COMMERCIAL AND NOT-FOR-PROFITS
SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

	Non-commercial	**Commercial**
Resource contributors	Individual and corporate donors, creditors and governments	Individual, corporate shareholders, creditors and governments
Repayable contributions	Debt	Debt
Non-repayable contributions including non-cash such as volunteer's wages.	Incoming resources	Equity
Motives	Provide **non-monetary outcomes** for stakeholders through added value services. For example, See Welsh Water p14, *Our Story; p15 Our Model*	Dividends, Capital appreciation
Maintain capital	Revenue is distinguished from capital at the unit of account level (the lowest level at which transactions are monitored) but may not be strictly adhered to in some cases. However, the not-for-profit sectors also have various needs to measure revenue results (surpluses/deficits) accurately. E.g. for a Local Authority to determine council tax correctly, it is essential that the **Housing Revenue Account** is maintained accurately. This requires among other things, that expenditure on capital construction (e.g. block of flats) is segregated from revenue expenditure incurred in maintaining the property.	Revenue and capital are ***distinct*** categories; the distinction is essential for **performance measurement** and is strictly adhered to. For example, expenditure on a block of flats is **capital expenditure** and is treated as capital (capitalised) whereas the depreciation (allocation of the expenditure to periods that benefit from its use) is treated as **revenue expenditure**.
	Implications for **reserve classification**: - Usable (designated to spend) - Unusable (not allowed to spend)	Implications for - profit recognition - measurement of assets - the treatment of **holding gains** and **losses**
MEASURE FINANCIAL PERFORMANCE		
Measure financial performance	Surplus or deficit; qualitative outcome measures. Assess financial soundness.	Profit or loss Holding gains
Classification implications	Segregation into **accountability categories** e.g. Charities segregate "*commercial activities*" from "*charitable activities*" to allow monitoring and effectiveness evaluation.	Segregate components of **value drivers**: - operating, - investing and - financing
Structure of performance reports	To present **accountability information** that shows the contributions from commercial and charitable activities.	To present **accountability information** that shows contributions from value drivers; to allow performance evaluation based on **horizontal analysis** e.g. gross profit margin, EBIT margin, interest cover, etc.
Recognition basis	Incoming resources includes assets e.g. endowments of buildings, legacies, etc included in "*incoming resources*" as opposed to income that arises in the year to be matched to expenses	Income: based on "revenue" items only. "Revenue" is a category description - being whatever is not capital. "Capital" being whatever has the potential to

	incurred to determine the profit or loss for the year. **Grant allocation** may override IAS 20 as in FReM… Matching to measure profits is not essential.	produce future economic benefits, e.g. buildings, land, plant. Grants spread over several periods (in accordance with IAS 20) to allow matching for profit measurement.
Pricing basis	Not profit driven: mixture of - cost recovery, - subsidised sales, - below cost, - cost plus to maintain and invest for renewal and innovation.	Profit driven: - cost plus (mark-up), - margin on sales
MEASURE FINANCIAL POSITION		
Classification implications of assets used to provide services	Assets are primarily PPE (IAS 16)	Assets are primarily Investment (e.g. investment property) Assets are PPE (e.g. hotels) Assets are PPE (e.g. office)
Measurement basis	Historical cost Fair values	Historical cost Fair values Valuation premise
Gearing	Net debt/Reserves Net debt/Non-current assets Measures reserve cover Measures asset cover	Debt/Equity Net debt/Equity Measures equity cover
Going concern assessments	Vital Reserve cover Asset quality Donor goodwill Trends in donation Investment performance	Essential Balance sheet strength Income trends Product quality Customer loyalty Competition Innovation Capabilities Goodwill
KPI measures of investment return on capital employed.	Capital to be maintained for providing services – not to earn a return. Hence ROCE, EVA and other return-oriented measures are not appropriate.	Return on capital employed Return on investment Residual income