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Reports By Voluntary Health and Welfare Agencies

What Do Accountants Think Of Them?

By Ruthie G. Reynolds

On May 11, 1978 the Financial Accounting Standards Board (FASB) added the topic of nonbusiness financial accounting and reporting to its technical agenda. The move was prompted by the results of a study performed by Robert Anthony on the accounting problems of nonbusiness organizations. Anthony’s study, which was sponsored by the FASB, is entitled Financial Accounting in Nonbusiness Organizations: An Exploratory Study of Conceptual Issues (Anthony Report). Anthony’s discussion was limited to general purpose financial statements, and his approach followed that of the sponsoring group (the FASB) in that it was user-oriented. The purpose of the study was to raise issues rather than offer solutions to the problems.

Approximately one month after the topic was added to the agenda, the FASB issued a discussion memorandum, “Conceptual Framework For Financial Accounting and Reporting: Objectives of Financial Reporting by Nonbusiness Organizations.” Based upon the comments received on the discussion memorandum, an exposure draft, “Objectives of Financial Reporting by Nonbusiness Organizations,” was issued on March 14, 1980. The FASB’s final statement was issued in December 1980 as Statement of Financial Concepts No. 4. All three of the FASB documents, as well as the Anthony Report, stress the need to provide useful information to decision makers.

The purpose of this paper is to present the results of a survey designed to determine accounting experts’ opinions on what should be the role of financial information in the resource allocation decision making process of a major class of users (resource providers). The study also sought opinions on the quality of current reporting practices. The study was limited to voluntary health and welfare agencies, one of the largest groups in the nonbusiness sector.

Methodology

Various approaches have been used to study the accounting problems in the nonbusiness sector. Henke [1965] and Anthony [1978] followed a conceptual approach, defining relevant issues. Others solicited the opinions of users. Bradley conducted a series of conferences with users of information reported by small nonbusiness hospitals [1979]. Traub, in a study of private foundations, used the interviewing technique [1977]. The mail survey technique was used by Skousen, Smith, and Woodfield in their study of colleges and universities [1975]. Mail survey was also used by Luthy to gather the opinions of users of information reported by governmental units.

The present study takes a different approach to studying the accounting problems of nonbusiness organizations. An expert group, composed of practicing certified public accountants, was formed and surveyed to gather opinions on what should be the role of financial information, and what is the quality of current reporting practices.

Eight accountants, one from each of the “Big Eight” firms, were asked to respond to questions regarding the importance of types of information, information sources, types of financial reports, and the quality of current reporting practices. The major criterion used to select the subjects was active engagement in nonbusiness accounting work. Four of the accountants were partners, three were supervisors, and one was manager.

Question 1 dealt with the types of information (both financial and nonfinancial), Question 2 dealt with sources of information (both financial and nonfinancial), Question 3 dealt with types of reports (basically financial), and Question 4 dealt with the quality of reporting. Question 5 gathered demographic information, and Question 6 asked for comments.

A five-point scale was constructed to measure the perceptions of the participants. For Questions 1-3, the number 1 denotes the lowest degree of importance and number 5 the highest.

For Question 4 the number 1 denotes “poor” and the number 5 denotes “excellent.”

Analytical Tool

The two statistics computed to analyze the accountants’ responses are the mean and the standard deviation. The accountants’ responses to each question were averaged and used as a surrogate measure of the degree of importance (refer to Question 1-3) and the degree of quality (refer to Question 4).

Survey results

The mean responses and the standard deviations for the questionnaire items, along with their rank, are presented in Table 1.
Types of Information

The expert group rates the relationship between services provided by an agency and community needs as the most important type of information needed by resource providers of voluntary health and welfare agencies. The group’s mean response is 4.750. Staff performance evaluations was rated the least important item in this category. The lowest rated item, however, received a rating of 3.375 which indicates that the experts consider all of the types of information listed at least moderately important.

Sources of Information

Audited financial statements received a rating of 4.750, the highest rating given to a source of information. Unaudited statements were rated much lower (mean responses of 2.625). These ratings indicate that more credibility is added to the financial information when it is subjected to an audit.

Types of Financial Reports

The accounting standards set forth by the National Health Council, Inc., the National Assembly of National Voluntary Health and Social Welfare Organizations, Inc., and the United Way of America require three types of financial statements:

1. Statement of Support, Revenue, and Expenses and Changes in Fund Balances
2. Statement of Functional Expenses

These financial statements are also recommended by the American Institute of Certified Public Accountants (AICPA) [pp. 41-42, 1974].

The questionnaire included all three statements; however, the Statement of Support, Revenue, and Expenses was listed separately from the Statement of Changes in Fund Balances. The purpose of this separation was to allow respondents to generalize the scope of voluntary health and welfare reporting to agencies which were not members of the sponsoring groups of the standards. Other types of financial reports were included in the list for the same reason.

The Statement of Support, Revenue, and Expenses received the highest rating (4.625). The Statement of Functional Expenses was highly rated, also (mean response of 4.125). The remaining types of financial statements set forth in the standards mentioned above, the Balance Sheet and the Statement of Changes in Fund Balances, were rated moderately important (mean responses of 3.875 and 3.500, respectively). The lowest rated report, the Statement of Changes in Financial Position, received a rating of 2.625.

Recommendations and current standards for financial reporting of voluntary health and welfare agencies do not include budgetary information as part of the reporting system. The group of experts rated budgetary reports which include program data very important to the resource allocation decision (mean response of 4.500). Budgetary reports which exclude program data were rated moderately important (mean response of 3.375).

Quality of Reporting

The qualitative characteristics of useful information are presented in Statement of Financial Accounting Concepts No. 2: Qualitative Characteristics of Accounting Information [FASB, 1980]. The Statement focuses on the criteria to be used in evaluating the usefulness of information provided by commercial enterprises, but the following reference was made to nonbusiness organizations:

Although the discussion of the qualities of information and the related examples in this Statement refer primarily to business enterprises, the Board has tentatively concluded that similar qualities also apply to financial information reported by nonbusiness organizations [p. 2, 1980].

Three types of qualities were defined: user-specific, primary decision-specific, and secondary and interactive. Understandability is the user-specific characteristic and should appear as a link between the characteristics of the users and the decision-specific characteristic. The primary decision-specific characteristics are relevance and reliability. The ingredients of relevance are predictive value, feedback value, and timeliness. Reliability includes verifiability, representational faithfulness, and neutrality. Comparability and consistency are secondary decision-specific characteristics which interact with the two primary characteristics to contribute to the usefulness of the information. The aforementioned qualities were used to formulate Question 4.

Budgeting reports that include program data are rated as very important.

The expert group rated the reliability of the mathematical accuracy as the most attractive quality of voluntary health and welfare reporting (mean response of 4.000). Understandability of format and understandability of terminology tied for the second highest rated quality (mean responses of 3.500). Adequacy of projected data was rated least important (mean response of 1.875).

Summary and Conclusions

The results of the survey clearly show that accounting experts consider financial information important to the allocation decision making process of resource providers. However, the results show that nonfinancial information is important, also. Staff performance evaluations and agency’s reputation were included in the list of information types. Both of these nonfinancial items were considered moderately important. Another nonfinancial item, relationship between services provided and community needs, was rated the most important type of information.

While a financial item (audited statements) received the highest rating in the list of information sources, two nonfinancial items (surveys of community needs and past experience) were rated very important. Although budgetary reports may be considered financial in nature, those including program information may possibly contain a good deal of nonfinancial data. The second highest rated type of report was budgetary reports which include program data, further indicating the need for nonfinancial information.
Based on the findings regarding information needs, a closer look at the content of traditional financial reports of voluntary health and welfare agencies should be taken. Because of the nature of these agencies, there may be a need to expand the boundaries of present-day reporting to include more nonfinancial information. 

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### TABLE 1

**Descriptive Statistics**

<table>
<thead>
<tr>
<th>Item</th>
<th>Rank</th>
<th>Mean</th>
<th>Standard Deviation</th>
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</thead>
<tbody>
<tr>
<td><strong>Types of Financial Reports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of Support, Revenue and Expenses</td>
<td>1</td>
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<td>0.744</td>
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<tr>
<td>Budgetary reports, including program data</td>
<td>2</td>
<td>4.500</td>
<td>0.535</td>
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<tr>
<td>Statement of Functional Expenses</td>
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<td>4.125</td>
<td>0.835</td>
</tr>
<tr>
<td>Balance Sheet</td>
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<td>3.875</td>
<td>1.126</td>
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<tr>
<td>Summary of Cash Receipts and Cash Disbursements</td>
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<td>3.750</td>
<td>1.035</td>
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<tr>
<td>Statement of Changes in Fund Balances</td>
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<td>1.604</td>
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<tr>
<td>Budgetary reports, excluding program data</td>
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<td>3.375</td>
<td>0.518</td>
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<tr>
<td>Statement of Changes in Financial Position</td>
<td>8</td>
<td>2.625</td>
<td>1.408</td>
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<tr>
<td><strong>Quality of Financial Reporting</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Mathematical accuracy</td>
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<td>0.756</td>
</tr>
<tr>
<td>Understandability of format</td>
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<td>0.756</td>
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<tr>
<td>Understandability of terminology</td>
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<td>Understandability of content</td>
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<td>Reliability of content</td>
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<td>Adequacy of historical data</td>
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<td>Adequacy of accounting policy data</td>
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<td>Adequacy of narrative and statistical data</td>
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<td>1.875</td>
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**REFERENCES**


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