	Challenge if unrelated to distribution rights.	Social welfare 'equity' may reflect distribution failure, claim by customers, not donor (taxpayer) equity	Use of dedicated 'Reserves' accounts.
Entity Principle	Political as well as legal entities may exist. Management control may define an entity.	'Departments', 'Divisions', 'Friendly Societies'	Special applications of existing principles.
Going Concern	May be determined politically; mitigating circumstances may be common.	Public hospitals and schools may not be 'allowed' to fail.	Footnote disclosure, assume going concern values if rescue package probable
<i>The Equivalents</i>			
Periodicity	Similar to private sector challenges	PBE may have to meet long-term contracts	Modify terminology
Consistency	Similar to private sector challenges.	Challenge when entity changes	Modify terminology
Objectivity	Similar to private sector challenges, non-monetary assets and liabilities create challenges.	Valuation of intangibles, revenue attributable to policy.	Modify terminology.
Disclosure	The user interests and compliance requirements should be kept in mind.	User interests include: public health patient, taxpayer, manager, elected officials.	Evaluate user needs and legal disclosure requirements.
<i>Conceptual Challenges</i>			
Heritage Assets	Valuation of assets which do not contribute to either revenue or outputs. (NB: Depreciation also conceptual problem if unrelated to maintenance or replacement)	Parks and historical buildings which may go 'up' in value but have no marketable value. Public goods.	May require separate report and disclosure
Matching	'Revenue: Inflows' from 'political' efforts, Expenses not. not of the entity. Hence, 'matching' would not compare similar types of enterprise.	Public hospital 'revenue' may be budgeted from central government funds, and costs <i>forced</i> to be constrained to meet that budget.	Do not attempt to 'match' revenues that not generated from expenditures disclosed.
Enforced Liabilities (Imposed externally)	Liabilities may be imposed 'politically' with no equivalent 'asset'	An Act requires a public hospital to serve all future patients who present.	May require separate report and disclosure
Revenue: Enhancement	Service performance an 'enhancement'?	Achieve service or service quality goals in schools	May require separate report and disclosure

2.1.2 *Revenue*

Revenues are inflows or other enhancements, or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities (ICANZ, 2004, SC Para 7.19)

‘Revenue’ may be adaptable to standard integration if it is envisioned as the ‘inflows’ or ‘increases in assets’ referred to in the definition found above. A PBE’s tax base or donated ‘revenue’ is, in contrast to private sector revenue, the product of a political and not an economic process; nonetheless, like the private sector, it is attributable to success in generating resources for operations. As such, the two sectors share a fundamental resource-generating purpose which can be understood as ‘revenue’.

Measurement (valuation) of such inflows will prove to be a challenge particularly where the contribution itself is in-kind or non-monetary. Also, it may be difficult to allocate tax-based or donated ‘revenue’ to a period of time. How does one attribute, for example, tax revenue earned in one period, paid in another, and distributed in yet a third to any one period of time? Yet, while difficult, it seems that these are problems of application rather than of principle. As such they may not challenge the nature of what ‘revenue’ comprises.

In another sense however, PBE ‘revenue’ could be considered to comprise nonfinancial events such as have been traditionally associated with performance outputs and outcomes. Examples are the numbers served by a charitable organisation or road usage for a roads division. A public good may be the outcome; but it is a good that is neither exclusive to an individual ‘buyer’ (taxpayer), nor exclusively own-able. Customs departments serve the broad public even though you as a contributor (‘taxpayer’) may not be a direct beneficiary of its services. This fits that portion of the definition of ‘revenue’ which refers to ‘enhancements’ or ‘service potential’. Meeting performance goals is, not unlike business revenue, the purpose to which organisational efforts are made and the enhancements thus desired.

This is a conundrum. In the definition of ‘revenue’ is found two different conceptual elements: Cash inflows enabling operations to be carried out, and the very purpose of an organisation in terms of their service performance. If that’s the case, standard setters would do well to be concerned with the ‘substance’ of what they are trying to measure. Is their ‘revenue’ the political and often external efforts in bringing about

resources to the organisation, or the achievements of the organisation itself? In the sense that ‘revenue’ has two faces in PBEs, the singular concept of ‘revenue’ should be challenged. ‘Revenue’ may thus require new standardisation. (See further arguments in Barton (2005) and Van Peurseem and Pratt (1998)). There are also ‘matching’ implications, but these are discussed later in this paper.

2.1.3 *Equity*

Equity is the residual interest in the assets of the entity after deduction of its liabilities (ICANZ, 2004, SC Para 7.15)

One would have to question the relevance of ‘retained earnings’ in the PBE sector; because the owners’ interest is in effect a public interest. Nor would Equity of any kind infer a basis for distribution allocation on dissolution such as it would in private enterprise. Yet it may be possible to draw a correlation between the two. It would seem that as long as the purpose of residuals is made clear in, for example, formation documents or policy, that the ‘ownership’ equivalent could be represented in the equity section. So for example, the equity section of a charitable PBE could comprise a series of Funds which represent the basis for distribution of remaining assets should certain events, such as closure of the organisation, occur. There would need to be clear documentation as to the nature of residual ‘rights’ for each organisation’s needs, but it would not seem to be an impossible burden. There may even be a ‘retained earnings’ account as the concept of accumulated earnings would apply if a PBE acquires part of its ‘revenue’ from self-sustaining activities (entry fees for example to public events). For most PBEs, this will be a very small portion of their revenues.

2.1.4 *Entity Principle*

The ‘entity’ principle is manifested in different ways in the PBE sector, though it can be argued that this distinction is not a conceptual one. A decision-useful perspective is adapted by NZICA²:

² The term ‘useful’ seems in this context not to refer to accountability decisions (accounting for past performance and management’s prior use of resources) but to narrow interpretations of decision usefulness. (The latter is to do with purely ‘economically rational’ decisions such as making a capital investment or a future financial performance decision (Mathews and Perera, 1991, p. 74-80.)

A reporting entity [is] an entity for which there are users who rely on the entity's general purpose financial statements for information that will be useful to them for making decisions about the allocation of resources. (NZICA, January 2006, IFRS3 glossary, p. 25).

Both user needs and economic substance have to be considered in both sectors to some degree. It may be however that – in public sector PBEs at any rate – ‘accountability’ would be of greater concern in general purpose reports than ‘decision usefulness’ (e.g. Radnor and McGuire, 2003, p. 259). This is because many PBEs’ expenditures are strictly controlled through budget, trust agreement or law and an accounting for compliance with that law is to be expected. In addition, accountability is owed to a broad and distant public on the behalf of manager-trustees (NZICA, January 2006, Differential Reporting Framework, para 3.3). Hence, the accountability function is a particularly cogent one for them. Nonetheless, this appears to be a difference of balance and degree, not concept.

In other respects, the entity principle may be applied differently in the two sectors. One ‘section of an organization’ requiring report could be politically-defined, such as a government department or regional council. It would seem that while the *concept* of entity is not particularly challenged, the entity itself may take different *form*.

An accounting entity is an organization or a section of an organization that stands apart from other organizations and individuals as a separate economic unit (Horngren and Harrison, 1989, p. 9).

This new form should probably be based on political or managerial lines in a PBE such as a Works division or a Ministry Office because it remains an entity of interest in the sense of accountability or decision usefulness interests. So while earlier New Zealand standards demonstrated a private sector orientation to the concept (NZSA, 1998 Statement of Concepts, para 2.1), newer definitions demonstrate how the two sectors could be understood to fall within one overriding concept assuming user interests are known (see Van Peurse and Pratt, 1992, for discussion).

2.1.5 *Going Concern Assumptions*

The accounting assumption of ‘going concern’ must be applied with care to a PBE. It may exist in an environment in which government ‘rescue’ packages will be available if it is seen to be vital to society. Some entities are simply not allowed to fail, despite

every appearance of being insolvent. So, for example, society continues to need road departments, hospitals and power infrastructure irrespective of their return on capital! Other PBEs are simply constructed so as to never fail: A scholarship fund may only be allowed to distribute a portion of its earnings annually.

Absent the ministrations of a wealthy patron, private sector entities are not so fortunate. They can and do fail on a regular basis. When it is likely that they are about to do so, our accounting principles tell us that it is time to write down the useless assets, the damaged stock and recognise that creditors will be demanding short-term payment. If there do appear to be problems that are mitigated, then this should be disclosed.

Yet while perhaps more pronounced in government PBEs, this potential for external 'rescue' in the light of probable failure is not unique to government entities (Van Peurseem and Pratt, 2006). In New Zealand alone, the BNZ bank has been 'rescued' by the central government (at least) twice, as has Air New Zealand when they were insolvent. It would seem that it is not a new set of rules that are needed to govern this situation, but that certain aspects of them may be more or less likely to be applied in the PBE sector. Is this a conceptual distinction? On the contrary, this is an application of an existing assumption which, in practice, may have to be considered and applied more often in the PBE sector. Mitigating circumstances (of likely Government rescue) are so strong that it would rarely be necessary to write down assets. This would appear to be an important difference in degree and application, but not in concept.

2.2 The 'Equivalents'

Other differences are seen to be minor and could be, for the most part, addressed with little or no adaptation to existing accounting standards. The periodicity, consistency, objectivity and disclosure principles are examples raised here of 'equivalent' to PBE situations.

The periodicity principle somewhat artificially divides reporting periods into the usual 12 month gap, and this creates challenges for private sector accountants (and auditors!) in terms of allocation. These challenges are well known however and the

means to address them are generally agreed via accrual-based standards. It would seem that this need not be significantly changed for application to the PBE sector. The rationale for designating a (somewhat) random 12 month period to operations would seem to have equal credibility (and difficulty) in both sectors. Recognising revenue from an 18 month contract could occur in either sector and present a similar problem of periodicity, allocation and timing. On the face of it, this would seem to present an equivalent situation in both sectors.

Consistency, objectivity and disclosure are other principles which all take on different *form* in PBEs, but again do not appear to be of a different conceptual nature. Consistency in accounting for the valuation of assets would seem to be important to both the public reader of accountability statements for a public school and for a private enterprise. Retaining consistency in the face of constantly-changing entities is difficult, but equally so in both sectors.

Objectivity, while clearly challenged by the nature of nonmonetary outputs and outcomes in the PBE sector, are not unique to the PBE sector (see for example a discussion in Stalebrink and Sacco, 2003). The private sector standard setters have been presented with similar problems in trying to come to objective valuations of intellectual assets, brand names and non-market investments, futures and forward contracts.

Disclosures needed for the PBE sector may be more extensive and compliance-based. This is because of the nature of legal structures which fund PBEs and which may require particular accountabilities, such as measures against budgets, acts or regulations. Also, there is a 'public good' associated with many PBE activities.

[Public good] types of goods and services are characterized by non-rival and non-excludable consumptions characteristics... non-rival in the sense that one citizen's use of them does not deprive other citizens' benefiting from them. ...non-excludable in that one citizen cannot prevent other citizens from accessing their benefits... (Barton, 2005, p. 142).

As a result of a public interest in, for example, management fraud and unauthorised spending, any discovery may call for disclosure irrespective of more usual standards of materiality. The disclosure idea as a *concept* remains relevant to PBE users however. The problem is the same, again applications differ.

2.3 Conceptual Challenges

I conclude with only three further distinctions which, in contrast to those principles and ideas above, create a significant barrier for standard setters attempting to combine the two sectors: heritage assets, some liabilities and the matching principle. These are evaluated below. (It is noted that the difficulty in coming to a singular meaning for ‘revenue’ was discussed previously, and is also considered a conceptual challenge in the manner there discussed (Table I)).

2.3.1 *Heritage Assets*

So far, the differences between the two sectors may be troubling to practitioners, but they do not necessarily undermine the very *nature* of what accounting numbers are meant to represent. Now however we come to more difficult issues. One of these is to do with the valuation and allocation to operations of public good assets found in PBEs. The means by which a value can be attributed to something that is literally priceless is a long-recognised problem with respect public sector assets (Pallo, 1992).

Despite its intractability, the standard-setting solution for some of these assets may involve adapting private sector standards to the nature of public assets. This is possible if the type of assets being measured is fundamentally the same as those in enterprise. Depletion allocations may be difficult but are not necessarily different problems to that encountered in the private sector. This would not appear to be a *conceptual* problem for the PBE sector therefore.

This is not the case for all PBE assets however. A conceptual problem emerges in the form of ‘heritage’ assets. By definition, heritage assets do not exist to produce wealth to individuals who ‘own’ them, nor are they ‘owned’ in the property law sense of the word. These dilemmas tell of a fundamental difference as expressed by Barton’s (2005) suggested re-definitions:

Commercial type assets... are resources over which the entity has management responsibility to use in the provision of future economic benefits... and which result from past transactions or other events.... Social and environmental assets held in trust... are resources, both economic and

non-economic, over which the entity has management responsibility to provide future social benefits to the public and which are normally to be conserved and maintained by government for the benefit of current and future generations and not to be sold (p. 150, emphasis added).

Heritage assets are unique. Unlike assets which result in future cashflows, these assets will never do so to any level of significance. On the contrary, they are likely to decrease future cashflows in order to ensure they are maintained at their current value to society. Also, their value is likely to *increase* over time and as they age, in contrast with most private sector assets (marketable art or successful brands being notable exceptions). This is depreciation and amortization in reverse. Pallot (1992) further considers the fundamental nature of infrastructural assets.

In essence, and given the circumstances above, how can one account for an ‘asset’ that, in terms of future cashflows, acts like a ‘liability’? What *is* an asset that would seem to require frequent *appreciation* which is completely unrelated to future cash outflows or inflows. Here, we encounter a conceptual problem. It would seem that the heritage asset is more resistant therefore to integration within private sector standards due to its fundamentally different nature.

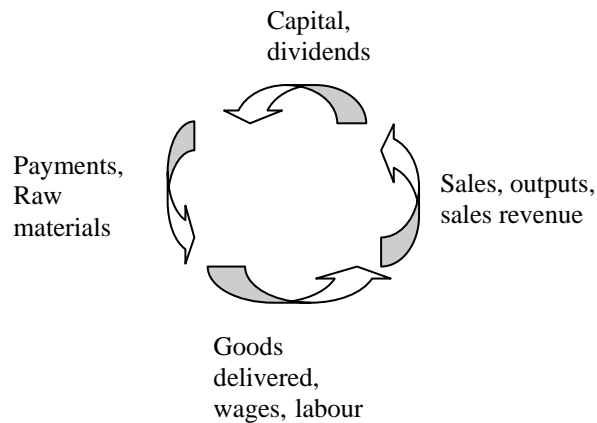
2.3.2 *Matching Principle*

Business firms operate in private sector markets wherein all decisions about the provision of goods and services by firms and their purchase by customers are *private and individual decisions*. The incentive for firms is to provide their products at a profit for their investor owners. [In contrast] Governments ...are elected by citizens to make *collective decisions* on their behalf to provide those goods and services which cannot readily be provided by private firms, and those for social welfare purposes (Barton, 2005, p. 141-142).

Last, but not least, the ‘matching’ principle, in which expenses are ‘matched’ to revenues earned in the same period, is considered. For this I draw upon Rutherford’s (1983) treatise on financial reporting in the public sector. In this paper, he pictures the two sectors – public and private – in terms of resource flows. The first is a picture of resource flows in self-sustaining organizations (private sector entities). These flows are pictured as a ‘circle’: Contributed capital is converted to payments for raw materials, goods and wages; these in turn are converted into outputs, essentially the products or services produced. These products in turn generate sales. Sales revenue contributes to capital or dividends and is thus returned to the original contributors.

Thus is the ‘circle’ completed (Figure I). That which emerges at the end of the cycle is – with little or no leakage – a direct product of that contributed.

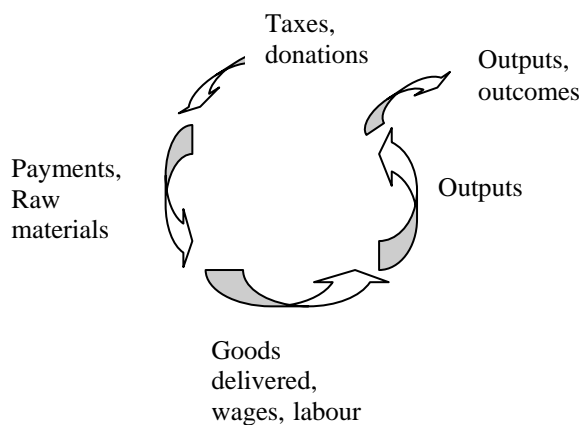
Figure I: Resource flows in Profit (Self sustaining) Organisations



Derived from Rutherford, 1983

In contrast and for the budget-financed organisation (essentially the PBE for our purposes), those who first generate capital are the taxpayers and donors. The capital, as for the private firm, can be converted into materials and services, which in turn produces, again as before, outputs. Here’s where the conceptual distinction between the two sectors emerges however. Instead of completing the circle with ‘outputs’ as equivalent ‘sales’, they are the public goods and services which are transferred or otherwise made available to a *select* element of the public, not to the taxpayers either at all and certainly not in proportion to their tax contribution. The circle is broken (Figure II).

Figure II: Resource Flows in PBEs



Derived from Rutherford, 1983

If therefore we attempt to ‘match’ expenses to resource inflows, PBEs offer a conceptual dilemma. This is that the inflows accrued through *political* means cannot be reasonably matched to expenses accrued from payouts for what Rutherford (1983) terms self-sustaining *operations*. Enterprise is self-sustaining and PBEs by definition transfer, collect or distribute wealth and support a ‘public good’. Reference here is not to just *how we measure* or *how we disclose* as was encountered in previous examples of adaptation or equivalency, but as to what it *is* that one is attempting to measure. The ‘essence’ of matching is to compare that generated with that taken to generate it. In a private enterprise, capital enables managers to incur expenses which subsequently lead to the generation of revenue. In PBEs, capital (funding) enables expenses to be incurred. Outcomes (revenues-enhancements) which are generated from expenses incurred are public goods and services – not revenue-inflows. Revenue-inflows come about through a political process, not as a *result* of expenditures made by the organization.

The New Zealand profession (and now ASRB) has recognised this dilemma even if they haven’t always called it as such or known how to address it. In 1987 the New Zealand Society of Accountants created Public Sector Accounting Statement No. 1 and the Statement of Public Sector Accounting Concepts (NZSA, 1987). Together they encouraged the production of statements identifying heritage assets separately and not necessarily in monetary terms. They also encouraged the development of ‘service performance’ statements which, in effect, recognised the need to measure outputs and outcomes of this unique sector. Treasury requirements and the Public Finance Act 1989 reinforced these positions. Today’s ASRB integrated standards also reflect those efforts.

The crunch comes in attempting to accomplish what accountants do regularly in private sector accounting: ‘matching’ the measure of those achievements (revenue) against measures of the resources applied to achieve it (expenses), yielding a measure of efficiency through the calculation of profit or loss. Doing so was accepted practice in “pre-integrated” days as indicated by the statement below:

Matching of expenses and revenues... Under accrual accounting, expenses and revenues are recognised as they are incurred or earned (rather than as money is paid or received) and recorded in the financial statements of the period to

which they relate. Results for the period are determined by matching expenses with the related revenues (NZSA, 1983, SSAP 1, para 4.2(a))

Now however the 1991 NZSA Statement of Concepts, using phrasing still applied today, adopts a more distant tone in discussing the matching principle:

It has been common practice when recognising expenses in the statement of financial performance to make a direct association between costs incurred and specific items of revenue. This process, *commonly referred to as* the matching principle, is the recognition of revenues and expenses that result directly and jointly from the same transactions or other events. (NZSA, 1991, para 7.25, emphasis added).

What is the reason for this reluctance to be associated with an established accounting principle? Is it possible to suggest that it reflects standard setters' concerns as to how the matching principle would apply to PBEs? Such reluctance would be well justified.

Unfortunately, alternatives to a traditional matching of revenue and expenses do not offer themselves up. It makes little sense to match politically-derived resources to internally-managed expenses, irrespective of their common monetary nature. New Zealand's standards have attempted to address this problem, but clearly these standard setters struggle with how to resolve it.

... using the matching principle, the various components of expense which make up the cost of goods sold are recognised in the statement of financial performance at the same time as the revenue derived from the sale of the goods. This approach may result in recognition and/or classification decisions that are inconsistent with the definitions of elements adopted in this Statement. If the application of the matching principle would result in the recognition of items which do not meet the definition of assets or liabilities, it is inappropriate and not permitted (NZSA, 1993, para. 7.24)

Matching is no longer distinguished as a 'principle' in New Zealand standards or even defined in the combined glossary of terms found at the end of the publication (NZICA, 2006). Yet, no apparent replacement has been found to represent the unique situation of PBEs.

The problem remains therefore: How can one compare achievements that are from one source (inflow-revenues) with costs that, for the most part, represent distributions

to another. How can one achieve relevance in netting politically driven resources against managerially-driven costs. While I do not propose an answer here, it would seem that to match numbers simply because they are all monetary does not yield a satisfactory result.

2.3.3 *Enforced Liabilities*

Similarly, the concept of a ‘liability’ can be thrown on its conceptual head in the PBE sector. Many liabilities are compatible with Rutherford’s (1983) self-sustaining concept representing the private sector in which the obligation yields a current resource and represents a future outflow of resources. In such cases adaptation problems remain, but they have to do primarily with timing and valuation. So for example the purchase of a car at dealer’s cost, on credit and used for a charity, will yield the usual liability even if a portion of that (the usual dealer’s margin) may represent a charitable donation. While certainly difficult, the problems raised are challenges of *measurement* and *periodicity*.

Other situations raise a conceptual issue. Some liabilities do not themselves correspond with an access to resources. The fact that a liability to serve the ‘public’ is the obligation of a government to society rather than the obligation of a company related to enterprise changes its full ‘liability’ nature. So for example, it may be that the military have a responsibility for protecting society from harm. This event in itself does not create a ‘resource’, only a liability and potentially an unlimited (and difficult to measure) one. Similar to the problem with heritage assets, it would seem that liabilities that do not follow the usual pattern requires a different kind of accounting.

3. CONCLUSION

The reader may call to mind such examples as I have provided, or others that I have not thought to mention. Nonetheless, in acknowledging the purpose of this paper – to distinguish the *conceptually* different from the *pragmatically* different, I hope that I have shed light on important distinctions between reporting for the two sectors.

In the end, most principles and assumptions – and by default, standards – appear to be responsive to the potential for adaptation. Adaptation problems may be difficult to resolve, but essentially they are adaptable because the PBE principles remain true to the concept of what they comprise in the private sector. This is not to suggest that there will not be significant measurement challenges, and sometimes differences between the sectors that require different disclosures or indicators; but the accountant is fundamentally trying to measure the same *thing* in both sectors.

In this light, four conceptual distinctions stand out: revenues-as-enhancements, heritage assets, externally-imposed liabilities and the matching principle. These are particularly resistant to integration because each of them exists in PBEs in a way that does not correspond to how they exist in the private sector.

The implications for standard setters follow on from these classifications. For those practices that are essentially ‘equivalent’ in both sectors, little or no modification to standards may be required beyond the use of ‘language’ which is made to be inclusive of nonprofit organisations. Where the distinctions are major and require new ways of measuring or of identifying appropriate disclosure, then adapting private sector accounting standards, including those to do with disclosure in the footnotes to the financial statements, would seem to be an appropriate response. It has to be acknowledged that making such adaptations would not provide perfect answers to what have proved to be recalcitrant measurement problems such as asset valuation and going concern, but the adaptation at least puts them on a par so to speak with the private sector. The problems are similar, they are recognised, compromises have been reached in establishing standards that are somewhat relevant to the underlying substance of the account while retaining some objectivity and consistency.

Where the two sectors differ fundamentally and conceptually, more radical alternatives may need to be considered. In this study, conceptual differences are pointed to as being particularly acute with respect to heritage assets, externally-imposed liabilities and the matching principle. Without overly anticipating what the standards for them should be, standard setters may do well to consider distinctive promulgations in these respects and for the public benefit entity sector.

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