

# NOT FOR PROFIT ACCOUNTING AS POSSIBLE INSPIRATION FOR CO-OPS

*“I don’t know what it is....  
but it isn’t capitalism”*

*Orchestra leader quoted in Juno-Delgado et al 2014*

*Maureen McCulloch*

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# WHY DOES ACCOUNTING MATTER? IS IT THE LANGUAGE OF CAPITALISM?

*“the roles that accounting plays within organizations co-emerge with the economized social relations that in turn provide its rationales and that shape the organization as an accounting entity (Hopwood, 1986). (Miller & Power, 2013, p.561);*

*If management without accounting has become unthinkable, accounting also makes management thinkable and actionable in specific ways. (Miller & Power 2013, p.561).....*

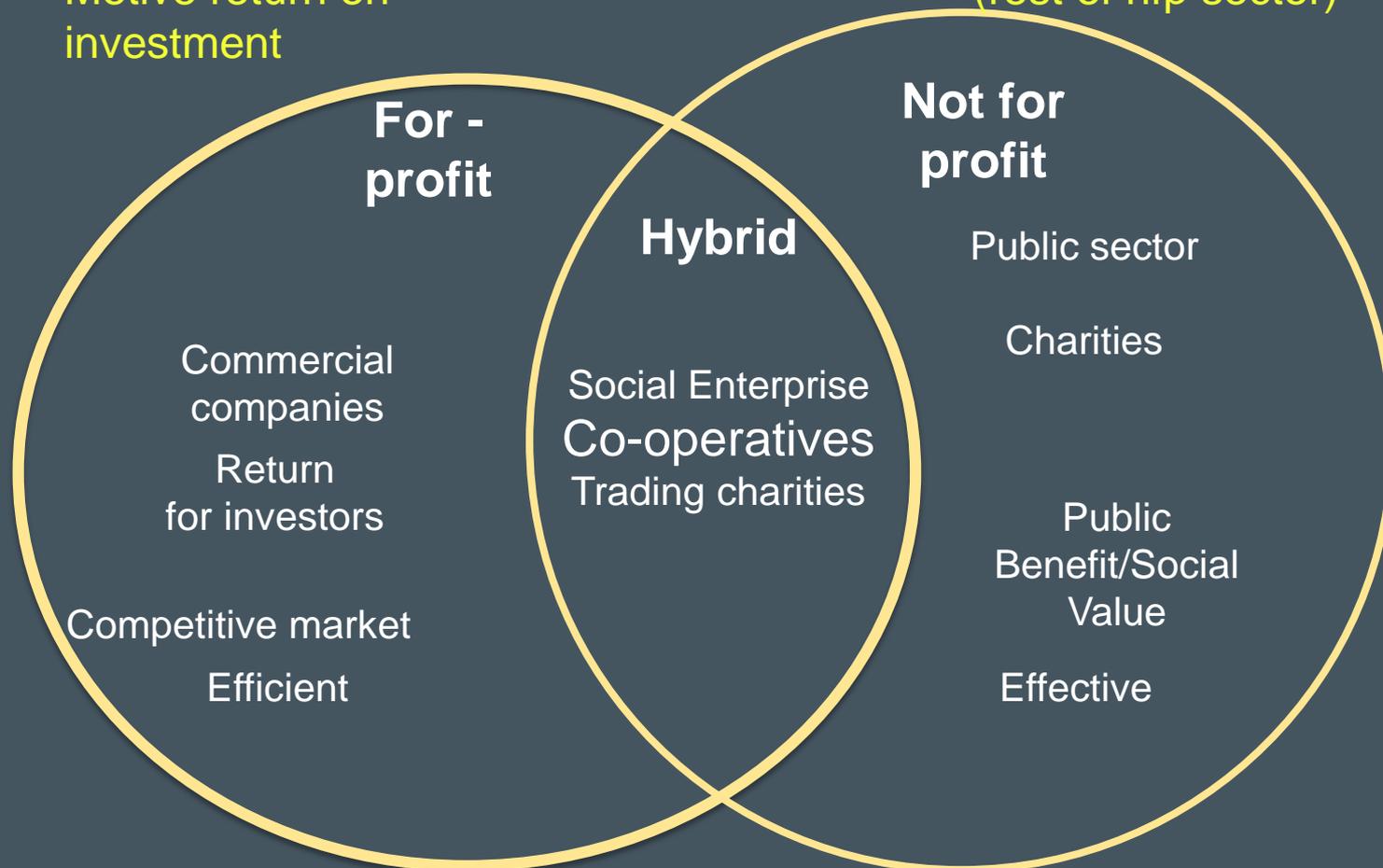
*“accounting has become perhaps the most powerful system of representation of social and economic life that exists today.”*  
(Miller & Power, 2013 p.561)



# Traditional view – for profit v. not for profit

Economically driven  
Investor oriented  
Motive return on investment

Socially driven – impact oriented  
Motive to look after a population (public sector) or change the world (rest of nfp sector)



# TWO VERY DIFFERENT TYPES OF ACCOUNTING DEVELOPED SINCE 1970S

## 1) FINANCIAL REPORTING UNDER IFRS.

- Since 1970s development of International Financial Reporting Standards (IFRS) under auspices of International Accounting Standards Board (IASB) – economization/ financialization of accounting (Biondi, 2006) and management (Miller & Power, 2013);
- Assumption that investor-oriented reporting (absent shareholder desiring maximization of financial wealth) covers all accounting (IASB) and that all organisations can be understood by extending this idea as a metaphor of returns on different sorts of capital.

## 2) NOT FOR PROFIT ACCOUNTING/ SORP AS ALTERNATIVE ACCOUNTING

- UK Statement of Recommended Practice Accounting for Charities (SORP) – used as the example here, developed through three iterations since 1980s; compatible with FRS102 but recognising very different purposes pursued by nfp organisations to those of investor oriented organisations.
- SORP only used by registered charities (objectives aligned with public benefit) and organisations which are recognised as not for profit by HMRC; other social enterprises, including co-ops which are not registered public benefit entities, use for profit formats sometimes supplemented with impact reports.

# CO-OPERATIVES ARE PRIMARILY NOT FOR PROFIT

- *“Co-operation is first and foremost about people coming together to meet common aspirations and needs; that a business enterprise is involved and that the business might need financial capital are ancillary”* (Tan Suee Chieh and Chuin Ting Weber, Capital Conundrum for Co-operatives, ICA, 2016)
- For profit is not for human need.
- Not for profit understood positively is “for purpose”, and the purpose is defined (usually) as meeting some sort of social/human need;

# INCOME STATEMENTS/ STATEMENTS OF PROFIT OR LOSS/ STATEMENTS OF FINANCIAL ACTIVITIES

BAE systems plc – public listed company

MidCounties Co-operative Group – consumer owned co-operative group. Using the for profit company format for Financial Statements, similar to BAE Systems, example chosen because Mid Counties’ statements are very clear and go to lengths to explain the figures to members.

Greenwich Leisure Limited – public benefit (charitable status for tax purposes and as a statement of intent) worker owned group (John Lewis model for public services, spun out of Greenwich Council in 1993). Using the SORP for charities format.

## Consolidated income statement for the year ended 31 December

	Notes	2017		2016	
		£m	Total £m	£m	Total £m
<b>Continuing operations</b>					
<b>Sales</b>	1	19,626		19,020	
<b>Deduct</b> Share of sales by equity accounted investments	1	(2,575)		(2,427)	
<b>Add</b> Sales to equity accounted investments	1	1,271		1,197	
<b>Revenue</b>	1		18,322		17,790
Operating costs	2		(17,089)		(16,274)
Other income	4		131		136
<b>Group operating profit</b>			1,364		1,652
Share of results of equity accounted investments	1		116		90
<i>Underlying EBITA</i>	1	2,034		1,905	
<i>Non-recurring items</i>	1	(13)		(12)	
<i>EBITA</i>		2,021		1,893	
<i>Amortisation of intangible assets</i>	1	(86)		(87)	
<i>Impairment of intangible assets</i>	1	(384)		–	
<i>Financial expense of equity accounted investments</i>	5	(34)		(28)	
<i>Taxation expense of equity accounted investments</i>	6	(37)		(36)	
<b>Operating profit</b>	1		1,480		1,742
<i>Financial income</i>		416		713	
<i>Financial expense</i>		(762)		(1,304)	
<b>Net finance costs</b>	5		(346)		(591)
<b>Profit before taxation</b>			1,134		1,151
Taxation expense	6		(250)		(213)
<b>Profit for the year</b>			884		938
<b>Attributable to:</b>					
Equity shareholders			854		913
Non-controlling interests			30		25
			884		938
<b>Earnings per share</b>					
Basic earnings per share	7		26.8p		28.8p
Diluted earnings per share			26.7p		28.7p

## Consolidated Statement of Comprehensive Income

For the year ended 27 January 2018

	Note	2017/18 Before significant items £'000	2017/18 Significant items £'000	2017/18 Total £'000	2016/17 Before significant items £'000	2016/17 Significant items £'000	2016/17 Total £'000
Revenue	1	1,094,784		1,094,784	979,232		979,232
Cost of sales		(838,638)		(838,638)	(731,186)		(731,186)
Gross profit		256,146		256,146	248,046		248,046
Operating expenses	2.1/2.2	(242,825)	(1,118)	(243,943)	(236,608)	(3,280)	(239,888)
Operating profit		13,321	(1,118)	12,203	11,438	(3,280)	8,158
Finance costs	2.3	(5,264)		(5,264)	(4,561)		(4,561)
Profit before payments to and on behalf of members		8,057	(1,118)	6,939	6,877	(3,280)	3,597
Payments to and on behalf of members	2.4	(2,639)		(2,639)	(3,572)		(3,572)
Profit before tax		5,418	(1,118)	4,300	3,305	(3,280)	25
Income tax (expense) / credit	2.5	(2,150)	1,003	(1,147)	(423)	1,097	674
Profit for the year		3,268	(115)	3,153	2,882	(2,183)	699

Mid Counties Society Income Statement year to January 2018

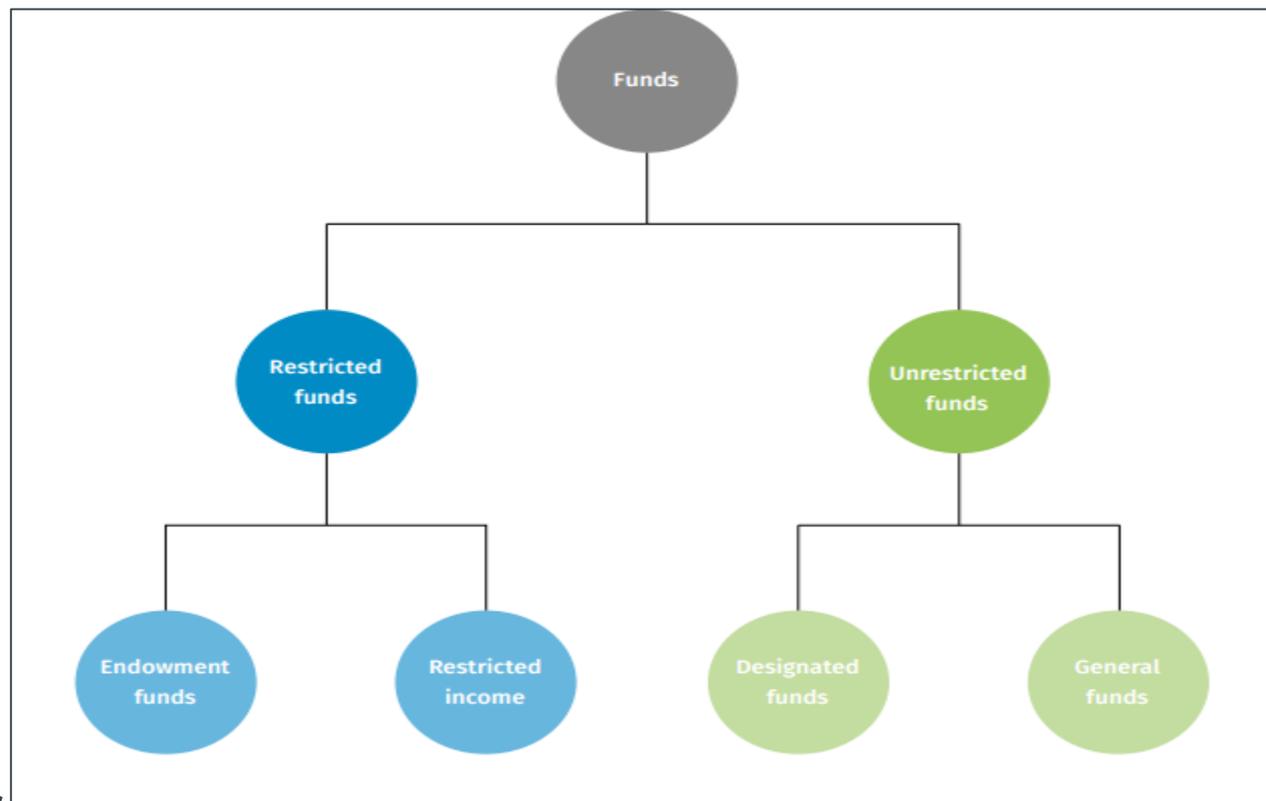
**GREENWICH LEISURE LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES**  
**(INCORPORATING A CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	31.12.17 Unrestricted Funds	31.12.17 Restricted Funds	31.12.17 FRS 102 s.28 Adjustment Unrestricted	31.12.17 Total Funds £	31.12.16 Unrestricted Funds	31.12.16 Restricted Funds	31.12.16 FRS 102 s.28 Adjustment Unrestricted	31.12.16 Total Funds £
<b>INCOME</b>									
<b>Income from charitable activities</b>									
Operation of leisure, recreation sites and health activities	3	271,536,917	786,652	-	272,623,569	242,480,970	128,079	-	242,609,049
<b>Income from other trading activities</b>									
Commercial trading operations	4	4,225,114	-	-	4,225,114	3,188,538	-	-	3,188,538
Investment income	5	<u>202,321</u>	<u>-</u>	<u>-</u>	<u>202,321</u>	<u>170,225</u>	<u>-</u>	<u>-</u>	<u>170,225</u>
<b>Total income</b>		<b>276,264,352</b>	<b>786,652</b>	<b>-</b>	<b>277,051,004</b>	<b>245,839,733</b>	<b>128,079</b>	<b>-</b>	<b>245,967,812</b>
<b>EXPENDITURE ON</b>									
<b>Costs of raising funds</b>									
Investment management costs	6	37,147	-	-	37,147	24,714	-	-	24,714
Commercial trading operations	4	4,231,166	-	-	4,231,166	2,994,762	-	-	2,994,762
<b>Charitable activities</b>									
Operation of leisure, recreation sites and health activities	7	270,156,409	862,482	3,386,000	274,404,891	240,878,132	47,706	(311,000)	240,614,838
Losses on settlements		-	-	(2,511,000)	(2,511,000)	-	-	-	-
<b>Other expenditure</b>	10	<u>261,407</u>	<u>25,800</u>	<u>-</u>	<u>287,207</u>	<u>261,407</u>	<u>25,800</u>	<u>-</u>	<u>287,207</u>
<b>Total expenditure</b>		<b>274,686,129</b>	<b>888,282</b>	<b>875,000</b>	<b>276,449,411</b>	<b>244,159,015</b>	<b>73,506</b>	<b>(311,000)</b>	<b>243,921,521</b>
<b>Net income/(expenditure) for the year before other recognised gains and losses</b>		<b>1,578,223</b>	<b>(101,630)</b>	<b>(875,000)</b>	<b>601,593</b>	<b>1,680,718</b>	<b>54,573</b>	<b>311,000</b>	<b>2,046,291</b>

# ACTIVITY AND FUND ACCOUNTING

Charity accounts under the SORP allow for many different sorts of activities and for different income and expenditure streams (funds and sub-funds) for different purposes



# TABLE OF DIFFERENCES BETWEEN FORMATS

For Profit format	NfP/ Charity SORP	Difference
<b>Profit and Loss Account/ Income Statement</b>	Statement of Financial Activities	fP Profit oriented; NfP Activity oriented
<b>Turnover</b>	Incoming Resources	fP assumes that income is from sales of goods/services or space; NfP incoming resources not from sales of products produced in order to be sold with a view to making a profit. Incoming resources are split into those raised to support the primary activities of the organisation and those derived from the primary activities. Also split (see fund accounting below) according to how they are to be used – i.e. which activities they will support.
<b>Cost of Sales</b>	Outgoing resources	fP Direct cost of the products sold NfP Outgoing resources matched to activity/project which they support (see below for more detail)
<b>Gross profit</b>	No equivalent	fP GP is the difference between what the goods were sold for and what they directly (labour plus materials) cost to manufacture/buy in. NfP only interested in profit when trading as fundraising to support primary aims.

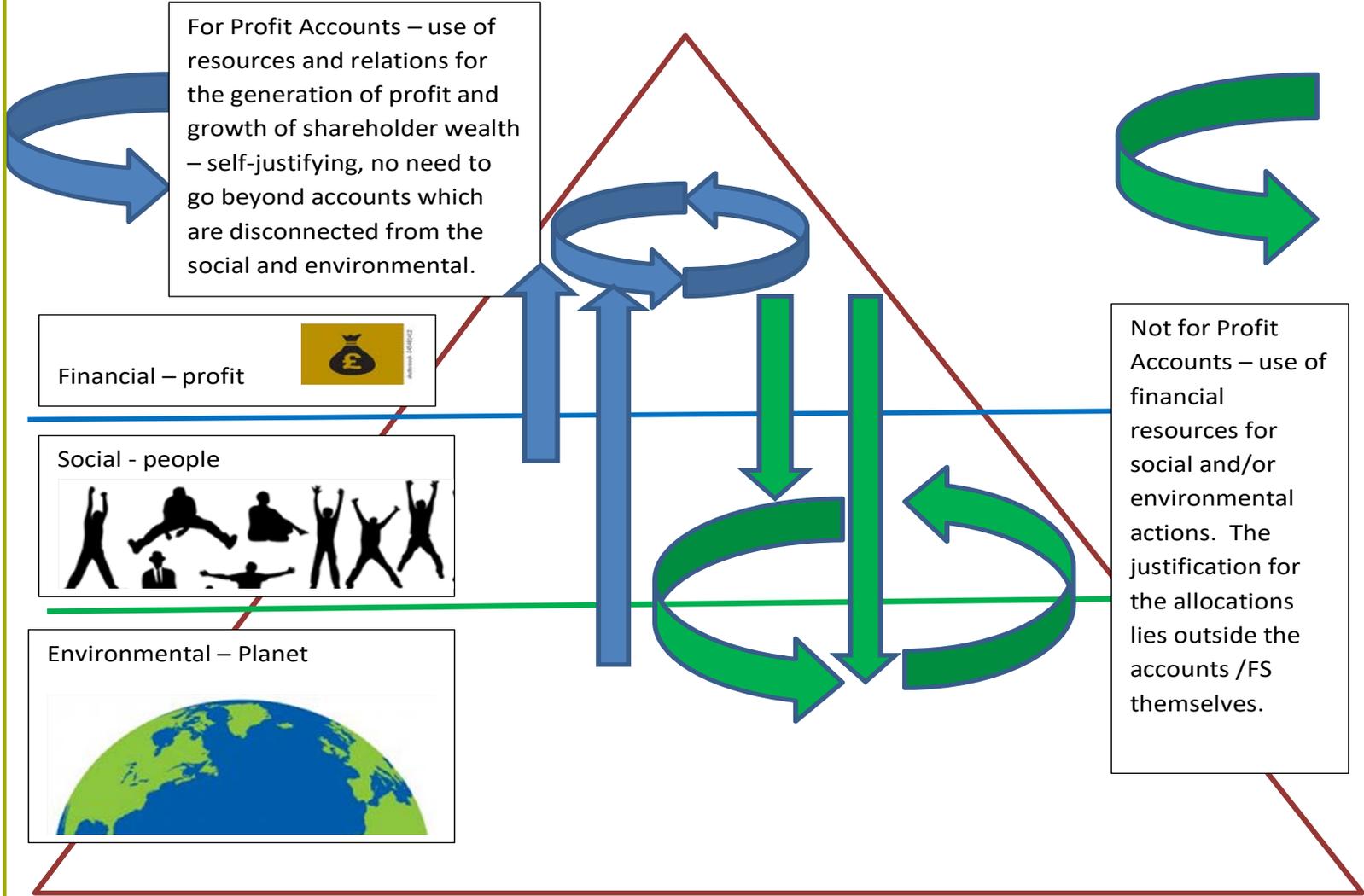
# DIFFERENCES CONTINUED

<p><b>Expenditure/ Operating costs</b></p>	<p><b>Outgoing resources</b></p>	<p>fP Costs of operating the business seen as reduction in gross profit. NfP resources allocated to activities – split between activities to raise funds and activities which are in direct pursuit of the organisation’s objectives. Objectives and achievements and the activities in their pursuit are explained in the (required) narrative with the Financial Statements.</p>
<p><b>Net/operating profit/loss</b></p>	<p>(Surplus/deficit) Net incoming/outgoing resources</p>	<p>fP Profit is the return made on investment; the increase in wealth which will be expressed in the Balance Sheet/Statement of FP; NfP Surplus/deficit or net incoming or outgoing resources are added to funds brought forward to get the final line of funds to carry forward – to be used next period.</p>
<p><b>No equivalent – maybe segmental reporting?</b></p>	<p>Fund accounting</p>	<p>fP Segmental geographic or type of turnover or cost/profit centre split. NfP Fund Accounting depends on the purpose to which the funds will be put, how the resources will be allocated – another dimension of sources and allocation of fund categorisation.</p>

# ARISTOTLE

- Aristotle, whose concepts have been developed by Marx, Polanyi and Schumacher, argues that economics is about the wise allocation of resources towards a good life for individuals and society; chrematistics (the art of making money), by contrast, is the pursuit of wealth (money) for its own sake.
- Wealth can only reasonably be pursued as a means to another end; it has no intrinsic value. It is instrumental in the pursuit of happiness – but just as wealth cannot reasonably be pursued for its own sake, nor can happiness. Both wealth and happiness need to be embedded in people (a good life) and society (a well ordered society) and their relationships with one another.

# FOR PROFIT /NOT FOR PROFIT RELATING TO THE TRIPLE BOTTOM LINE /INTEGRATED REPORTING/CAPITALS – closed and open financial logics



# CONCLUSIONS

- For profit accounting has lost sight of society and measures the pursuit of money – it is a tool of chrematistics.
- Not for profit accounting recognises that accounting is a tool for managing and reporting resources directed towards purposeful activities;
- It allows for resources to be allocated against a range of activities for a variety of aims, thereby recognising that they are only part of the picture, sending the reader beyond them for justification (rather than simple explanation) of the activities undertaken;