

2.5 An exercise on the application of the accounting model of a business to non-commercial and other organisations

For each of the organizations below, identify the major inputs and outputs if possible, and consider whether the double entry model of a business is fully applicable. If the model is not applicable, at what point does it fail? What legal or administrative changes would make the organization more conformable to the double entry model of a business? Would such changes be desirable?

Many of these questions are open-ended and potentially controversial. Their aim is not to make students seek out information, but to encourage them to probe and understand the reductive and simplistic nature of the accounting model.

1. the Roman Catholic Church

As an organization the Church certainly has inputs – it must buy things and pay for them. It also receives money, but it does not appear to sell any output and it is not an avowedly profit-seeking enterprise. The model therefore is not fully applicable.

2. an amateur football club

An amateur football club is not a profit-seeking enterprise, but if we imagine that the club sells membership, then it could be made to fit the accounting model of a business.

3. the International Olympic Committee

The main business of the committee is to determine which city will host the Olympic games in any particular year. This would only fit the accounting model of a business if the committee were to put the right to hold the Olympic games up for auction every four years and sell it to the highest bidder.

4. Oxfam

Oxfam is a charity. It buys things and therefore has inputs. It receives money from donors but apparently gives nothing in exchange. The model of a business therefore does not fully apply.

5. Oxford University

The university charges fees to graduate and undergraduate students. To fit the model of a business it would have to be seen as a degree mill, buying and grinding up the time of its tutors and lecturers, to produce qualifications for its students.

6. the United Nations

7. the House of Commons

8. the police force

9. a national government

These are all bodies set up to promote the public good. They do not sell their outputs and therefore cannot be understood in terms of the model of a business.

Notice one important consequence: *efficiency* is the ratio of outputs created to inputs consumed. Since these bodies and others like them have no outputs, it follows that their efficiency cannot be measured. Under the influence of an obsession with business thinking, for bodies lower in the hierarchy of public service, such as the police force, this has stimulated the free invention of surrogate measures of output (arrests per policeman, response times, etc.).

10. a regiment in the army

In pursuit of financial efficiency, it would be possible to set up a system in which the general in command of some strategic operation could invite tenders to execute the mission from a number of regiments, who would compete for the work. The ultimate military effectiveness of such a procedure may be doubted.

11. the Stock Exchange

The London Stock Exchange plc is a profit-seeking enterprise which sells the services necessary for an orderly investment market. It sets the rules and charges a fee for admission to the market, and sells trading systems and information.

12. the Conservative Party**13. the Institute of Chartered Accountants****14. the accounting department of a large firm****15. a trade union**

Responses to these examples are left to the imagination and fact finding ability of the reader.