

OPINION

LICENSED VS OPERATING ACTIVITY: WHAT YOU MUST KNOW BEFORE YOUR REGULATOR ASKS



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“Here's a wake-up call for every business owner: your license says one thing, your business does another, and that gap is a risk you can still close on your own terms.”

Every trade license lists the activities a company is legally allowed to carry out. Every company also has an operating reality: what it actually sells, to whom, and where its revenue really comes from. When the two match, nobody thinks about it. When they drift apart, the business carries a compliance risk that rarely surfaces until a bank review, an audit, or a contract dispute forces the question.

THE LANDSCAPE SHIFT: WHAT IS THE GAP, EXACTLY?

Licensed activity and operating activity are two different things, and the difference is not cosmetic.

Licensed activity

This is what your trade license or permit authorizes the company to do, such as consulting, trading, or software development. It is a legal boundary set by the licensing authority.

Operating activity

This is what the company actually does day to day, and what generates its revenue. It is shaped by clients, markets, and opportunities, not by the wording on the license.

Where the two drift apart

- A client asks for a service that is not on the license, and the owner says yes.
- A side line grows from occasional income into a core revenue stream.
- A service business starts selling products, or a trading business starts offering services.
- A new channel or market opens up, such as online sales or a different customer type.
- In a group, one entity earns income that belongs to another entity's licensed scope.

A worked example: when the gap is also a regulated activity

Consider an entity whose license permits "Investment in Commercial Enterprises and Management." On paper, that covers holding stakes in operating businesses and managing them. In practice, the entity buys several properties with the plan to sell them later at a profit.

To fund the purchases, it raises money from individual investors and promises them a guaranteed return once each property is sold. Two separate gaps now exist:

- **Property trading.** Buying real estate for resale is not the same as investing in and managing commercial enterprises, so the activity itself sits outside the license.
- **Pooling investor funds.** Collecting money from individuals, putting it into a common pool, and promising returns is generally treated as a regulated activity in its own right. It typically needs specific approval from the relevant financial or investment regulator, and a trade license for commercial investment does not provide it.

The second gap is the more serious one

A missing activity can often be added by amending the license. A regulated activity cannot be added that way: it needs a separate authorization, and until it is granted, the entity may face enforcement action, a demand to return investor money, and personal exposure for its managers.

The guaranteed return makes it worse, because it can make the arrangement resemble an unregulated investment scheme rather than a simple property deal.

WHY DOES IT MATTER?

The rationale is straightforward: a license is the basis on which authorities, banks, and counterparties trust a business. Revenue that sits outside it undermines that trust, and the consequences depend on the jurisdiction but follow a familiar pattern.

- **Fines and penalties** from the licensing authority, often escalating for repeat or long-running violations.
- **Suspension or cancellation** of the license, which halts all activity, not just the unlicensed part.
- **Banking scrutiny.** Banks compare account activity with the declared license, and unexplained income can trigger reviews, delays, or frozen accounts.

THE ACCOUNTING IMPLICATIONS: REVENUE OR OTHER INCOME?

The license decides what you may do. It does not decide how you account for it. Under IFRS 15, revenue is income arising from the entity's ordinary activities, so the test is the nature of the income, not the wording on the license. Income earned outside the license is still income: it must be recorded, and tax follows it. What changes is where it is presented, and what else has to be recognised or disclosed.

The lesson is that the gap is not always a matter of paperwork. Sometimes the operating activity needs a different license, a regulated structure, or a different way of funding the business altogether.

- **Contract risk.** A contract for an activity you are not licensed to perform can be hard to enforce, and clients may withhold payment.
- **Tax and audit questions.** Revenue still has to be reported, and a mismatch between declared and actual activity invites follow-up.
- **Insurance and liability gaps** if something goes wrong in an activity the policy or license does not cover.

The check is also getting easier to run. Banks, tax systems, and licensing bodies increasingly hold data that can be compared side by side. "Nobody checks" is a weaker assumption every year.

Some entities place such income under "other income" on the view that it is not part of the licensed business. That can be defensible for a one-off, incidental item. It is hard to defend for a stream the business actively sells and repeats, because that is an ordinary activity whatever the license says.

A worked example

A company holds a license for management consultancy. During the year it earns:

- **Licensed consultancy fees of 1,500,000**, with related costs of 900,000.
- **Event-management fees** of 250,000 (excluding 5% VAT), which **is not the licensed activity**. The services cost 150,000 to deliver, and the clients paid in full.

The entry to record the event-management income is the same whichever line it is presented in:

Recognition of revenue

Dr. Bank (250,000 plus 12,500 VAT)	262,500
Cr. Revenue (Treatment A) or	
Other income (Treatment B)	250,000
Cr. VAT Payable	12,500

Recognition of cost of revenue

Dr. Cost of Revenue (A) or	
Other expenses (B)	150,000
Cr. Bank/Payables	150,000

The only choice is the account credited. The income statement then looks like this:

	A: shown as revenue	B: shown as other income
Revenue	1,750,000	1,500,000
Cost of revenue	(1,050,000)	(900,000)
Gross profit	700,000	600,000
Other income	-	250,000
Other expenses	-	(150,000)
Result from these activities	700,000	700,000

What changes and what does not

- Unchanged: the profit for the year, the VAT and tax payable, and the cash received. Treatment B does not remove the income from the books or from the tax return.
- Changed: reported revenue is 250,000 lower (about 14%), and gross profit is 100,000 lower. Anything measured off revenue or gross margin moves with it: bank covenants, tender thresholds, revenue-based fees, and the revenue disaggregation required by IFRS 15.
- Disclosed: if the income is material, a reader of the accounts should be able to see what it is and why it is presented where it is. Hiding it in a general line raises more questions than it avoids.

Other accounting consequences

- Enforceability. If the contract with the client cannot be enforced, it may fail the IFRS 15 contract criteria. Cash received is then held as a liability until the obligation is fully performed and the amount is non-refundable. Unpaid balances also need an expected credit loss assessment, since clients may withhold payment.
- Fines and penalties. If a penalty is probable and can be estimated reliably, IAS 37 requires a provision, for example Dr Penalty expense 50,000, Cr Provision 50,000. If it is only possible, it is disclosed as a contingent liability.

- Going concern and events after the year end. Where license cancellation is a realistic outcome, management must consider it in the going concern assessment. A license amendment obtained after year end is generally a non-adjusting event, but it may need disclosure.
- Comparatives. If last year's income was placed in the wrong line, correct it in the comparatives under IAS 8 rather than only fixing the current year.

Once the activity is added to the license, the same income moves into revenue going forward. Until then, the accounts should show the income honestly, in the line that reflects what the business actually does, and say so.

THE ROAD AHEAD: HOW TO CLOSE THE GAP

This is not a renewal-day exercise. It needs a review, a decision, and a few changes to how the business records its work.

1. Assessment and Mapping

List every revenue stream from the last 12 to 24 months and match each one to an activity on the license. Look at what the business actually delivered, not at invoice labels. Flag anything with no match.

2. Decide the fix for each gap

The usual routes are: add the activity to the existing license, move to a different license type, set up a separate entity or branch where the authority does not allow combining the activities, or stop the activity. Confirm the route with the authority.

3. Regularize existing revenue

If income has already been earned outside the license, pause the activity until it is covered, keep clear records of what was earned, and speak to the licensing authority or an adviser. Correcting voluntarily usually goes better than being found.

4. Systems and records

Tag revenue streams in the chart of accounts to licensed activities, and add a license check to the process for taking on new work. Build a routine, not a manual workaround.

5. Stakeholder engagement

Your bank, auditor, and advisers should hear about changes from you. Get any confirmation from the authority in writing.

PITFALLS TO AVOID: COMMON MISTAKES

Assuming "everyone does it"

The most common mistake is treating a mismatch as normal because peers have one too. Peers are not the ones answering the bank's questions or the regulator's letter.

Treating it as a paperwork detail

Owners who only look at the license at renewal time miss the drift that happens in between. Compare revenue with the license at least once a year.

Overlooking group structures

When several entities share clients, intercompany invoicing and shared contracts can place revenue in an entity whose license does not cover it. Each entity needs its own check.

Relying on verbal comfort

A friendly answer from a counter officer or a service provider is not a ruling. If the activity is borderline, get the position confirmed in writing.

CONCLUSION: THE TIME TO ACT IS NOW

The gap between licensed and operating activity is not a technicality, however, it is more legal and regulatory compliance matter. It decides whether a business can bank, contract, and grow without surprises. The question is not whether the gap will be noticed, but whether you find it first.

Owners who review early fix the problem while it is still a choice, usually with an amendment and a fee. Those who wait; fix it after an inspection, an audit, or a frozen account. Put this year's revenue next to your license today, and ask whether they tell the same story.

How can we help

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