PROPOSED CHARITIES ACCOUNTING STANDARD	ED/CAS

Exposure Draft

Charities Accounting Standard

Comments to be received by 3 March 2010

This exposure draft *Charities Accounting Standard* is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued as Charities Accounting Standard (CAS).

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 3 March 2010 preferably by email to:

MCYS_Charities@mcys.gov.sg

or addressed to:

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510 Thomson Rd #15-02
SLF Building
Singapore 298135
Reference: Charities Accounting Standard

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PREFACE

Background

A1 The Council on Corporate Disclosure and Governance was established on 16 August 2002 to prescribe accounting standards for Singapore-incorporated companies and to review and recommend corporate governance and disclosure practices on a continuing basis. The accounting standards prescribed by the Council on Corporate Disclosure and Governance are known as Financial Reporting Standards, which are closely modelled after the International Accounting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board.

A2 With the enactment of the Accounting Standards Act and the dissolution of the Council on Corporate Disclosure and Governance on 1 November 2007, the Accounting Standards Council took over the task of prescribing accounting standards from the Council on Corporate Disclosure and Governance. In addition to prescribing the accounting standards for companies, the Accounting Standards Council also prescribes accounting standards for **charities**, co-operative societies and societies.

A3 The Accounting Standards Council - Committee for Charities is chaired by the Commissioner of Charities with representations from the donor, regulator, and professional (auditor and accountant) sectors. It is tasked to help with the prescription of accounting standards for charities.

A4 The accounting standards prescribed by the Accounting Standards Council shall apply to all charities regardless of their legal entity status.

Charities Accounting Standard

A5 The Accounting Standards Council has developed a set of accounting standards for charities ("Charities Accounting Standard"). The Charities Accounting Standard is essentially a simplified version of the Financial Reporting Standards containing accounting standards relevant to the charity sector. It aims to better meet the needs of charity sector and its stakeholders.

A6 The Charities Accounting Standard sets out the basis for preparing and presenting **financial statements** for the charity sector. A charity that is entitled to adopt the Charities Accounting Standard but chooses not to do so, should apply the full Financial Reporting Standards. However all charities (regardless of size) will have to replace the Income & Expenditure Statement with the Statement of Financial Activities.

A7 For charities that are entitled to adopt the Charities Accounting Standard, financial statements will generally be prepared according to the provisions of the Charities Accounting Standard. For transactions or events not dealt with in the Charities Accounting Standard, these charities should refer to the Financial Reporting Standards as a means of establishing the current practice.

A8 The Accounting Standards Council took reference from:

a. Financial Reporting Standard for Smaller Entities issued by the Accounting Standards Board of UK;

b. Statement of Recommended Practice (Revised 2005) on Accounting and Reporting by Charities issued by the Charity Commission for England and Wales; and

c. Recommended Accounting Practice 6 on Accounting and Reporting by Charities issued by the Council of the Institute of Certified Public Accountants of Singapore. It has been withdrawn after the implementation of the Charities Accounting Standard.

Guiding Principles

A9 In developing the Charities Accounting Standard, the Accounting Standards Council is guided by the following principles:

a. The accounting standards shall provide transparent and comparable financial reporting. This recognises the need for greater disclosure to help increase the level of transparency and accountability to the donating public and other stakeholders, and enhance public confidence in the charity sector.

b. The accounting standards shall not be "one-size-fits-all", but be stratified, with larger charities and **Institutions of Public Character (IPCs)**, and those that raise **funds** from the public (typically IPCs) subjected to more stringent reporting requirements.

Key Highlights of Charities Accounting Standard

A10 <u>Greater relevance</u> - It captures the Financial Reporting Standards requirements that are largely applicable to the charity sector.

A11 <u>Enhanced Presentation Format</u> – The Charities Accounting Standard is structured according to the layout of the financial statement (i.e. Income and Expenditure Statement, Balance Sheet, Notes to Accounts) for the ease of reference by the readers. However the financial details of the charities will be disclosed differently. For example, the presentation format of the Income & Expenditure Statement will be changed to the presentation format used in Recommended Accounting Practice 6: Statement of Financial Activities. It accounts for all the **funds** of the charity and is presented in columns representing the different types of funds i.e. restricted and unrestricted funds. This will provide greater clarity as to how a charity receives and applies its **income** to meet its objectives.

A12 <u>Consistent interpretation</u> – A glossary of accounting terms used in the Charities Accounting Standard is also provided. This will provide more clarity on the terms used and greater consistency and better quality of financial reporting by reducing diversity in accounting practice and presentation.

Preparation of Financial Statements

A13 The main obligation of **charity trustees** in preparing financial statements and reports is to give a true and fair view of the charity's income and **expenditure** during the accounting period and of its state of affairs at the end of the period. To achieve this, the charity trustees' judgement may dictate the disclosure of more information than what the Charities Accounting Standard prescribes.

Using the Charities Accounting Standard

A14 In the Charities Accounting Standard, we refer to:

a. All registered charities and Institutions of a Public Character that are registered under the **Charities Act** as "charities", except for the following:

   i. **Government-funded educational institutions**, and

   ii. Charities that are Statutory Boards listed in First Schedule of the Accounting Standards Act, as these Statutory Boards prepare their financial statements in compliance with the accounting standards established by the Accountant-General.

b. The governing board members who are responsible for the governance and management of a charity as "charity trustees"; in practice, other equally valid terms are used, such as management committee members or board of directors.

c. Financial statements refer to:

   i. Financial statements of a charity or **legal entity** if there is no need to prepare **consolidated financial statements**,

   ii. Consolidated financial statements of a group, if there is a need to do consolidation.

d. The Charities Accounting Standard shall apply regardless of the terms used.

A15 Terms appearing in **bold** in the text are explained in the Glossary set out in Appendix 1 - Glossary, and they will appear bold once rather than repeatedly in the main text under this standard.

INTRODUCTION

Effective Date of Commencement

B1 The Charities Accounting Standard (CAS) is applicable to all accounting periods beginning on or after 1 January 2011. Earlier application is permitted. If a charity applies the CAS for an earlier period, it shall disclose that fact. A charity is not required to apply the requirements in the CAS to comparative information that relates to annual periods beginning before 1 January 2011, (or for a prior period for which it was not required) if it is impracticable to do so. In such a case, the charity shall disclose that fact.

Objectives

B2 The CAS sets out the basis for preparing and presenting financial statements for the charity sector. The definitions and accounting treatments presented in the CAS are consistent with the requirements of the Charities Act, and Financial Reporting Standards (FRS)[1]. The CAS excludes a number of FRS requirements that are largely not applicable to the charity sector (please see Appendix 2 – List of Financial Reporting Standards Excluded from Charities Accounting Standard). For transactions or events not addressed in the CAS, charities shall take into account FRS as a means of establishing current practice.

B3 The objectives of CAS are to:

a. Improve the quality of financial reporting environment by charities;

b. Enhance the relevance, comparability and understandability of information presented in financial statements;

c. Provide clarification, explanation and interpretation to accounting standards, their application in the charity sector, and sector specific transactions;

d. Assist those who are responsible for the preparation of charities' annual reports and financial statements; and

e. Reduce diversity in accounting practice and presentation.

Purpose of Financial Statements

B4 The purpose of preparing a charity's financial statements is to discharge the charity trustees' duty of **public accountability** and stewardship. CAS sets out accounting standards for this purpose but charity trustees shall consider providing any additional information that is needed to give donors, beneficiaries and the general public a greater insight into the charity's activities and achievements.

[1] Financial Reporting Standards are Standards and Interpretations adopted by the Accounting Standards Council. They comprise of:
a. Financial Reporting Standards; and
b. Interpretations of Financial Reporting Standards.

Financial statements prepared on the basis of CAS are not a substitute for management accounts required to run the charity on a daily basis, though both draw on the same primary financial records.

B5 The Balance Sheet is not necessarily a measure of the wealth of the charity but does show the resources available, what form those resources take and how they are held in the different funds, and provides information about the **liquidity** of **assets** and general solvency.

B6 The Statement of Financial Activities provides information as to how a charity receives and applies its income to meet its objectives. It is not intended to demonstrate a charity's efficiency.

B7 In the extremely rare circumstances in which the charity trustees conclude that it would be necessary to depart from a CAS requirement, because compliance with the requirement would be so misleading that it would conflict with the true and fair view principles. However such departure from CAS is allowed only if it is not prohibited by the Charities Act and Regulations. Under all circumstances, the charity is required to make specified disclosures.

INVITATION TO COMMENT

A1: Do you think the CAS:

a.	Improve the quality of financial reporting by charities	☐ Yes	☐ No
If No, please let us have your reasons:			
b.	Enhance the relevance, comparability and understandability of information presented in financial statements	☐ Yes	☐ No
If No, please let us have your reasons:			
c.	Provide clarification, explanation and interpretation to accounting standards, their application in the charity sector, and sector-specific transactions	☐ Yes	☐ No
If No, please let us have your reasons:			
d.	Assist those who are responsible for the preparation of charities' annual reports and financial statements	☐ Yes	☐ No
If No, please let us have your reasons:			
e.	Reduce diversity in accounting practice and presentation	☐ Yes	☐ No
If No, please let us have your reasons:			

A2: Specified implementation and technical questions:

a.	In deciding the content of the proposed CAS, the ASC focused on the types of transactions, other events and conditions that are typically encountered by charities in Singapore. For such entities, the proposed CAS is intended to be a stand-alone document, with minimal cross-references to the full Singapore Financial Reporting Standards (SFRSs). With the objective of stand-alone document in mind, are there any additional transactions, other events or conditions that should be covered in this proposed standard to make it	☐ Yes	☐ No

	more self-contained?		
If Yes, please let us have your reasons:			
b.	Some topics addressed in the full SFRSs are omitted from the proposed CAS because the ASC believes that typical charities in Singapore are not likely to encounter such transactions or conditions. These are discussed in Appendix 2 of the proposed standard. By a cross-reference, the proposed standard requires charities that have such transactions to follow the relevant full SFRSs. Should any additional topics be omitted from the proposed standard and replaced by a cross-reference? If so, which one and why?	☐ Yes	☐ No
If Yes, please let us have your reasons:			
c.	Each section of the proposed CAS includes relevant disclosure requirements that match to the nature of charity sector in Singapore. Are there any disclosures that are not proposed so that the ASC should include those disclosures in the proposed standard? If so, which one and why? Conversely, do you believe that any of the proposed disclosure should not be required for charities? If so, which ones and why?	☐ Yes	☐ No
If Yes, please let us have your reasons:			
d.	Paragraph 468 provides transitional arrangement for charities that move from the SFRS (or other acceptable financial reporting standards) to the proposed Charities Accounting Standard. Do you believe that the transitional arrangement is adequate? If not, why and how can it be improved?	☐ Yes	☐ No
If No, please let us have your reasons:			
e.	The ASC expects to publish an omnibus exposure draft of proposed amendments to the proposed CAS approximately 3 years. In developing such exposure drafts, the ASC expects to consider new and amended SRFSs that have been adopted in the previous 3 years as well as specific issues that have	☐ Yes	☐ No

	brought to its attention regarding possible amendments to the proposed standard. On occasion, the ASC may identify a matter for which amendment of the proposed Charities Accounting Standard may need to be considered earlier than in the normal 3 years cycle. Is this approach to maintaining the proposed CAS appropriate, or should it be modified? If so, how and why?		
If No, please let us have your reasons:			

A3: Do you agree with the below specific proposals? Please state your reasons if you disagree with the proposals.

a.	**Support Costs**	**Paragraphs 120 – 123**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	
b.	**“Preservation of Monuments” Assets:**	**Paragraphs 242 – 256 (in particular paragraph 246)**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	
c.	**Social Investments**	**Paragraphs 273 – 277**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	
d.	**Disclosure of Loan to board members, external parties (persons or legal entities) e.g. terms of loan, interest rates**	**Paragraph 288**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	
e.	**Related Party Disclosures**	**Paragraphs 367 – 377 (in particular paragraph 369)**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	
f.	**Funds Structure Policy Notes**	**Paragraphs 410 – 411**
	☐ Yes ☐ No	

	If No, please let us have your reasons:	
g.	**Control Test (Subsidiary)**	**Paragraphs 444 – 446**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	
h.	**Branches**	**Paragraphs 447 – 454; (in particular paragraph 449 – 450); Relevant info in paragraph 6**
	☐ Yes ☐ No	
	If No, please let us have your reasons:	

A4: Do you agree with the proposed application of the CAS to the charity sector highlighted below? Please state your reasons if you disagree with the proposals.

a.	Charities set up as Companies Limited by Guarantees (CLGs) and all large IPCs with income or expenditure $10m and above would be mandated to adopt either the CAS or the SFRS. Charities and all non-large IPCs set up as Societies are recommended to adopt CAS as a good practice.	☐ Yes	☐ No
If No, please let us have your reasons:			
b.	Effective date for the application of the CAS would be for financial year commencing on or after 1 January 2011.	☐ Yes	☐ No
If No, please let us have your reasons:			

A5: Do you have other comments on CAS? Please indicate the specific paragraph or paragraphs to which the comments relate.

[Draft] Charities Accounting Standard ([draft] CAS) is set out in paragraphs 1–468 and Appendices 1–4. All the paragraphs have equal authority. Definitions of terms given in Appendix 1 are in bold the first time they appear in the [draft] CAS. [Draft] CAS should be read in the context of its core principle highlighted in the Preface and Introduction.

CHARITIES ACCOUNTING STANDARD

Scope

1. The Charities Accounting Standard (CAS) is intended for the charities, as defined by the Charities Act and Regulations.

2. The CAS shall be applied to all financial statements reporting of such charities.

General

<u>Requirement to prepare financial statements</u>

3. The charity trustees shall prepare a set of financial statements for each **financial year** of the charity, which comprises:

   a. A **Balance Sheet** as at the last day of the financial year;

   b. A **Statement of Financial Activities**;

   c. A **Statement of Cash Flows**;

   d. Notes explaining the **accounting policies** adopted and other notes, which explain or expand upon the information contained in the accounting statements referred to above or which provide further useful information; and

   e. The corresponding figures for the previous accounting period shall be provided in financial statements in accordance with CAS. The date of the end of the **reporting period** or the period covered by the set of financial statements or notes shall also be shown.

4. The Balance Sheet, Statement of Financial Activities, and Statement of Cash Flows are all considered to be “primary statements”, and shall therefore be given equal prominence in the financial statements and shall not be relegated to the notes to the financial statements. Where any charity is, or its trustees are, acting as **custodian trustees**, they shall include the funds they hold as custodian in their own Balance Sheet as a **liability** and disclose them by way of a note to their financial statements and provide the details in the charity’s annual report.

Accounting principles and policies

5. The financial statements shall state that they have been prepared in accordance with CAS[2] and the Charities Act (or other equivalent legislation). If the financial statements depart from CAS in any material respect, with the concurrence of the external auditors this shall be stated in the accounting policies giving the reason and justification for the departure and the financial impact.

6. If any **branches** have been omitted from the financial statements with the approval from the Commissioner of Charities, the reason for omission shall be given. The names of the individual branches omitted for the financial statements need to be disclosed in the financial statements. Reference shall also be made to any related organizations (such as supporters associations or subsidiaries not consolidated) explaining the accounting treatment adopted.

7. Financial statements shall include but not limited to the following:

   a. Details of any changes to the accounting policies followed in the preceding period including, in addition to the disclosures necessary for prior period adjustments, a brief explanation of why each new accounting policy is thought to be more appropriate and, where practicable, an indication of how the change has affected the results for the current period; and

   b. Where the effect of a change to an **estimation technique** is material, such as the life of an item of **property, plant and equipment** to be depreciated, a description of the change and, where practicable, how the change has affected the results for the current period.

8. Accounting policies are the principles, bases, conventions and rules by which transactions are recognised, measured and presented in the financial statements. They are supplemented by estimation techniques where judgement is required in recording the value of income and expenditure and of assets and liabilities, such as judgement made in accounting policies and key sources of estimation of uncertainties.

9. It is essential that the financial statements be accompanied by an explanation of the basis and estimation techniques on which they have been prepared. Financial statements are normally prepared on the basis that the charity is a going concern and must include relevant, reliable, comparable and understandable information.

10. Accounting policies and estimation techniques shall be consistent with the requirements of the CAS and of Charities Act (or other equivalent legislation). Where a charity has a choice, it shall select the policies and techniques that are most appropriate to its particular circumstances, taking into account the objectives of:

[2] This statement may be included with the note of accounting policies or, for those charities taking advantage of the exemptions for charities in Charities Act, in the statement required by Charities Act to be given on the Balance Sheet. For example, in Singapore the combined statement could read as follows "These financial statements have been prepared in accordance with the special provisions relating to charities within Charities Act and the Charities Accounting Standard." If abbreviated financial statements are also to be prepared, the statement referring to the Charities Accounting Standard shall be included with the note of accounting policies so that it is reproduced in the abbreviated financial statements.

a. Relevance – The quality of information that allows it to influence the economic decisions of users by helping them to evaluate past, present or future events or confirming or correcting, their past evaluations.

b. Reliability – The quality of information that makes it free from material error and biases, and gives faithful representation that it either purports to represent or could reasonably be expected to represent.

c. Comparability – The quality of information that allows it to be evaluated through time and across organisations, to help users to identify the changes, trends and relative performance in financial position.

d. Understandability - The quality of information that makes it comprehensible by users who have a reasonable knowledge of **business** and economic activities and accounting and a willingness to study the information with reasonable diligence.

11. Accounting policies shall be applied consistently within the same financial statements and from one financial year to the next. They shall be reviewed regularly to ensure that they remain the most appropriate to the charity's particular circumstances. The impact on consistency and comparability shall be the main considerations in judging whether a new policy is more appropriate than the existing one. Subsequent to a change in accounting policy, the amounts for the current and corresponding periods shall be restated based on the new policies.

12. The amount of each individual asset or liability shall be accounted for in its entirety. Assets or income may not be set off against liabilities or expenditure, or vice versa.

Going Concern

13. The charity shall be presumed to be operating as a **going concern**. The charity trustees shall consider whether there are major doubts about the charity's ability to continue as a going concern within one year from the date of approval of the financial statements, and disclose any material uncertainties that they are aware of in the financial statements. The financial statements shall not be prepared on a going concern basis if the charity trustees establish after the Balance Sheet date their intention or the need to liquidate the charity; if such an intention or need exists, the financial statements may have to be prepared on a different basis where each category of assets is re-evaluated individually and, if so, the basis used is disclosed.

Prudence

14. The amount of any item shall be determined on a prudent basis. Prudence is the caution required in establishing estimates when there is uncertainty, such that gains and assets are not overstated and liabilities are not understated. However it is neither necessary to exercise prudence where there is no uncertainty, nor appropriate to use prudence as a reason to understate deliberately assets or gains or overstate liabilities or losses.

Prior period adjustments

15. **Prior period adjustments** shall be accounted for by restating the comparative figures for the preceding period and adjusting the opening balance of **reserves** for the cumulative effect in the primary statements and notes. It shall be noted at the foot of the statement of financial activities of the current period:

a. The accumulative effect of the adjustments; and

b. The effect of the prior period adjustments on the results for the preceding period, where practicable.

Accounting for Separate Funds

16. The main purpose of the financial statements is to give an overall view of the total income during the year and how they have been expended, with a Balance Sheet to show the overall financial position at the year-end. There are additional requirements for charities that have to account for more than one fund under their control. The financial statements shall provide a summary of the main funds, differentiating in particular between the unrestricted income funds, **restricted income funds** and **endowment funds**. The columnar format of the Statement of Financial Activities (and of the Balance Sheet, where the option is taken to use a columnar presentation of funds) is designed to achieve this. Depending on the **materiality** of each, the notes to the financial statements shall group the **restricted funds** under one or more heads.

17. Charities need to account for the proper administration of the individual funds in accordance with their respective terms of trust and accounting records must be kept in a way, which will adequately separate transactions between different funds. Some charities may hold one or more restricted funds, some of which may be permanent or expendable endowment funds. The position is summarised in paragraphs 329 - 349**.**

18. A charity's individual financial statements shall comply with the formats of the Balance Sheet and Statement of Financial Activities specified below, in terms of the form, content and notes to the financial statements disclosure.

19. The financial statements may include more detailed disclosures than any of the items listed in the format adopted.

20. Where there is no amount to be shown for an item in the current and previous financial years, the line listed in the formats shall not be included. Every item in the Balance Sheet, Statement of Financial Activities and notes to the financial statements shall show corresponding amounts for the previous accounting period. The corresponding amount for an item shall be shown, where there is an amount to be shown for the previous period but not for the current accounting period. A corresponding amount shall be adjusted if it is not comparable with that for the current accounting period, and details of the adjustment and reasons for it shall be disclosed in a note to the financial statements.

21. If any amount of reserves are set aside, proposed to be set aside, withdrawn or proposed to be withdrawn are not disclosed in the charity's financial statements, it

must be disclosed by way of a note to the financial statements. For each item of reserves that is disclosed separately in the financial statements, the following information shall be provided:

a. The amount of the reserves at the beginning and end of the financial year;

b. Any amount transferred to or from the reserves during the year; and

c. The source and application of the amounts transferred.

22. There shall be separate disclosure on the total secured loan that has been included in the total amount of creditors.

Statement of Financial Activities format

23. The Statement of Financial Activities shall show the items listed in the order, and under the headings and sub-headings, shown in the format below. The reference numbers (e.g. A, A1, etc) are provided to facilitate cross-referencing to the relevant sections in CAS, and they shall not be used in the preparation of financial statements.

Reference	**Table A: Statement of Financial Activities**	**Notes**	**Unrestricted Funds**	**Restricted Funds**	**Endowment Funds**	**Total Funds**	**Prior Year Total Funds**
A	***Income***						
A1	Income from generated funds						
A1a	Voluntary income						
A1b	Activities for generating funds						
A1c	Investment income						
A2	Income from charitable activities						
A3	Other income						
	Total income						
B	***Expenditures***						
B1	Costs of generating funds						
B1a	Costs of generating voluntary income						
B1b	Fundraising trading: cost of goods sold and other costs						
B1c	Investment management costs						
B2	Charitable activities						
B3	Governance costs						
B4	Other expenditures						
	Total expenditures						
	Tax expense						
	Net income / expenditure before transfers						
	Transfers						

C	Gross transfers between funds						
	Net income before holding gains and losses						
D	Other recognised gains/losses						
D1	Gains on revaluation of property, plant and equipment for charity's own use						
D2	Gains/losses on investment assets						
	Net movement in funds						
E	Reconciliation of Funds						
	Total funds brought forward						
	Total funds carried forward						

Balance Sheet format

24. The Balance Sheet shall show the items listed in the order, and under the headings and sub-headings, shown in the format below. The reference numbers (e.g. A, A1, etc) are provided to facilitate cross-referencing to the relevant sections in CAS, and they shall not be used in the preparation of financial statements.

Reference	**Table B: Balance Sheet**	**Notes**	**Total Funds**	**Total Prior Year Funds**
A	***Non-current assets***			
A1	Intangible assets			
A2	Property, plant and equipment			
A3	"Preservation of Monuments" assets			
A4	Long-term Investments:			
A4a	Investment Assets			
A4b	Social investments			
	Total non-current assets			
B	***Current assets:***			
B1	Inventories			
B2	Trade and Other Receivables			
B3	Short-term Investments			
B4	Cash and Cash Equivalents			
	Total current assets			
C	***Current Liabilities:***			
C1	Trade and Other Payables			
C2	Tax payable			
	Net current assets or liabilities			
	Total assets less current liabilities			
D	***Non-current Liabilities:***			
D1	Non-current payables			

D2	Provisions for liabilities and charges			
	Net assets or liabilities			
E	***Funds of charity:***			
E1	Unrestricted funds			
E1a	Unrestricted income funds			
E1b	Revaluation reserve			
E1c	Designated funds			
	Total unrestricted funds			
E2	Restricted funds			
E2a	Endowment funds			
E2b	Restricted income funds			
	Total restricted funds			
	Total charity funds			

Approval and signing of financial statements

25. The board of charity trustees shall approve a charity's annual financial statements, which shall be signed on behalf of the board by a charity trustee on the charity trustees' report. The date of approval of the financial statements by the board of charity trustees shall be disclosed in the financial statements. The financial statements must also contain a statement in a prominent position on the charity trustees' report that they have been prepared in accordance with Charities (Annual Statement of Financial statements) Regulations 1994.

Statement of Financial Activities

General

Introduction

26. The Statement of Financial Activities is a single accounting statement with the objective of showing all income and expenditure by the charity in the year on all its funds. It is designed to show how the charity has used its resources in furtherance of its objects for the provision of benefit to its beneficiaries. It shows whether there has been a net income or expenditure, including **capital** gains and losses on assets, and provides a reconciliation of all movements in the charity's funds.

Structure

27. A charity shall present all items of income and expenditure of the charity in a period on all its funds, and provide a reconciliation of all movements in the charity's funds. As a minimum a charity shall distinguish between unrestricted income funds, restricted income funds and the endowment funds of the charity. All of the charity's income and expenditure can be categorised between these funds, but a charity will not necessarily have funds of all three types.

28. If a charity has more than one type of fund, the statement shall show in columns, the movements in the different types of funds, and the total movements of

all the funds. Comparative figures for the previous financial year, given on the face of the statement shall be given for the row totals (e.g. voluntary income, investments income etc), rather than for the analysis of each row across the various categories of funds.

Adaptation of Formats

29. Charities shall expand the structure in order to convey a proper understanding of the nature of all their activities, where necessary using notes. Charities shall have a clear link between the income and expenditure and in particular activity analysis, where possible. Two examples of this are:

a. A charity running a care home could use the sub-heading “Residential Care Fees” within “A2: Income from Charitable Activities” and “Residential Care Costs” within “B2: Expenditure on Charitable Activities”; and

b. A charity fundraising through a shop could use the sub-heading “shops” within “B1: Activities for Generating Funds” and “B1b: **Fundraising Trading Costs**”.

30. Thus income and expenditure can be linked together by using similar or identical headings in different parts of the Statement of Financial Activities.

31. Additional subtotals may be added, where appropriate. For example, after row “B1c - Investment Management Costs”, an additional subtotal “net income available for charitable application” may be added.

32. The charity trustees shall take care to balance the provision of information with clarity. A charity shall present additional line items, columnar items, headings and subtotals in the Statement of Financial Activities, when such presentation is relevant to the understanding of the charity’s financial performance.

33. Where a charity has discontinued any of its operations, the financial statements shall distinguish between continuing and **discontinued operations**. This is to enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups). The charity shall disclose a single amount in the Statement of Financial Activities comprising the post-tax profit or loss of discontinued operations. Further analysis of the single amount may be presented in the notes or Statement of Financial Activities where appropriate. This will normally apply to the whole of a distinctive type of activity of a charity but not to the cessation of new projects within that activity.

34. Category headings shall be omitted where there is nothing to report in both the current and preceding periods. A charity may also vary the order in which it presents activity categories within the income and expenditure sections of the Statement of Financial Activities to meet its own presentational needs.

35. All gains and losses recognised in the financial statements for the period shall be included in the Statement of Financial Activities. The Statement of Financial Activities shall only include profits that are recognised at the Balance Sheet date. All liabilities that have arisen during the financial year, and the period between the Balance Sheet date and the date on which it is signed, shall be accounted for.

36. If the charity has received income from sources outside Singapore during the financial year, the percentage of income that is attributable to foreign sources shall be separately disclosed. The manner in which the charity's activities are organised shall be considered in the analysis of the source of income.

Exceptional items

37. All **exceptional items**, other than those included in the items listed in the next paragraph, shall be credited or charged in arriving at the surplus or deficit on net income before holding gains and losses by inclusion under the statutory format headings to which they relate. The amount of each exceptional item, either individually or as an aggregate of items of a similar type, shall be disclosed separately by way of a note, or on the face of the Statement of Financial Activities if that degree of prominence is necessary. An adequate description of each exceptional item shall be given to enable its nature to be understood. The effect of any transactions that are exceptional by virtue of size or incidence shall be stated, though they fall within the ordinary activities of the charity.

38. The following items, including provisions in respect of such items, shall be shown separately on the face of the Statement of Financial Activities as other recognised gains or losses:

a. Surplus or deficit on the sale or termination of an operation;

b. Costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the reporting charity's operations; and

c. Surplus or deficit on the disposal of property, plant and equipment.

Profit or loss on disposal

39. The gain or loss on the disposal of an asset shall be accounted for in the Statement of Financial Activities of the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost (less any **provisions** made) or at a valuation. Gain or loss on disposal of a previously acquired business shall include the attributable amount of **purchased goodwill** that has previously been charged against reserves as a matter of accounting policy and has not previously been charged in the Statement of Financial Activities.

a. Surplus or deficit on the sale or termination of an operation;

b. Costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the reporting charity's operations; and

c. Surplus or deficit on the disposal of property, plant and equipment.

40. If the asset is donated to the charity and this **donation** has not been reflected as an income upon receipt, the charity will have to account for the gross proceeds from the sale of the asset as an income in the Statement of Financial Activities. Otherwise, only the gain or loss on the disposal of an asset shall be accounted for in the Statement of Financial Activities.

Cost of Audit, Independent Examination or Reporting Accountant Services and other Financial Services

41. The notes to the financial statements shall disclose separately the amounts payable to the auditor, independent examiner or reporting accountant in respect of:

a. The costs of their respective external scrutiny; and

b. Other financial services such as taxation advice, consultancy, financial advice and accountancy. Where no other financial services have been provided, this fact shall be disclosed.

Income

Basic principles

42. Income - both for income and endowment funds - shall be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity's assets. Where an amount relating to any preceding financial year is included in the Statement of Financial Activities, the effect of its inclusion shall be stated. This will be dependent on the following three factors being met:

a. Entitlement - normally arises when there is control over the rights or other access to the resource, enabling the charity to determine its future application;

b. Certainty - when it is virtually certain that the income will be received; and

c. Measurement - when the monetary value of the income can be measured with sufficient reliability.

43. All income shall be reported gross whether raised by the charity (or by volunteers working at the charity's direction) or its agents. However where funds are raised or collected for the charity by individuals not employed or contracted by the charity, the **gross income** of the charity are the proceeds remitted to the charity by the organisers of the event, after deducting their expenses.

44. Within the charity sector entitlement to income may arise from a wide variety of transactions varying from contractual (i.e. in exchange for goods or services of approximately equal value between a seller and a purchaser) to the receipt of unrestricted **grants** or donations (resources given to use on any of the charity's purposes). Judgement will be required in deciding how any individual transaction fits

into this framework and in identifying those factors that are likely to lead to different accounting treatments for their recognition. In order to understand how accounting standards apply to different funding arrangements, charity trustees need to determine for each source of funds:

a. The legal arrangements (e.g. contract or trust law) governing the terms of the arrangement and settlement of disputes.

b. The specific performance to be achieved (a contract or **performance-related grant)** before entitlement to funding.

c. The intended purpose of the funds and its applications.

45. Where any income has been deferred, the notes to the financial statements shall explain the reasons for the deferrals and analyse the movement on the deferred account between income deferred in the current period and amounts released from previous periods. Income of a similar nature can be grouped together in the notes as appropriate.

46. Where a charity has held income for a third party which have not been included in the Statement of Financial Activities, the notes to the financial statements shall analyse the movement of these income during the year relating to each party or type of party where material. Where income has been held for related parties the required disclosure shall be given.

47. When a charity receives payment from a client in advance of performance, it recognises a liability equal to the amount received, representing its **obligation** under the contract. When the charity obtains the right to payment through its **performance**, this liability is reduced and the amount of the reduction in the liability is simultaneously reported as income.

48. Where a charity has partially performed its contractual obligations, it recognises income to the extent that it has obtained the right to payment through its performance.

49. Where the effect of the time value of money is material to reported revenue, the amount of income recognised shall be the **present value** of the cash inflows expected to be received from the client in settlement. The unwinding of the discount shall be credited to finance income as this represents a gain from a financing transaction.

50. Where at the time income is recognised on a transaction there is a significant risk that there will be default on the amount of payment due and the effect is material to reported income, an adjustment to the price specified in the contractual arrangement will be necessary to arrive at the amount of income to be recognised.

51. Subsequent adjustments to a debtor as a result of changes in the time value of money and credit risk shall not be included within income.

Analysis and Apportionment

52. Income shall be analysed according to the activity that produced the income, in particular grouping separately those income generated by charitable activity from those activities aimed primarily at generating funds.

53. In most cases it will be clear which activity generated a particular income. When the income is generated from several activities then it is permissible to apportion the income between the activities on a reasonable, justifiable and consistent basis.

54. Where any apportionment has taken place the method of apportionment shall be disclosed in the policy notes to the financial statements.

Contractual Arrangements

55. Income earned by providing goods and services in return for a fee as part of charitable activities, is recognised in the Statement of Financial Activities to the extent that the charity has provided the goods and/or services. Where such income is received in advance then a charity may not have entitlement to these income until the goods or services have been provided. In this situation income received in advance should be deferred until the charity becomes entitled to the income.

56. Certain grant funding arrangements may contain conditions that closely specify the service to be performed by the charity. The terms of such funding may be set out in a service level agreement where the conditions for payment are linked to the performance of a particular level of service or units of output delivered, for example, number of meals provided or the opening hours of a facility used by beneficiaries. Entitlement to the income derived from such performance-related grants may be conditional upon the delivery of the specified level of service and in such circumstances should be recognised to the extent that the charity has provided the services or goods.

57. Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should necessarily be recognised as a performance related grant. For a performance related grant entitlement to the income only arises with the performance of a specific output identified as a condition for the grant. Entitlement to the grant in such cases only arises as the performance conditions are met. This can be contrasted with a restriction that whilst limiting how a charity may expend funds to particular purposes does not require a specific and measurable output to be delivered by the recipient charity as a condition of a charity's entitlement to the funds. Such restricted grants are recognised on the basis set out in the above paragraphs.

58. Where charities receive membership subscriptions, these may be in the nature of a gift, or they may effectively buy services or access to certain privileges. Where the substance of the subscription is that of a gift, the income should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the income should be recognised as the service or benefit provided. If the subscriber receives rights to such benefits evenly over the period of membership then recognising such membership income on a pro-rata basis for the

period of time covered by the subscription may be an appropriate estimation technique for income recognition.

59. Charities may also, on occasions, undertake activities under a long-term contract. Owing to the length of time taken to complete such contracts, it is appropriate to take credit for appropriate income and the cost of any expenditure while contracts are in progress.

60. A charity shall recognise income in respect of its performance under a long-term contract when, and to the extent that, it obtains entitlement to consideration. This should be derived from an assessment of the value of the goods or services provided to its reporting date as a proportion of the total value of the contract. There will be contracts where costs incurred to date reflect the work performed and in such circumstances it would be appropriate to calculate income recognised at the Balance Sheet date based on the proportion of costs incurred to date in comparison with **total expenditure**. In the case of services, it may be appropriate to use the time spent as a proportion of the total time to be spent to fulfil the contract where this provides a reasonable estimate of a charity's performance and therefore entitlement. The incurrence of costs by the charity, does not, in itself, justify the recognition of revenue.

<u>Grants and Donations Receivable</u>

61. A pre-requisite of recognition of a promised grant or donation is evidence of entitlement. Evidence will normally exist when the grant is formally expressed in writing. Where entitlement is demonstrable, and no conditions are attached, such promises should be recognised as income once the criteria of certainty and measurability are met.

62. Charities often receive grants or donations with conditions attached that must be fulfilled before the charity has unconditional entitlement (control) of the income. Meeting such conditions may be either within the recipient charity's control or reliant on external factors outside its control. Where meeting such conditions is within the charity's control and there is sufficient evidence that the conditions will be met, the income should then be recognised. Where uncertainty exists as to whether the recipient charity can meet conditions within its control, the income should not be recognised but deferred as a liability until certainty exists that the conditions imposed can be met.

63. For example, a grant may be conditional on a charity obtaining matched funding, or subject to a successful planning consent. Meeting the conditions attaching to such grants will not be either certain or wholly within the control of the recipient charity. The charity will not therefore have unconditional entitlement (control) of the income until these conditions are met. The income and corresponding asset should not be recognised until the conditions set have been met.

64. Conditions such as the submission of accounts or certification of expenditure can be seen as simply an administrative requirement as opposed to a condition that might prevent the recognition of income.

65. Income may also be subject to donor-imposed conditions that specify the time period in which the expenditure can take place. Such a pre-condition for use limits the charity's ability to expend the income until the time condition is met. For example, the receipt in advance of a grant for expenditure that must take place in a future accounting period should be accounted for as **deferred income** and recognised as a liability until the accounting period in which the recipient charity is allowed by the condition to expend the income.

66. Where the existence of a condition prevents the recognition of an income, a **contingent asset** should be disclosed where it is probable (but not virtually certain) that the condition will be met in the future.

67. Charities are normally entitled to income when they are receivable. Recognition of a grant or donation without pre-conditions should not be deferred even if the income is received in advance of the performance of the activity funded by the grant or donation. In such cases the charity has entitlement to the income with the timing of the expenditure being within the discretion of the charity. Income cannot be deferred simply because the related expenditure has not been incurred.

68. Where either income is given specifically to provide an item of property, plant and equipment or an item of property, plant and equipment is donated (a gift in kind), the charity will normally have entitlement to the income when they are receivable. At this point, all of the income should be recognised in the Statement of Financial Activities and not deferred over the life of the asset. The possibility of having to repay the income does not affect their recognition in the first instance. Once acquired, the use of the asset will either be restricted or unrestricted. If its use is unrestricted the trustees may consider creating a **designated fund** reflecting the book value of the asset. The relevant fund will then be reduced over the useful economic life of the asset in line with its **depreciation**.

Funds Received as Agent

69. Some income do not belong to the charity, for instance where it receives the income in circumstances where the trustees/office bearers, acting as agents (and not as custodian trustees), are legally bound to pay them over to a third party and have no responsibility for their ultimate application. In these circumstances the transaction is legally a transfer of income from the original payer (who remains the principal) to the specified third party. If the original payer retains the legal responsibility for ensuring the charitable application of the funds, the intermediary charity should not recognise the income in the Statement of Financial Activities or the Balance Sheet.

70. However in some cases an intermediary charity may control the use of income prior to their transfer to a third party and its trustees will act as principal and have responsibility for their charitable application. For instance, where the charity trustees of the intermediary charity may have applied for the grant of the income or are able to direct how the third party or both should use the grant. Other forms of funding arrangements involving intermediary charities may need their charity trustees to accept the legal responsibility for the transfer of the grant to the third party (and for its charitable application, where the third party is not a charity). In all of these circumstances the income should then be included in the intermediary charity's Statement of Financial Activities and Balance Sheet.

Disclosure

71. Where any income has been deferred, the notes to the accounts should explain the reasons for the deferrals and analyse the movement on the deferred account between income deferred in the current period and amounts released from previous periods. Income of a similar nature can be grouped together in the notes as appropriate.

72. Where a charity has held income for a third party which have not been included in the Statement of Financial Activities, the notes to the accounts should analyse the movement of income during the year relating to each party or type of party where material. Where income has been held for related parties the required disclosure should be given.

Income Subject to Restrictions

73. The fact that a grant or donation is for a restricted purpose does not affect the basis of its recognition within the Statement of Financial Activities. There is an important difference for accounting purposes between restrictions placed on the purposes for which a particular income may be used and conditions which must be fulfilled prior to entitlement or use by the charity. The existence of a restriction does not prevent the recognition of the income as the charity has entitlement to (control of) the income and is simply limited by the restriction as to the purposes to which the income can be applied.

74. Funds received for the restricted purpose of providing property, plant and equipment should be accounted for immediately as restricted funds. The treatment of the property, plant and equipment provided with those funds will depend on the basis on which they are held. The terms on which the funds were received may either require the property, plant and equipment acquired to be held in a restricted fund, or the property, plant and equipment acquisition may discharge the restriction and the asset will be held in the **unrestricted funds**. There is no general rule and the treatment will depend upon the circumstance of each individual case. Where assets are re-allocated from one fund to another, this should be reflected as a transfer between the relevant funds.

A1: Income from Generated Funds

A1a: Voluntary Income

75. **Voluntary income** includes income generated from the following sources:

a. Gifts and donations, including legacies, given by the founders, patrons, supporters, the general public and businesses;

b. Grants which provide core funding or are of a general nature provided by government and charitable foundations but not including those grants which are specifically for the performance of a service or production of charitable goods, for instance a service agreement with a local authority;

c. Membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services; and

d. **Donations in kind**.

76. Where material, details of the types of activities undertaken to generate voluntary income (e.g. gifts and donations given by the founders and grants) shall be provided either on the face of the Statement of Financial Activities or in the notes to the financial statements. As far as possible the analysis categories provided here shall match the detailed analysis provided for the costs of generating voluntary income.

<u>Legacies</u>

77. The charity could monitor a legacy from the time when notification is received to its final receipt. A charity shall not, however, regard a legacy as receivable simply because it has been told about it. It shall only do so when the legacy has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the legacy will be received and the value of the income can be measured with sufficient reliability.

78. There will normally be sufficient certainty of receipt, for example, as soon as a charity receives a letter from the personal representatives of the estate advising that payment of the legacy will be made or that the property bequeathed will be transferred. It is likely that the value of the income will also be measurable from this time. However legacies, which are not immediately payable, shall not be treated as receivable until the conditions associated with payment have been fulfilled (e.g. the death of a life tenant).

79. The entitlement, certainty of receipt and measurability conditions would unlikely to be satisfied before the receipt of a letter from the personal representatives advising of an intended payment or transfer. The amount, which is available in the estate for distribution to the beneficiaries, may not have been finalised and, even if it has, there may still be outstanding matters relating to the precise division of the amount. In these circumstances entitlement may be in doubt or it may not be possible to provide a reasonable estimate of the legacy receivable, in which case it shall not be included in the Statement of Financial Activities.

80. Where a charity receives a payment on account of its interest in an estate or a letter advising that such a payment will be made, the payment, or intended payment, on account shall be treated as receivable.

81. Similarly, where a payment is received or notified as receivable (by the personal representatives) after the financial year-end, but it is clear that it had been agreed by the personal representatives prior to the year-end (hence providing evidence of a condition that existed at the Balance Sheet date), then it shall be accrued in the Statement of Financial Activities and the Balance Sheet.

82. Where the charity has been notified of material legacies, which have not been included in the Statement of Financial Activities (because the conditions for recognition have not been met), this fact and an estimate of the amounts receivable shall be disclosed in the notes to the financial statements. Similarly, an indication shall be provided of the nature of any material assets bequeathed to the charity but

subject to a life tenancy interest held by a third party. Where material, the accounting policy notes shall distinguish between the accounting treatments adopted for pecuniary and residuary legacies and legacies subject to a life interest held by another party.

Donations in Kind

83. Where donations in kind are of substantial value and can be reliably and reasonably quantified, they shall be recorded as income. The amount recorded shall be a reasonable estimate of their gross value to the charities. This value will usually be the price that the charities estimate that they would have to pay in the open market for an equivalent item. When a valuation cannot be established, the charities shall disclose the information in the notes to the financial statements.

84. Donations in kind shall be included in the Statement of Financial Activities in the following ways:

a. Assets given and held as stock for distribution by the charity shall be recognised as income for the year within "voluntary income" only when distributed with an equivalent amount being included as expenditure under the appropriate category of the Statement of Financial Activities to reflect its distribution.

b. Assets given for use by the charity (e.g. property for its own occupation) shall be recognised as income and within the relevant property, plant and equipment category of the Balance Sheet when receivable.

c. Where a gift has been made in kind but on trust for conversion into cash and subsequent application by the charity, the income shall normally be recognised in the accounting period when receivable and where material, an adjustment shall be made to the original valuation upon subsequent realisation of the gift. However in certain cases this will not be practicable and the income shall be included in the accounting period in which the gift is sold. The most common example is that of second-hand goods donated for resale, which, whilst regarded as a donation in legal terms, is in economic terms similar to **trading** and shall be included within "activities for generating funds".

85. In all cases the amount at which donations in kind are included in the Statement of Financial Activities shall be either a reasonable estimate of their gross value to the charity or the amount actually realised as in the case of second-hand goods donated for resale. Where donations in kind are included in the Statement of Financial Activities at their estimated gross value, the current value will usually be the price that it estimates it would have to pay in the open market for an equivalent item.

86. The basis of any valuation shall be disclosed in the accounting policies.

87. Where there are undistributed assets at the year-end, a general description of the items involved and an estimate of their value shall be given by way of a note to the financial statements provided such value is material.

A1b: Activities for Generating Funds

88. Activities for generating funds are the trading activities carried out by a charity to generate income, which will be used to undertake its charitable activities. The activities included within this category involve an element of exchange, with the charity receiving income in return for providing goods, services or an entry to an event. This category will include:

a. Fundraising events such as jumble sales, firework displays and concerts (which are legally considered to be trading activities);
b. Those sponsorships and social lotteries which cannot be considered as pure donations;

c. Shop income from selling donated goods and bought in goods;

d. Providing goods and services other than for the benefit of the charity's beneficiaries; and

e. Letting and licensing arrangements of property held primarily for functional use by the charity but temporarily surplus to operational requirements.

89. Whilst selling donated goods is legally considered to be the realisation of a donation in kind, in economic terms it is similar to a trading activity and shall be included in this section.

90. It may be possible to identify the income and expenditure for each different component of an activity (this may have to be done for tax purposes) but often these will be viewed as contributing to a single economic activity. Charity trustees shall consider the balance of the activities being undertaken to determine the most appropriate place to include the income from such enterprises but having done this the components of income need not be analysed further. For example, a shop may mainly sell donated and bought in goods but it may also sell a small amount of goods made by its beneficiaries and incidentally provide information about the charity. It would be acceptable to classify all the income from the shop as "shop income" under activities for generating funds.

A1c: Investment Income

91. Investment income includes income from investment assets, including dividends, interest and rents but excluding realised and unrealised investment gains and losses.

92. Where a charity has **subsidiary** undertakings:

a. All payments to the charity by its subsidiary undertakings and all dividend entitlements from them, other than amounts receivable by the charity for the provision of goods and services to subsidiaries, shall be separately recognised as income and appropriately described under investment income in the **parent** charity's financial statements.

b. The exact amount of a gift aid payment from a subsidiary undertaking relating to a financial year can often only be precisely determined subsequent to the year-end, for example with the calculation of taxable profits. Provided that a liability for the gift aid payment existed at the year-end, the amount of the liability shall be adjusted where calculations subsequent to the year-end provide greater accuracy.

c. Gift aid payments from subsidiary undertakings shall be separately disclosed in the charity's Statement of Financial Activities within investment income, or, if not material, in the notes to the financial statements. The subsidiary undertakings themselves will only be accounted for by the charity in its consolidated Statement of Financial Activities of the group.

93. The notes to the financial statements shall show the gross investment income arising from each class of investment.

A2: Income from Charitable Activities

94. Income from Charitable Activities (which may be described as 'fees' in a charity's financial statements) is the income resulting from **exchange transactions** under which a charity supplies to clients the goods or services as part of the direct charitable activities of the charity.[3] It includes any income received, which are a payment for goods and services provided for the benefit of the charity's beneficiaries. It will include trading activities undertaken in furtherance of the charity's objects and those grants (although legally donations), which have conditions, which make them similar in economic terms to trading income, such as service level agreements with local authorities.

95. This category will not include grants which are for core funding or do not have particular service requirements or are in response to an appeal. Such grants shall be included in the section for voluntary income.

96. Income from charitable activities shall include:

a. The sale of goods or services as part of the direct charitable activities of the charity (known as primary purpose trading);

b. The sale of goods or services made or provided by the beneficiaries of the charity;

c. The letting of non-investment property in furtherance of the charity's objects;

d. Contractual payments from government or public authorities where these are received in the normal course of trading under (a) to (c), e.g. fees for respite care;

e. Grants specifically for the provision of goods and services to be provided as part of charitable activities or services to beneficiaries; and

[3] These transactions are often referred to as being part of the charity's trading activities.

f. Ancillary trades connected to a primary purpose in (a) to (e).

97. An analysis of income from charitable activities shall be given in the notes to the financial statements to supplement the analysis on the face of the Statement of Activities. It shall be sufficiently detailed so that the reader of the financial statements understands the main activities carried out by the charity and the main components of the gross income receivable from each material charitable activity. As far as possible, income shall be analysed using the same analysis categories as used for expenditure on charitable activities.

Contracts for services

98. Where there are distinguishable phases of a single contract it may be appropriate to account for the contract as two or more separate transactions, provided the value of each phase could be reliably estimated.

99. Contracts for services shall not be accounted for as long-term contracts unless they involve the provision of a single service, or a number of services that constitute a single project.

100. A contract for services shall be accounted for as a long-term contract where contract activity falls into different accounting periods and it is concluded that the effect is material. In determining whether contracts shall be accounted for as long-term contracts, the aggregate effect of all such contracts on the financial statements as a whole shall be considered.

101. Where the substance of a contract is that the charity's contractual obligations are performed gradually over time, income shall be recognised as contract activity progresses to reflect the charity's partial performance of its contractual obligations. The amount of income shall reflect the accrual of the right to consideration as contract activity progresses by reference to the value of the work performed.

102. Where the substance of a contract is that a right to consideration does not arise until the occurrence of a critical event, income is not recognised until that event occurs. This only applies where the right to consideration is conditional or contingent on a specified future event or outcome, the occurrence of which is outside the control of the charity.

103. The amount of income recognised on any contract for services shall reflect any uncertainties as to the amount that the client will accept and pay.

A3: Other Income

104. Other income will include the receipt of any income, which the charity has not been able to analyse within the main income categories. This will be a minority of income and most charities will not need to use this category. Examples of items that fall within this category include a gain on the disposal of an item of property, plant and equipment held for the charity's own use and a gain on the disposal of a programme related investment.

Expenditure and Costs

General Rules on the Recognition of Expenditure

105. Expenditure shall be recognised when and to the extent that a liability is incurred or increased without a commensurate increase in recognised assets or a reduction in liabilities. In financial statements prepared on the accruals basis liabilities are recognised as soon as there is a legal or **constructive obligation** committing the charity to the expenditure. A liability will arise when a charity is under an obligation to make a transfer of value to a third party as a result of past transactions or events.

Contractual Arrangements

106. Where a charity enters into a contract for the supply of goods or services, expenditure is recognised once the supplier of the goods or services has performed its part of the contract, for example, the delivery of goods or the provision of a service.

107. Expenditure on performance-related grants shall be recognised to the extent that the recipient of the grant has provided the specified service or goods. The terms of such grants may be set out in a service level agreement where the conditions for payment are linked to the performance of a particular level of service or units of output delivered, for example, number of meals provided or the opening hours of a facility used by beneficiaries. Often, in such cases, the grant maker will have negotiated the services to be provided to it or its beneficiaries.

108. A grant that is merely restricted to a particular purpose of the recipient does not create a performance-related grant unless the grant also includes specific performance terms that meet the criteria set out above. Similarly, certain restricted grants may fund a programme of work to be undertaken over a number of years by the recipient. Again, this does not mean it shall necessarily be recognised as a performance-related grant simply because of the period of the funding commitment or because the grantor is involved in monitoring or influencing the focus of the work as part of its grant making procedures.

109. For example, a grant making charity may fund a three-year research programme enabling the recipient to undertake a programme of work identified by the recipient as necessary to meet its own objectives or that adds to the stock of knowledge on a topic. In order to provide funding, the work undertaken will need to be consistent with the legal objects of the grant maker which may also, as part of its own grant approval processes, be involved in monitoring or influencing the focus of the work. Such arrangement would not create a performance-related grant if the funding were not directed at providing a specified service to the grant maker or its beneficiaries as a condition of payment. Grants without such performance conditions that are directed at enabling the recipient to follow its own programme of work or increasing the pool of knowledge in an area of work shall be recognised as a liability where a constructive obligation arises to make the grant payment.

Grants Payable and Constructive Obligations

110. In the case of grants (other than performance-related grants) and certain other expenditure relating directly to charitable activities, an exchange for consideration does not arise. Such expenditure is incurred to further the charity's objects but without creating a contractual or quasi-contractual relationship with the recipient of the grant or the charity's beneficiaries. Nevertheless, the charity may still have a liability, which needs to be recognised.

111. Liabilities may arise from a constructive or a legal obligation. A constructive obligation arises where events have created a valid expectation in other parties that the charity will discharge its obligations. Evidence that a valid expectation has been created might be provided by the charity's current and past practice in discharging such obligations and the specific communication of a commitment to the recipient. A constructive obligation always involves a commitment to another party that has been communicated to those affected in a sufficiently specific manner to raise a valid expectation on the part of the recipient that the charity will discharge its obligations. Because an obligation always involves a commitment to another party, it follows that a funding decision by a charity's trustees does not give rise to a constructive obligation at the Balance Sheet date unless the decision has been communicated before the Balance Sheet date to those affected in a sufficiently specific manner to raise a valid expectation in them that the charity will discharge its responsibilities.

112. Charities may on occasions make general or policy statements of their future intentions, for example, of an intention or aim of relieving famine in a particular location or to improve the quality of care provided to a particular group of people. Such statements can be communicated in a variety of ways including mission statements, setting out future plans in a Charity's Annual Report or simply by making a general policy statement. Statements such as these do not create a constructive obligation as discretion is retained by the charity as to their implementation. A term in a grant agreement or offer that relieved a donor charity from a future obligation in the event of lack of funds at a future settlement date would not normally prevent the recognition of a liability by the donor charity. The liability would however be de-recognised when an event requires the funding offer to be rescinded.

113. A constructive obligation is likely to arise where:

a. A specific commitment, or promise to provide goods, services or grant funding is given; and

b. This is communicated directly to a beneficiary or grant recipient.

In such circumstances, the charity is unlikely to have a realistic alternative but to meet the obligation. However the recognition of any resulting liability will be dependent on any conditions attaching to such commitments.

114. A charity may enter into commitments, which are dependent upon explicit conditions being met either by it or by the recipient before payment is made or upon future reviews. A liability, and hence expenditure, shall be recognised once such conditions fall outside the control of the giving charity. If the conditions set remain within the control of the giving charity, then the charity retains the discretion to avoid the expenditure and therefore a liability shall not be recognised.

115. By way of illustration, where a charity makes a specific commitment to grant fund a project over a three year period, the following situations may arise:

a. If the multi-year grant obligation:

i. Is conditional on an annual review of progress that determines whether future funding is provided; and

ii. Discretion is retained by the giving charity to terminate the grant;

then provided evidence exists (e.g. from past review practice) that the discretion retained by the charity has substance, this amounts to a condition and an immediate liability arises only for the first year of the funding commitment. If the annual review process, although set out in the conditions of the grant, is not in practice used to determine whether funding is provided in the subsequent years of the commitment, then the review stipulation shall not be interpreted as a condition and a liability for the full three years of the grant shall be recognised.

b. If there is no condition attaching to the grant that enables the charity to realistically avoid the commitment, the liability for the full three years of the funding shall be recognised.

116. Commitments may contain conditions that are outside the control of the giving charity. For example, a charity may promise a grant payment on the condition that the recipient finds matching funding. As the condition falls outside the control of the giving charity, a liability arises and expenditure shall be recognised.

<u>General Issues</u>

117. Where a liability is not accrued, because conditions have not been met, such a commitment shall normally be treated as a **contingent liability**.

118. The charity trustees may wish to designate some of the charity's income funds to represent contingent liabilities and other planned expenditure, which may not have created a liability.

119. Where later events make the recognition of a liability no longer appropriate, the liability shall be cancelled by credit against the relevant expenditure heading in the Statement of Financial Activities. The credit shall mirror the treatment originally used to recognise the expenditure for the liability and shall be disclosed separately.

<u>Support Costs</u>

120. In undertaking any activity there may be **support costs** incurred that, whilst necessary to deliver an activity, do not produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs include the central or regional office functions such as key and general management, payroll administration, budgeting and accounting, information technology, human resources, and financing. **Key management personnel** (for example, the board of directors and the chief executive officer) are those persons

having authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of that charity.

121. Support costs do not, in themselves, constitute an activity; instead they enable output-creating activities to be undertaken. Support costs are therefore apportioned to the relevant **activity cost category** they support. This enables the total cost of an activity category to be disclosed in the Statement of Financial Activities and for the cost of the constituent sub-activities to be presented at a service, programme or project level within the notes to the financial statements. There is nevertheless legitimate user interest in both the level of support costs incurred and the policies adopted for their apportionment to the relevant activity cost categories that shall be addressed through relevant note disclosures.

122. The notes to the financial statements shall provide details of the total support costs incurred and of material items or categories of expenditure included within support costs.

123. Where support costs are material, an explanation shall be provided in the notes of how these costs have been apportioned to each of the activity cost categories disclosed in the Statement of Financial Activities or supporting notes to the financial statements.

Apportionment of Costs

124. A reliable approach to cost apportionment shall be adopted but a charity shall also consider the materiality of the amounts involved and the cost benefit advantages of the approach in that greater accuracy may on occasion only be achievable at a high incremental cost.

125. In attributing costs between activity categories, the following principles shall be applied:

a. Where appropriate, expenditure shall be apportioned directly to activity cost category.

b. Items of expenditure which contribute directly to the output of more than one activity cost category, for example, the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project, shall be apportioned on a reasonable, justifiable and consistent basis.

c. Depreciation, **amortisation**, impairment or losses on disposal of property, plant and equipment shall be attributed in accordance with the same principles.

d. Support costs may not be attributable to single activity but rather provide the organisational infrastructure that enables output-producing activities to take place. Such costs shall therefore also be apportioned on a reasonable, justifiable and consistent basis to the activity cost categories being supported.

126. There are a number of bases for apportionment that may be applied. Examples include:

a. Usage - e.g. on the same basis as expenditure incurred directly in undertaking an activity;

b. Per capita - i.e. on the number of people employed within an activity;

c. On the basis of floor area occupied by an activity; and

d. On the basis of time (e.g. where staff duties are multi-activity).

127. The bases for apportionment adopted by a charity shall be appropriate to the cost concerned and to the charity's particular circumstances. The bases adopted for apportionment will normally be consistent between accounting periods.

128. Particular issues arise where a charity provides information about its activities in the context of a fundraising activity. Information about the aims, objectives and projects of a charity is frequently provided in the context of mail shots, websites, collections and telephone fundraising. In determining whether a multi-purpose activity arises, and therefore a need to apportion costs, a distinction shall be drawn between:

a. Publicity or information costs involved in raising the profile of a charity which is associated with fundraising (costs of generating funds); and

b. Publicity or information that is provided in an educational manner in furtherance of the charity's objectives (charitable expenditure).

129. In the context of a fundraising activity, for publicity or information to be regarded as charitable expenditure, it must be supplied in an educational manner. To achieve an educational purpose, information supplied would be:

a. Targeted at beneficiaries or others who can use the information to further the charity's objectives;

b. Information or advice on which the recipient can act upon in an informed manner to further the charity's objectives; and

c. Related to other educational activities or objectives undertaken by the charity.

Where information provided in conjunction with a fundraising activity does not meet these criteria, it shall be regarded as targeted at potential donors and therefore relating wholly to the fundraising activity.

130. The accounting policy notes shall explain the policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment.

131. Where any fundraising activity is identified as meeting the criteria of a multi-purpose activity and part of the costs of the multi-purpose activity are apportioned to charitable activities then the policy for the identification of such multi-purpose costs

shall be explained in the accounting policy notes together with the basis on which any apportionment to charitable activities is made.

B: Expenditure

132. The Statement of Financial Activities provides an analysis of the expenditure by a charity based on the nature of the activities undertaken. Expenditure is split into three main activity categories, being:

a. The costs of generating funds;

b. The costs of charitable activities; and

c. The governance costs.

The Statement of Financial Activities or the notes to the financial statements shall include an analysis of the sub-activities, services, programmes, projects or other initiatives that contribute to a particular activity category.

B1: Costs of Generating Funds

133. These are the costs, which are associated with generating income from all sources other than from undertaking charitable activities. The main components of costs within this category are:

a. Costs of generating voluntary income;

b. Costs of fundraising trading, including cost of goods sold and other associated costs; and

c. Costs of managing investments for both income generation and capital maintenance.

134. Costs of generating funds shall not include:

a. Costs associated with delivering or supporting the provision of goods and services in the furtherance of the charity's objects; nor

b. The costs of any subsequent negotiation, monitoring or reporting relating to the provision of such services under the terms of a grant, contract or performance-related grant.

B1a: Costs of Generating Voluntary Income

135. **Costs of generating voluntary income** including agents' costs where fundraising agents are used shall be included within this category. In the case of consolidated financial statements any such costs incurred by any subsidiary companies or other charities shall be consolidated on a line-by-line basis.

136. Some **fundraising costs** may be incurred in starting up a new source of future income such as legacies, or in developing a supporter database.

a. Start-up costs of a new fundraising activity shall be treated in the same manner as similar cost incurred as part of a charity's ongoing activities. In most cases, it will be inappropriate to carry forward start-up costs as prepayments or deferred expenditure as the future economic benefits that may be derived are usually not sufficiently certain.

b. Data capture costs of internally developed databases may only be capitalised where future benefit can be demonstrated and the resulting database has a readily ascertainable value.

137. The start-up costs of a new fundraising activity may be material in the context of the overall fundraising activity and may, because of their exceptional size or incidence, require separate disclosure to explain performance.

138. Where the costs of generating voluntary income are material, details of the types of activity on which the costs were expended shall be shown in the notes to the financial statements. Types of activity could include collections (e.g. street and house-to-house collections), sponsorship, legacy development, and direct mail. As far as possible the analysis provided here shall match the detailed analysis of voluntary income.

139. Exceptional costs that arise in the context of generating voluntary income shall not be presented as a separate category of costs on the face of the Statement of Financial Activities but, rather, shall be included as an exceptional item within the relevant activity cost category. The amount of each exceptional item, either individually or as an aggregate of items of a similar type, shall be disclosed in the notes to the financial statements or on the face of the Statement of Financial Activities (within the activity category to which the cost relates) if that degree of prominence is necessary. An adequate description shall be given to enable its nature to be understood.

B1b: Fundraising Trading: Cost of goods sold and other costs

140. This category shall include all those costs that are incurred by trading for a fundraising purpose in either donated or bought-in goods or in providing non-charitable services to generate income. This includes:

a. The cost of goods sold or services provided;

b. Other costs related to the trade, including staff costs, premises costs and other costs incurred in the activity including apportioned support costs; and

c. Costs related to the licensing of a charity logo.

In consolidated financial statements this category will include the costs incurred by both the charity and any subsidiaries or other charities consolidated on a line-by-line basis.

141. Where the costs associated with fundraising trading are material, details shall be given in the notes to the financial statements to distinguish the cost of separate trading activities in a way that matches the analysis of income.

B1c: Investment Management Costs

142. Where investment managers deduct **investment management fees** from investment income, the charity shall show as investment income the gross investment income before fees and report the fees within this cost category. Investment management costs associated with endowment fund investments shall generally be charged to the endowment fund in the Statement of Financial Activities.

B2: Charitable Activities

143. Expenditure on charitable activities comprises all the income applied by the charity in undertaking its work to meet its charitable objectives as opposed to the cost of raising the funds to finance these activities and governance costs. Expenditure on charitable activities is all the expenditure by the charity in the delivery of goods and services, including its programme and project work that is directed at the achievement of its charitable aims and objectives. Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken.

144. Charities may carry out their activities through a combination of direct service provision and grant funding of **third parties** to undertake work that contributes to the charity's objectives or programme of work. In such cases, the total cost of the activity involves both costs incurred directly by the charity and funding provided to third parties through grant making activities. Where activities are carried out through a combination of direct service or programme activity and grant funding of third parties, the notes to the financial statements shall identify the amount of grant making expenditure using the note to explain the activity funded.

145. Where income are received either under contract or by a restricted grant to provide a specified service, further analysis of charitable activities expenditure may be provided in the notes to the financial statements to demonstrate the link between the income and the charitable activity that it funds.

146. Expenditure on charitable activities shall be analysed on the face of the Statement of Financial Activities or in a prominent note to the financial statements. This analysis shall provide an understanding of the nature of the activities undertaken and the expenditure on their provision. This analysis may, for example, set out the activity cost of the main services provided by the charity, or set out the expenditure on material programmes or projects undertaken by the charity.

147. The note to the financial statements shall identify the amount of support costs apportioned to charitable activities.

148. The disclosures required may, for example, be presented as follows (with totals reconciling with the Statement of Financial Activities and other notes as appropriate:

Activity or Programme	**Activities undertaken directly SGD**	**Grant funding of activities SGD**	**Support costs SGD**	**Total SGD**
Activity 1				
Activity 2				
Activity 3				
Total				

Grant making

149. Costs associated with grant making activity include the grants actually made and the support costs associated with the activity.

150. Support costs related to grant making will include:

a. Costs incurred before grants are made (pre-grant costs) as part of the decision making process;

b. Post-grant costs e.g. monitoring of grants; and

c. Cost of any central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

151. Grant making charities may undertake their entire programme of work through grant making activities, whilst other charities may undertake their activities through a combination of direct service provision and grant funding of third parties. In either case, further analysis of grant making, where material, shall be provided.

152. Further information provided in relation to grant making shall provide the reader with a reasonable understanding of the nature of the activities or projects that are being funded and whether the financial support is provided directly to individuals or to assist an institution undertake its activities or projects. Information on the recipient(s) of the funding shall be provided, so that the reader can appreciate the type and range of beneficiaries supported.

153. Information provided in relation to grant making may be limited or excluded when:

a. Grants are made to individuals – in which case details of the recipient are not required;

b. Grant making activities in total are not material in the context of a charity's overall charitable activities – in which case no disclosures are required;

c. Total grants to a particular institution are not material in the context of the grants – in which case the name of the recipient institution need not be disclosed; or

d. Disclosure of a particular grant would seriously prejudice either the grant maker or the recipient.

154. The analysis and explanation shall help the reader of the financial statements understand how the grants made relate to the objects of the charity and the policy adopted by the trustees in pursuing these objects.

155. The notes to the financial statements shall identify the amount of support costs associated with grant making activities.

156. The analysis and explanation in the notes shall provide details, with amounts that reconcile with the total of grants payable of:

a. The total amount of grants analysed between grants to individuals and grants to institutions; and

b. An analysis of the total amount of grants paid by nature or type of activity or project being supported.

For example, the analysis of grants may be structured as follows:

Analysis	Grants to Institutions Total Amount (SGD)	Grants to Individuals Total Amount (SGD)
Activity or Project 1		
Activity or Project 2		
Activity or Project 3		
Total		

157. The analysis of grants shall provide the reader with an understanding of the nature of the activities or projects being funded by the grant maker. This analysis of grants shall relate to the charity's objectives, for example, categories may be social welfare, medical research, the performing arts, welfare of people in financial need, help to people seeking to further their education, depending on the nature of the charity. Some charities may decide that it is appropriate to provide further or alternative levels of analysis. For example, showing a geographical analysis of the number and value of grants made.

158. The charity trustees may give further analysis and explanation of the purposes for which grants were made as part of the Charity's Annual Report or by means of a separate publication. Such further analysis does not excuse the charity trustees from providing sufficient detail in the notes to the financial statements where necessary.

159. If a charity has made grants to institutions that are material in the context of grant making, the charity shall disclose details of a sufficient number of these grants to provide a reasonable understanding of the range of institutions it has supported. This information may be provided either in the notes to the financial statements, or as part of the Charity's Annual Report or by means of a separate publication. Where the analysis is contained in a separate publication, it shall be made available by the charity to the public on request. The notes to the financial statements shall identify the publication and state how copies of it can be obtained.

160. The disclosure of grants shall give the name of the institution and the number and total value of grants made to that institution in the financial year. Where grants have been made to a particular institution to undertake different activities or projects, the total value of the grants made for each activity or purpose shall be disclosed. For example, a charity may have made grants to different officers or departments of a particular university for different projects. Such grants shall be treated as having been made to the same institution.

161. Very exceptionally, even though the grants to a particular institution are material, it is possible that the disclosure of the details of one or more of those grants could seriously prejudice the furtherance of the purposes either of the recipient institution or of the charity itself. Situations where serious prejudice is clearly indicated include those where disclosure could result in serious personal injury.

B3: Governance Costs

162. **Governance costs** include the costs of governance arrangements, which relate to the general running of the charity as opposed to the direct management functions inherent in generating funds, service delivery and programme or project work. These activities provide the governance infrastructure, which allows the charity to operate, and to generate the information required for public accountability. They include the strategic planning processes that contribute to future development of the charity.

163. Expenditure on the governance of the charity will normally include both direct and related support costs. Direct costs will include such items as internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements e.g. the cost of trustee meetings and preparing statutory financial statements. Where material, there shall also be an apportionment of shared and indirect costs involved in supporting the governance activities (as distinct from supporting its charitable or income generation activities).

164. The accounting policy notes shall explain the nature of costs apportioned to the governance category, and an analysis may be provided within the notes to the financial statements of the main items of expenditure included within this category where it is considered to provide useful information to the users of the financial statements.

B4: Other Expenditure

165. Other expenditure will include the payment of any income that the charity has not been able to analyse within the main expenditure categories. This category shall not be used for support costs that can be apportioned to other activity costs.

C: Gross Transfers Between Funds

166. All transfers between the different categories of funds shall be shown in the Statement of Financial Activities. The notes to the financial statements shall provide an explanation of the nature of each material transfer between funds.

167. All transfers between the different categories of funds shall be shown on the transfer row of the Statement of Financial Activities. The transfer row will be used for several purposes including:

a. When capital funds are released to an income fund from expendable endowment;

b. Where restricted assets have been released and reallocated to unrestricted income fund;

c. To transfer assets from unrestricted income funds to finance a deficit on a restricted fund; and

d. To transfer the value of property, plant and equipment from restricted to unrestricted funds when the asset has been purchased from a restricted fund donation but the asset is held for a general and not a restricted purpose.

168. Material transfers shall not be netted off but shall be shown gross on the face of the Statement of Financial Activities.

D: Other Recognised Gains/Losses

D1: Gains and Losses on Property, Plant and Equipment

169. Gains and losses arising on disposal, revaluation or impairment of property, plant and equipment - whether held for the charity's own use or for investment purposes - will form part of the particular fund in which the investment or other asset concerned is or was held at the time of disposal, revaluation or impairment.

170. Such gains and losses shall be recognised as follows:

a. **Impairment losses** of assets held for the charity's own use (i.e. not investments) shall be regarded as additional depreciation of the impaired asset and included appropriately in the expenditure section of the Statement of Financial Activities;

b. Gains on the disposal of property, plant and equipment for the charity's use shall be included under the heading "other income". Losses on disposal shall be treated as additional depreciation and included appropriately in the expenditure section of the Statement of Financial Activities; and

c. Revaluation gains or losses (which are not considered to be impairment losses) on assets held for the charity's own use shall be included in the section on gains and losses on revaluations of property, plant and equipment for the charity's own use.

D2: Gains and Losses on Investment Assets

171. Any gains and losses on investment assets (including property investments) shall be included under the gains and losses on the revaluation and disposal of investment assets. Realised and unrealised gains and losses may be included in a single row on the Statement of Financial Activities. In particular this approach will be necessary where a charity adopts a "marking to market" or continuous revaluation approach in relation to its investment portfolio.

<u>Analysis of the Net Movement in Funds</u>

172. The net movement of funds represents the increase or decrease in income of a charity to deploy in undertaking future activities. Unlike profit or loss in a commercial charity, it shall not necessarily be regarded as an indicator of a charity's performance. Charities also further their objectives by investing in non-assets to

provide services or by making investments of a programme or social related nature. Such applications are charitable but do not decrease the funds of a charity. Charities may also receive gifts of an endowed nature, which are identified separately in the primary accounting statements. Whilst endowments provide a source of income or service generation in future periods they are not available to finance expenditure.

173. Information on such charitable applications and sources can be ascertained from a charity's cash flows statement (when prepared). A note summarizing these effects, when material, can provide valuable information to readers of financial statements in interpreting net movements in funds and help the reader understand the impact of such transactions on the liquid funds of the charity. Where relevant, a charity may choose to provide in the notes to the financial statements, the following information:

a. Total net movement in funds for the year;

b. Net endowment receipts for the year (value of endowment receipts less any release of expandable endowment to income funds);

c. Net expenditure on additions to functional property, plant and equipment (cost of additions less proceeds of any disposals) for the year; and

d. Net investment in programme related investments (cost of additions less proceeds of any disposals) for the year.

Balance Sheet

Introduction

174. The Balance Sheet provides a snapshot of the charity's assets and liabilities at the end of its financial year and how assets are split between the different types of funds. **"Preservation of Monuments" assets**, or contingent liabilities may be omitted. Where such assets or contingent liabilities exist and are not included in the Balance Sheet, details shall be provided in the notes to the financial statements.

175. The objective of the Balance Sheet is to show the funds of the charity and whether these are freely available or have to be used for specific purposes because of legal restrictions on their use. It may also show which of the funds the trustees have designated for specific future use.

Structure

176. As a minimum, a charity shall
a. Include line items that present the following amounts:

i. Property, plant and equipment;
ii. Intangible assets;
iii. Inventories;

iv. Trade and other receivables;
v. Cash and cash equivalents;
vi. Trade and other payables;
vii. Provisions for liabilities and charges;
viii. Funds attributable to the charity

b. Distinguish between the total funds held as unrestricted income funds, restricted income funds and endowment funds. Distinctions between funds held as permanent and expendable endowment and held as designated funds may also be shown on the face of the Balance Sheet. The order in which the categories of funds are presented within the Balance Sheet may be varied to accommodate an individual charity's presentational preference.

177. Charities shall adopt a columnar presentation of its assets, liabilities and funds in the Balance Sheet. Such presentation shows the asset and liability categories analysed in columns between each fund group in a similar way to the Statement of Financial Activities showing income and expenditure by type of funds. Where a charity does not have funds of a particular category, the column related to that category of fund is omitted.

178. Further details of the assets and liabilities shall be given in the Balance Sheet or the notes to the financial statements. For example, non-current Trade and other receivables shall be separately stated in the Balance Sheet if the total is material - otherwise the total amounts of the category shall be analysed in the notes to the financial statements.

179. A charity shall present additional line items, columnar items, headings and subtotals in the Balance Sheet when such presentation is relevant to an understanding of the charity's financial position.

180. When a charity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its Balance Sheet, it shall not classify **deferred tax assets (or liabilities)** as current assets (or liabilities).

181. The CAS does not prescribe the order or format in which a charity presents items. Paragraph 176 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the Balance Sheet. In addition:

a. Line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the charity's financial position; and

b. The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the charity and its transactions, to provide information that is relevant to an understanding of the charity's financial position.

182. A charity makes the judgement about whether to present additional items separately on the basis of an assessment of:

a. The nature and liquidity of assets;

b. The function of assets within the charity; and

c. The amounts, nature and timing of liabilities.

183. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that a charity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts.

184. The Balance Sheet may show both positive and negative balances on restricted funds. Expenditure may be incurred in anticipation of the receipt of restricted income, possibly leading to a negative balance on a specific fund. Where such balances are material they shall be shown separately as negative balances and not simply be netted off against positive balances on the fund category in the Balance Sheet.

Current / Non-current distinction

185. A charity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its Balance Sheet in accordance with paragraphs 186 and 187, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, a charity shall present all assets and liabilities in order of liquidity. For example, 'debtors' being less liquid than 'cash and cash equivalents', are presented before 'cash and cash equivalents' under Current Assets.

186. A charity shall classify an asset as current when:

a. It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

b. It holds the asset primarily for the purpose of trading;

c. It expects to realise the asset within twelve months after the reporting period; or

d. The asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A charity shall classify all other assets as non-current.

187. CAS uses the term 'non-current' to include property plant and equipment, **intangible assets** and **financial assets** of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

188. Whichever method of presentation is adopted, a charity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

a. No more than twelve months after the reporting period, and

b. More than twelve months after the reporting period.

A: Non-current Assets

General

189. The following information must be provided for all non-current assets:

a. The cost or valuation at the beginning and the end of the year; and

b. The effect of any:

i. Revaluation made during the year;
ii. Acquisitions during the year;
iii. Disposals during the year; and
iv. Transfers during the year.

190. The following information must be provided in respect of provisions for depreciation or diminution in value:

a. The cumulative amount of such provisions as at the beginning and end of the year;

b. The amount of any such provisions made during the year;

c. The amount of any adjustments made on disposal during the year; and

d. The amount of any other adjustments made during the year.

Revaluation and Write-downs to Recoverable Amount

191. Paragraphs 192 apply to capitalised **goodwill** and all non-current assets (i.e. property, plant and equipment, intangible assets and investments) except investment properties and **financial instruments** (other than investments in subsidiaries, **associates** and **joint ventures**).

192. Non-current assets and goodwill shall be carried in the Balance Sheet at no more than recoverable amount. If the net book amount of a non-current asset is considered not to be recoverable in full at the Balance Sheet date (perhaps as a result of obsolescence or a fall in demand for a product), the net book amount shall be written down to the estimated recoverable amount, which shall then be written off over the remaining useful economic life of the asset.

193. A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in the Statement of Financial Activities, unless the asset is carried at revalued amount in accordance with relevant provisions of this standard. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with those other relevant provisions of this standard.

194. Gains and losses arising on the revaluation of assets that have been recognised in the Statement of Financial Activities must be credited, or debited, to a separate revaluation reserve. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to revaluation reserve. However the increase shall be recognised in the Statement of Financial Activities to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in the Statement of Financial Activities. However the decrease shall be debited directly to revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

195. Where non-current assets are not actually revalued in the Balance Sheet but their value is determined by the charity trustees, a note to the financial statements must state the following:

a. That the charity trustees have considered the value of some or all of the non-current assets of the charity, without actually revaluing those assets; and

b. That the charity trustees are satisfied that the aggregate value of those assets at the time in question is or was not less than the aggregate amount at which they were then stated in the charity's financial statements.

196. Amounts may be transferred from the revaluation reserve to the Statement of Financial Activities when they are realised. For property, plant and equipment, this will normally result in an annual transfer from the revaluation reserve to the Statement of Financial Activities over the useful economic life of the asset (i.e. in line with the depreciation charge). Realisation may also occur on the eventual disposal of the asset.

197. The treatment for taxation purposes of amounts credited or debited to the revaluation reserve must be disclosed in a note to the accounts.

A1: Intangible Assets

Research and Development

198. The cost of non-current assets acquired or constructed in order to provide facilities for **research** and **development** activities over a number of accounting periods shall be capitalised and written off over their **useful lives** through the Statement of Financial Activities.

199. Expenditure on **pure research** and **applied research** shall be written off in the period of expenditure through the Statement of Financial Activities.

200. Development expenditure shall be written off in the period of expenditure except in the following circumstances when it may be deferred to future periods:

a. There is a clearly defined project;

b. The related expenditure is separately identifiable;

c. The outcome of such a project has been assessed with reasonably certainty as to:

   i. Its technical feasibility; and

   ii. Its ultimate commercial viability considered in light of factors such as likely market conditions (including competing products), public opinion, consumer and environmental legislation;

d. The aggregate of the deferred development costs, any further development costs, and related production, selling and administration costs is reasonably expected to be exceeded by related future income; and

e. Adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

201. If an accounting policy of deferral of development expenditure is adopted, it shall be applied to all development projects that meet the criteria in paragraph 200.

202. If development costs are deferred to future periods, they shall be amortised. The amortisation shall commence with the production or application of the product, service, process or system and shall be allocated on a systematic basis to each accounting period, by reference to either the sale or use of the product, service, process or system or a reasonable period over which these are expected to be easily marketable or used.

203. Deferred development expenditure for each product shall be reviewed at the end of each accounting period and where the circumstances that justified the deferral of expenditure no longer apply, or are considered doubtful, the expenditure, to the extent to which it is considered to be irrecoverable, shall be written off immediately project by project.

204. The amount of deferred development expenditure carried forward at the beginning and end of the period shall be disclosed under intangible assets in the Balance Sheet or in the notes to the Balance Sheet. The reason for capitalising these costs and the period over which they are being depreciated must be disclosed in a note to the financial statements. If development costs are not treated as a realised loss, this must be stated together with an explanation of the circumstances relied upon by the charity trustees to justify their decision.

<u>Other Intangible Assets and Goodwill</u>

205. Positive purchased goodwill and purchased intangible assets shall be capitalised. Internally generated goodwill and intangible assets shall not be capitalised.

206. Intangible assets shall be depreciated on a straight-line (or more appropriate) basis over their useful lives, which shall not exceed 20 years.

207. A higher **residual value** may be assigned to an intangible asset only when this value can be established reliably, for example when it has been agreed contractually.

208. Useful lives shall be reviewed at the end of each reporting period and revised if necessary, subject to the constraint that the revised life shall not exceed 20 years from the date of acquisition. The carrying amount at the date of revision shall be depreciated over the revised estimate of remaining useful economic life.

209. Intangible assets and goodwill shall not be revalued.

A2: Property, Plant and Equipment

210. Within charities, property, plant and equipment (other than investments) fall into two categories, those held for charity use (including those used for the running and administration of the charity) and those classed as “Preservation of Monuments” assets.

211. Paragraphs 212 - 233 apply to all property, plant and equipment other than Preservation of Monuments” assets and investment properties.

212. An item of property, plant and equipment shall initially be measured at its cost, then written down to its recoverable amount if necessary. The initial carrying amount of an item of property, plant and equipment received as a gift or donation by another charity shall be its current value, i.e. the lower of replacement cost and recoverable amount, at the date it is received. Where there is no record of the purchase price or production cost of an asset, or any such record cannot be obtained without unreasonable expense or delay, the value ascribed must be the earliest available record of its value. Details must be disclosed of any case where the purchase price or production cost of any asset is determined in this way for the first time.

213. Costs directly attributable to bringing the property, plant and equipment into working condition for its intended use shall be included in its measurement. Other costs shall not be included. A charity may adopt an accounting policy of capitalising finance costs (such as interest). Where such a policy is adopted, finance costs directly attributable to the construction of property, plant and equipment shall be capitalised as part of the cost of those assets. The total amount of finance costs capitalised during a period shall not exceed the total amount of finance costs incurred during that period. Where applicable, the notes to the financial statements must disclose that the cost of the asset includes the finance costs and the amount so included.

214. Capitalisation of **directly attributable costs**, including finance costs, shall be:

   a. Suspended during extended periods in which active development is interrupted.

   b. Ceased when substantially all the activities that are necessary to get the property, plant and equipment ready for use are complete, even if the asset has not yet been brought into use. Therefore, costs incurred in using or redeploying an item, are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

i. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

ii. Initial operating losses, such as those incurred while demand for the item's output builds up; and

iii. Costs of relocating or reorganising part or all of an entity's operations.

215. Subsequent expenditure shall be capitalised only if:

a. It enhances the economic benefits of an item of property, plant and equipment in excess of the previously assessed standard of performance (i.e. if it is an 'improvement'); or

b. It replaces or restores a component that has been separately depreciated over its useful economic life.

Otherwise it shall be recognised in the Statement of Financial Activities as it is incurred.

216. Property, plant and equipment shall initially be included in the Balance Sheet using the following bases:

a. The costs of acquisition including those directly attributable to bringing the assets into working condition for their intended use. This can include appropriate costs of interest on loans to finance the construction of such assets but only where the charity has adopted this as a policy for all items of property, plant and equipment and capitalisation of interest shall cease when the asset is ready for use. This applies whether assets are bought outright or through finance leases.

b. If a functional item of property, plant and equipment is acquired in full or in part from the proceeds of a grant it shall be included at its full acquisition cost (or in the case of a joint arrangement at the gross value of the charity's share in the asset) or by netting off the grant proceeds.

c. Where functional items of property, plant and equipment have been donated, they shall be included in the Balance Sheet at their value at the date of the gift and also included in the Statement of Financial Activities as an income.

d. Where functional items of property, plant and equipment are capitalised some time after being acquired, for example, as a result of a change in accounting policy, they shall be included at original cost or at the value at which the gift was included in the Statement of Financial Activities less an amount for depreciation. However if neither of these amounts is ascertainable, a reasonable estimate of the asset's cost to the charity shall be used. Such a valuation will be regarded as the asset's initial carrying amount and will not be regarded as a revaluation.

217. When the carrying amount of an item of property, plant and equipment exceeds its recoverable amount, it shall be written down to the recoverable amount.

218. Where land and buildings are held for mixed purposes, i.e. partly as functional property and partly as investment, the Balance Sheet category in which they shall be included depends upon the primary purpose for holding the asset and the extent to which they are separable. The following criteria for Balance Sheet analysis shall be adopted:

a. Land and buildings held primarily for charity use of which a part is leased at a commercial rent shall be regarded as functional items of property, plant and equipment and included within property, plant and equipment provided the asset is wholly or mainly used for charitable purposes.

b. Land and buildings held primarily for investment purposes where the asset is wholly or mainly used for investment purposes shall be included within the property, plant and equipment investment category of the Balance Sheet.

c. Land and buildings which contain clearly distinguishable parts which are held for different purposes i.e. partly functional and partly investment and do not fall under (a) or (b) above, shall be apportioned and analysed in the Balance Sheet between functional and investment assets.

219. Where a charity adopts an accounting policy of revaluation in respect of an item of property, plant and equipment, its carrying amount shall be its market value (or the best estimate thereof) as at the Balance Sheet date. Where the charity trustees believe that market value is not an appropriate basis, current value (i.e. the lower of replacement cost and recoverable amount) may be used instead. Where an item of property, plant and equipment is revalued, all property, plant and equipment of the same class (i.e. having a similar nature, function or use in the business) shall be revalued, but a policy of revaluation need not be applied to all classes of property, plant and equipment. For example, if a charity has two buildings, it has to revalue both buildings and not just one of them. In deciding to revalue the buildings the charity is not obliged to revalue other classes of property, plant and equipment such as Office Equipment and Furniture.

220. Where property, plant and equipment have been revalued, the year in which they were valued must be disclosed. In the case of assets that have been revalued during the current financial year, the names of the persons who valued them and particulars of their qualifications for doing so and the basis of the valuation must be disclosed.

221. It may be possible to establish with reasonable reliability the values of certain property, plant and equipment, other than properties, by reference to active second-hand markets or appropriate publicly available indices. For other property, plant and equipment, a valuation shall be performed by an experienced valuer (i.e. one who

has recognised and relevant recent professional experience, and sufficient knowledge of the state of the market, in the location and category of the property, plant and equipment being valued) at least every five years. It shall be updated by an experienced valuer in the intervening years where it is likely that there has been a material change in value.

222. Revaluation losses caused only by market fluctuations, excess loss beyond its depreciated historical cost and other revaluation losses shall be recognised in the Statement of Financial Activities.

223. Revaluation gains shall be recognised in the Statement of Financial Activities to the extent (after adjusting for subsequent depreciation) that they reverse revaluation losses on the same assets that were previously recognised in the Statement of Financial Activities. The amount matching previous revaluation losses taken to the Statement of Financial Activities shall be accounted for in the Statement of Financial Activities and the excess shall be recognised in the Statement of Financial Activities. The adjustment for subsequent depreciation is to achieve the same overall effect that would have been reached had the original downward revaluation reflected in the Statement of Financial Activities not occurred.

224. Where property, plant and equipment have been revalued, either the comparable amounts determined under the historical cost accounting rules (i.e. the aggregate historical cost amount that would have been included had the assets not been revalued, reflecting any write-downs to recoverable amount that would have been necessary); or the differences between those amounts and the corresponding amounts actually shown in the Balance Sheet must be shown separately in the Balance Sheet or in a note to the financial statements.

225. If an individual item of property, plant and equipment is revalued, all other assets in that class must also be revalued. Classes of assets can be narrowly defined, within reason, according to the operations of the charity.

226. When an asset is donated or when it is capitalised as a result of the change in an accounting policy, its initial valuation will not be regarded as a revaluation and hence will not require the entire class of such assets to be revalued.

227. Where there is a policy to revalue property, plant and equipment, their value must be updated on a regular basis. The charity trustees may use any reasonable approach to valuation at least every five years, subject only to obtaining advice as to the possibility of any material movements between individual valuations. Where a charity has a number of such assets, it will be acceptable for valuations to be carried out on a rolling basis over a five-year period. Independent formal professional valuations are not mandatory in the case of a charity, which instead may obtain a valuation from a suitably qualified person who could be a trustee, office bearer or employee.

228. Property, plant and equipment for use by the charity shall be analysed in the notes to the financial statements within appropriate classes.

229. The notes shall summarise all material changes in the values of each class of property, plant and equipment and reconcile the opening and closing balances. This may be achieved by using a table such as that below, omitting any rows and columns that are not needed for a charity's particular circumstances:

	Freehold land & Buildings	Leasehold land & Buildings	Plant and Machinery	Fixtures, Fittings and Equipment	Payments on account & assets under construction	Total
Asset cost, valuation or revalued amount						
Balance brought forward						
Additions						
Disposals						
Revaluations						
Translation differences						
Transfers						
Balance carried forward						
Accumulated depreciation and impairment provisions						
Balance brought forward						
Disposals						
Revaluations						
Impairment charges						
Transfers						
Translation differences						
Charge for year						
Balance carried forward						
Net Book Value						
Brought forward						
Carried forward						

230. The methods of depreciation used and useful lives or depreciation rates shall be disclosed in the accounting policy notes.

231. There is often a considerable difference between the carrying value and market value of interests in land and buildings not held as investments. Where the trustees consider this to be so material that it needs to be drawn to the attention of the users of the financial statements then the difference shall be included, with such precision as is practicable, in the notes to the financial statements. If it is not practicable to quantify the difference, a written explanation will suffice.

232. Where any class of property, plant and equipment of a charity has been revalued, the notes to the financial statements shall give:

a. The name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or office bearer or external to the charity;

b. The basis or bases of valuation;

c. Where records are available, the historical cost less depreciation; and

d. Date of the previous full valuation.

If the value has not been updated in the reporting period, a statement by the trustees that they are not aware of any material changes since the last valuation is required.

233. The methods used in the impairment review to determine **net realisable value** and value in use shall be disclosed in the notes to the financial statements.

Depreciation

234. Paragraphs 235 - 241 apply to all property, plant and equipment other than investment properties.

235. The cost (or revalued amount) less estimated residual value of a property, plant and equipment shall be depreciated on a systematic basis over its useful economic life. The depreciation method used shall reflect as fairly as possible the pattern in which the asset's economic benefits are consumed by the charity. The depreciation charge for each period shall be recognised as an expense in the Statement of Financial Activities unless it is permitted to be included in the carrying amount of another asset.

236. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

237. Where an item of property, plant and equipment comprises two or more major components with substantially different useful lives, each component shall be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. In the case of freehold properties where the land has unlimited life, the value of the land is not depreciated.

238. The useful lives and residual values of property, plant and equipment shall be reviewed regularly and, when necessary, revised. On revision, the carrying amount of the property, plant and equipment at the date of revision less the revised residual value shall be depreciated over the revised remaining useful economic life.

239. A change from one method of providing depreciation to another is permissible only on the grounds that the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of accounting policy; the carrying amount of the property, plant and equipment is depreciated using the revised method over the remaining useful economic life, beginning in the period in which the change is made.

240. The following shall be disclosed in the financial statements for (1) land and buildings and (2) other property, plant and equipment in aggregate:

a. The depreciation methods used;

b. The useful lives or the depreciation rates used; and

c. Where material, the financial effect of a change during the period in either the estimate of useful lives or the estimate of residual values.

241. Where there has been a change in the depreciation method used, the effect, if material, shall be disclosed in the period of change. The reason for the change shall also be disclosed.

A3: Preservation of Monuments" Assets

242. Information on "Preservation of Monuments" assets (whether or not they have been capitalised) shall be given in the notes to the financial statements. The notes shall contain:

a. An analysis or narrative that enables the user to appreciate the age, scale and nature of the "Preservation of Monuments" assets held and the use made of them,

b. Either:

   i. Details of the cost (or value) of additions and disposals of "Preservation of Monuments" assets during the year; or

   ii. Where details of cost or value are not available (non-capitalisation in previous periods), a brief description of the nature of the assets acquired or disposed of, together with the sales proceeds of any disposals,

c. Accounting policy notes explaining the charity's capitalisation policy in relation to "Preservation of Monuments" assets and the measurement bases adopted for their inclusion in the financial statements.

243. Charities will not necessarily need to capitalise such "Preservation of Monuments" assets that were acquired in past accounting periods and omitted from previous Balance Sheets when the circumstances in the paragraph below apply.

244. To fall within the definition of "Preservation of Monuments" assets, the charity must hold the relevant assets in pursuit of preservation or conservation objectives. The objective of the charity may be specifically of a preservation or conservation nature, or the "Preservation of Monuments" assets may be integral to a broader objective such as educating the public in history, the arts or science as in the case of museums and galleries.

245. Newly purchased "Preservation of Monuments" assets shall be initially measured and recognised at their cost.

246. When "Preservation of Monuments" assets were acquired in past accounting periods and not capitalised, it may be difficult or costly to attribute a cost or value to them. In such cases these assets may only be excluded from the Balance Sheet if:

a. Reliable cost information is not available and conventional valuation approaches lack sufficient reliability; or

b. Significant costs are involved in the reconstruction or analysis of past accounting records or in valuation, which are onerous compared with the additional benefit derived by users of the financial statements in assessing the charity trustees' stewardship of the assets.

247. The assessment of the costs involved in establishing a cost or valuation for "Preservation of Monuments" assets and the benefits derived by users of financial statements from this information will involve the separate consideration of any material sub-classes of assets held within the "Preservation of Monuments" asset category. Whilst the cost/benefit test may not be practical to apply on an individual asset-by-asset basis, it shall be considered in the context of particular parts or sub-classes of an overall collection. For example, in the context of a general museum valuing a fossil collection may be onerous but valuing its collection of vintage cars may not.

248. Whilst most specialised buildings can be valued using **depreciated replacement cost approach**, particular issues can arise in attempting to estimate the replacement cost of achieving the same service potential of certain historic buildings. The uniqueness of certain structures that are associated with particular locations, events, individuals or periods in history may be irreplaceable in terms of recreating the same service potential. The same service potential in terms of its "Preservation of Monuments" value or educational benefit to the public may only be achieved through the original structure or site.

249. Examples of "Preservation of Monuments" assets for which a cost or valuation may be difficult to attribute include:

a. Museum and gallery collections and other collections including the national archives; and

b. Archaeological sites, burial mounds, ruins, monuments and statues.

250. It may also be difficult or costly to attribute a cost or valuation to "Preservation of Monuments" assets that are donated, and such assets are rarely sold on the open market. Where assets are purchased by a party who then shortly afterwards donates the asset to the charity, the purchase price shall be considered as reliable cost information and could be used as a reference point for the value of donations of similar assets. Where an asset is partly purchased by the charity and partly donated, a reasonable estimate of the cost or value to the charity shall be able to be made. Gifts on death or lifetime transfers of significant value may also carry valuations for inheritance tax purposes that may provide sufficient reliability.

251. "Preservation of Monuments" assets shall be included in a separate row in the Balance Sheet and can be further analysed, in the notes to the financial statements, into classes appropriate to each charity e.g. collections, artefacts, and historic houses. An appropriate depreciation policy shall be applied. Certain "Preservation of Monuments" assets may have an indefinite useful life and a high residual value resulting in any depreciation charge being immaterial.

252. Where assets of historical, scientific or artistic importance are held by a charity but not for preservation or conservation purposes, they cannot be regarded as "Preservation of Monuments" assets. Examples of assets that do not fall within the "Preservation of Monuments" assets category include situations where a charity:

a. Holds and occupies an historic building as its administrative offices or as part of a property investment portfolio unrelated to any preservation or educational purpose;

b. Has in its possession works of art, or a collection of historic importance, or antique furnishings within its boardroom, as a store of wealth, the retention of which is unrelated to any objectives of preservation or education; and

c. Occupies a functional property that is used to house or display a collection of "Preservation of Monuments" assets (unless the property itself is held for preservation or conservation purposes).

253. Charities may be required by trust law to retain an asset indefinitely for its own use/benefit and are effectively prohibited from its disposal without external consent. Such **inalienable assets** can be capitalised.

254. Inalienable assets that do not fall within the definition of "Preservation of Monuments" assets shall be capitalised and disclosed in the relevant categories of Balance Sheet and in related notes. For example:

a. An **investment property** will be included as an investment within property, plant and equipment, valued at open market value and disclosed as part of investment properties within the investment notes.

b. Functional properties used by a charity in undertaking its activities are included within property, plant and equipment and are included at cost or valued on an existing use basis unless of a specialised nature when a depreciated replacement cost valuation is adopted.

c. Property, plant and equipment other than properties are included at cost or valued at open market value.

255. Inalienable assets, by their nature, will belong to a charity's restricted funds, often being permanent endowment.

256. Places of worship and ancient centres of learning may not meet the "Preservation of Monuments" asset definition as the preservation of the buildings they occupy is unlikely to be the primary objective of the charity. Such assets might nevertheless be considered integral to the activities of the charity and this may give rise to difficulties in ascertaining an estimate of the current cost of construction of an asset that has the same service potential as the existing one. For example, a new structure could recreate the floor area and seating capacity of a place of worship but such a structure would not recreate the uniqueness of the original in terms of the religious and historical significance. In such cases a valuation of previously non-capitalised assets may be impractical and the notes shall contain a statement to that effect explaining why conventional valuation techniques cannot be applied. Similar

issues may arise in the context of artefacts contained within and associated with such structures e.g. religious artefacts contained within a place of worship.

A4: Non-current Investments

A4a: Investment Assets

General

257. Investment assets (including investments, investment properties, financial instruments and cash held for investment purposes) shall be classified under non-current investments, unless the intention is to realise the investment assets without reinvestment of the sale proceeds and the assets shall be reclassified as current asset investments. The reason for this is that investment assets are generally held with the overall intention to retain them on a long-term basis to benefit the charity in the form of income and capital appreciation.

258. Investment assets must initially be measured at cost. Alternatively, they may be measured at a market value determined as at the date of their last valuation or on any other value determined on a basis which appears to the charity trustees to be appropriate in the circumstances of the charity (in the latter case, the method of valuation adopted and of the reasons for adopting it must be disclosed in a note to the accounts). Gains and losses shall be recognised in the Statement of Financial Activities using the same basis applied to property, plant and equipment in paragraphs 222 and 223 above.

259. Where investment assets have been revalued either – the comparable amounts determined under the historical cost accounting rules (i.e. the aggregate historical cost amount that would have been included had the assets not been revalued, reflecting any write-downs to recoverable amount that would have been necessary); or the differences between those amounts and the corresponding amounts actually shown in the Balance Sheet must be shown separately in the Balance Sheet or in a note to the accounts.

260. Where values are determined other than by reference to readily available market prices, the notes to the financial statements shall disclose who has made the valuation, giving:

a. The name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or external to the charity; and

b. The basis or bases of valuation.

261. In the rare case where the size or nature of a holding of securities is such that the market is thought by the charity trustees not to be capable of absorbing the sale of the shareholding without a material effect on the quoted price, the charity trustees shall summarise the position in the notes to the financial statements. If they are able to do so, the charity trustees shall give an opinion in the notes to the financial statements on how much the market price shall be adjusted to take this fact into consideration.

262. The notes to the financial statements shall show, in a table such as that given below, all changes in values of investment assets and reconcile the opening and closing book values. This information may be provided in a table format as set out:

	SGD
Carrying value (market value) at beginning of year	
Add: Additions to investments at cost	
Less: Disposals at carrying value	
Add/deduct Net gain/ (loss) on revaluation	
Carrying value (market value) at end of year	

263. The notes shall also show the total value of investment assets at the end of the financial year divided between distinct classes of investment. This normally includes:

a. Investment properties;

b. Investments listed on a recognised stock exchange or ones valued by reference to such investments, such as common investment funds, open ended investment companies, and unit trusts;

c. Investments in subsidiary or associated undertakings or in companies which are connected persons;

d. Other unlisted securities;

e. Cash and settlements pending, held as part of the investment portfolio; and

f. Any other investments.

264. Items in categories (a) to (f) of the above paragraph shall be further analysed between:

a. Investment assets in Singapore; and

b. Investment assets outside Singapore.

The total value of **equity** or investment schemes (including common investment funds, open ended investment companies and unit trusts) relating to companies listed on the Singapore stock exchange or incorporated in Singapore are treated as investment assets in Singapore and no further analysis is required of whether such entities invest their funds in the Singapore or outside Singapore.

265. For each item that includes listed investments, the following must be disclosed:

a. The aggregate market value of the listed investments where it differs from their Balance Sheet amount; and

b. Both the market value and the stock exchange value of any investments, of which the market value is taken as being higher than the stock exchange value.

266. Where the charity has at the end of the financial year a significant holding in an undertaking (which is not a subsidiary undertaking of the charity) which represents 20% or more of the nominal value of any class of equity in the undertaking, or more than 20% of the book value of the investing charity's total assets, the following must be stated in relation to that undertaking[4]:

a. The name of the undertaking;

b. If the undertaking is incorporated outside Singapore, the country which it is incorporated;

c. If it is unincorporated, the address of its principal place of business;

d. The identity and proportion of the nominal value of each class of equity held;

e. The aggregate amount of the capital and reserves of the undertaking as at the end of the most recent financial year ending with or before that of the investing charity;

f. The aggregate amount of the capital investing charity; and

g. Its profit and loss for that year.

267. Further details shall be given in the notes to the financial statements of any particular investment that is considered material in the context of the investment portfolio.

Investment properties

268. Investment properties shall not be subjected to periodic charges for depreciation except for properties held on **lease**. Investment properties shall be included in the Balance Sheet at their market value and the carrying value shall be displayed prominently either on the face of the Balance Sheet or in the notes.

269. The names of the persons making the valuation, or particulars of their qualifications, shall be disclosed together with the bases of valuation used by them. If a person making a valuation is a Trustee, an employee or officer of the charity that owns the property, this fact shall be disclosed.

270. Investment properties shall be revalued at least once every 3 years, and the revalued investment properties shall be disclosed on the face of Balance Sheet. However if during this 3-year intervening period, there are significant upward or downward price changes in the property market since the last revaluation, the charity trustees shall disclose this fact and the estimated impact on the financial statements. Changes in the market value of investment properties shall not be taken to the Statement of Financial Activities but shall be taken to revaluation reserves (being a movement on an investment revaluation reserve), unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it shall be charged (or credited) in the Statement of Financial Activities.

[4] Disclosure requirements for holdings in subsidiary undertakings are set out in paragraph 397.

Financial Instruments

271. Financial Instruments must initially be stated in the financial statements at the lower of cost and net realisable value. Alternatively, they may be measured at their current cost. Gains and losses should be recognised in the Statement of Financial Activities using the same basis applied to property, plant and equipment in paragraphs 222 and 223. Where quoted shares are held as financial instruments, the following information must be disclosed:

a. The aggregate market value of those financial instruments where it differs from their balance sheet amount; and

b. Both the market value and the stock exchange value of any financial instruments, of which the market value is taken as being higher than the stock exchange value.

272. All financial assets and **financial liabilities** (including all **derivatives**) shall be recognised on the Balance Sheet. A financial instrument shall be recognised when a charity becomes a party to the contractual provisions of the instrument, and in accordance to the following recognition criteria:

a. All primary instruments have to be recognised;

b. All derivatives have to be recognised; and

c. Embedded derivatives have to be separately recognised if:

   i. Economic characteristics and risks are not closely related to those of the host contract; and

   ii. The host contract is not measured at fair value with changes in fair value reported in income.

A4b: Social Investments

273. **Social investments** shall be disclosed separately within the investment asset category from those investments intended primarily to generate a return for the charity.

274. Social investments shall generally be included in the Balance Sheet at the amount invested less any impairment (in the case of equity or loans) and any amounts repaid (in the case of loans). Impairments shall be charged to expenditure on charitable activities. Similarly a loan subsequently converted to a grant would be charged to charitable activities.

275. Where a gain is made on the disposal of a social investment, the gain shall be included as a gain on disposal of property, plant and equipment for the charity's own use and recorded under "other income".

276. Where the use of social investments forms a material part of the work of the charity, or the amounts form a material part of the investment assets of the charity, the notes to the financial statements shall show all changes in carrying values of

social investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments.

277. The notes shall also analyse social investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports.

B: Current assets

B1: Inventories

278. The amount at which inventories are stated in the financial statements shall be the total of the lower of cost and net realisable value of the separate items of **inventories** or of groups of similar items.

279. Where there is no record of the purchase price or production **costs of inventories**, the recognised value must be the value found in the earliest available record.

280. Finance costs (such as interest) that are directly attributable to the acquisition, construction or production of inventories, may be included as part of the cost. In such circumstances, the notes to the financial statements must disclose that finance costs are included in the cost of the asset and the amount included.

281. The value of inventories that are constantly being replaced may be included at a fixed quantity and value, if the inventories' value does not significantly affect the charity's state of affairs, and there is no material variation in their quantity, value and composition.

282. Production costs of inventories shall not include the distribution costs.

Long-term Contracts

283. Long-term contracts shall be assessed on a contract-by-contract basis and the income and related expenditure shall be reflected in the Statement of Financial Activities as contract activity progresses. Income is ascertained in a manner appropriate to completion stage of the contract, the operations and the sector in which it operates.

284. If the outcome of a long-term contract can be assessed with reasonable certainty before its conclusion, the prudently calculated **attributable profit** shall be recognised in the Statement of Financial Activities as the difference between the reported income and related expenditure for that contract.

285. Long-term contracts shall be disclosed in the Balance Sheet as follows:

a. The amount by which recorded related income is in excess of payments on account, shall be classified as 'amounts recoverable on contracts' and separately disclosed within trade and other receivables.

b. The balance of payments on account (in excess of the amounts (i) matched with related income and (ii) offset against long-term contract balances) shall be classified as payments on account and separately disclosed within creditors.

c. The amount of long-term contracts incurred at cost net of amounts transferred to cost of sales after deducting foreseeable losses, and payments on account not matched with related income, shall be classified as 'long-term contract balances' and separately disclosed within the Balance Sheet heading 'inventories'. The Balance Sheet note shall disclose separately the balances of:

   i. Net cost less foreseeable losses; and

   ii. Applicable payments on account.

d. The amount by which the provision or accrual for foreseeable losses exceeds the costs incurred (after transfers to cost of sales), shall be included within either 'provisions for liabilities' or 'creditors' as appropriate.

Consignment Inventory

286. Where **consignment inventory** is in substance an asset of the dealer, the inventory shall be recognised as such on the dealer's Balance Sheet, together with a corresponding liability to the manufacturer. Any deposits shall be deducted from the liability and the excess classified as a trade creditor. Where inventory is not in substance an asset of the dealer, the inventory shall not be included on the dealer's Balance Sheet until the transfer of title has crystallised. Any deposits shall be included under 'other receivables'.

B2: Trade and Other Receivables

287. Trade and other receivables shall be analysed in the notes to the account between short term and long-term (after more than one year) giving amounts for the following:

a. Trade receivables;

b. Amounts due from subsidiary and associated undertakings;

c. Other receivables (which include net GST Receivables); and

d. Payments received in advance and accrued income.

Where non-current receivables are material, in the context of the total net current assets, they shall be separately shown in the Balance Sheet.

288. If a charity gives any amount of loan to any parties (i.e. legal entities, persons or charity's staff[5]), it shall disclose the following details in the notes to the financial statements:

a. A description of the loan recipient's relationship with the charity and/or charity trustees;

b. Amount of loan given;

c. Interest payable;

d. Repayment terms; and

e. Any amounts repaid.

Finance leases

289. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An **operating lease** is a lease other than a finance lease.

Accounting by lessees

290. A finance lease shall be recorded in the Balance Sheet of a lessee as an asset and as an obligation to pay future rentals. At the **inception of the lease**, the sum to be recorded both as an asset and as a liability shall normally be the value of the asset.

291. In those cases where the value of the asset does not give a realistic estimate of the cost to the lessee of the asset and of the obligation entered into, a better estimate shall be used. In principle this shall approximate to the present value of the **minimum lease payments**, derived by discounting them at the **interest rate implicit in the lease**. An example of where this might be used would be where the lessee has benefited from grants and capital allowances that enable the minimum lease payments under a finance lease to be adjusted to a total that is less than the value of the asset. A negative **finance charge** shall not be shown.

292. The total finance charge under a finance lease shall be allocated to accounting periods during the **lease term** so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period, or a reasonable approximation thereto. The straight-line method may provide such a reasonable approximation.

293. The rental under an operating lease shall be charged on a straight-line basis over the lease term even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate.

[5] Disclosures are required if there is no existing policy for extending loan's to charity's staff as a form of employee benefits.

294. Incentives to sign a lease, in whatever form they may take, shall be spread by the lessee on a straight-line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

295. An asset leased under a finance lease shall be depreciated over the shorter of the lease term or its useful life. The asset shall be depreciated over its useful life in the case of a hire purchase contract that has the characteristics of a finance lease.

Accounting by lessor

296. The amount due from the lessee under a finance lease shall be recorded in the Balance Sheet of a lessor as a debtor at the amount of the **net investment in the lease** after making provisions for items such as bad and doubtful rentals receivable.

297. The total gross earnings under finance leases shall be recognised on a systemic and rational basis. This will normally be a constant periodic rate of return on the lessor's net investment.

298. Rental income from an operating lease shall be recognised on a straight-line basis over the period of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the time pattern in which the benefit from the leased asset is receivable.

299. An asset held for use in operating leases by a lessor shall be recorded as a property, plant and equipment and depreciated over its useful life.

Sale and leaseback transactions – accounting by the seller/lessee

300. In a sale and leaseback transaction that results in a finance lease, any apparent gain or loss (i.e. the difference between the sale price and the previous carrying value) shall be deferred and amortised in the Statement of Financial Activities of the seller/lessee over the shorter of the lease term and the useful life of the asset.

301. If the leaseback is an operating lease:

a. Any gain or loss shall be recognised immediately, provided it is clear that the transaction is established at market value;

b. If the sale price is below market value any gain or loss shall be recognised immediately, except that if the apparent loss is compensated for by future rentals at below market price it shall to that extent be deferred and amortised over the remainder of the lease term (or, if shorter, the period during which the reduced rentals are chargeable); or

c. If the sale is above market value, the excess over market value shall be deferred and amortised over the shorter of the remainder of the lease term and the period to the next rent review (if any).

Sale and leaseback transactions – accounting by the buyer/lessor

302. A buyer/lessor shall account for a sale and leaseback in the same way as other leases are accounted for, i.e. using the methods set out in paragraphs 296 - 299.

Disclosure by lessees

303. Disclosure shall be made of:

a. Either:

i. The gross amounts of assets that are held under finance leases together with the related accumulated depreciation for (1) land and building and (2) other property, plant and equipment in aggregate; or

ii. Alternatively to being shown separately from that in respect of owned property, plant and equipment, the information in (i) above may be integrated with it, such that the totals of gross amount, accumulated depreciation, net amount and depreciation allocated for the period for (1) land and buildings and (2) other property, plant and equipment in aggregate for assets held under finance leases are included with similar amounts for owned property, plant and equipment. Where this alternative treatment is adopted, the net amount of assets held under finance leases and the amount of depreciation allocated for the period in respect of assets under finance leases included in the overall total shall be disclosed separately.

b. The amounts of obligations related to finance leases (net of finance charges allocated to future periods). These shall be disclosed separately from other obligations and liabilities, either on the face of the Balance Sheet or in the notes to the financial statements.

c. The amount of any commitments existing at the Balance Sheet date in respect of finance leases that have been entered into but whose inception occurs after the year-end.

304. In respect of operating leases, the lessee shall disclose the payments that it is committed to make during the next year, analysed into those in which the commitment expires within that year, those expiring in the second to fifth years inclusive, and those expiring over five years from the Balance Sheet date.

Disclosure by lessor

305. Disclosure shall be made of:

a. The gross amounts of assets held for use in operating leases and the related accumulated depreciation charges;

b. The cost of assets acquired, whether by purchase or finance lease, for the purpose of letting under finance leases; and

c. The net investment in (i) finance leases and (ii) hire purchase contracts at each Balance Sheet date.

B3: Short-term Investments

306. Investment assets that are held with the intention for realisation without reinvestment of the sale proceeds shall be classified as current asset investments. Current asset investments must initially be stated in the financial statements at the lower of cost and net realisable value. Alternatively, they may be measured at their current cost. Gains and losses should be recognised in the Statement of Financial Activities using the same basis applied to property, plant and equipment in paragraphs 222 and 223.

307. Where quoted equity is held as a current asset investment, the following information must be disclosed:

a. The aggregate market value of those financial instruments where it differs from their Balance Sheet amount; and

b. Both the market value and the stock exchange value of any financial instruments, of which the market value is taken as being higher than the stock exchange value.

<u>Start-up costs and pre-contract costs</u>

308. Start-up costs shall be accounted for on a basis consistent with the accounting treatment of similar costs incurred as part of the charity's on-going activities. If there are no such similar costs, start-up costs that do not meet the recognition criteria as assets under the CAS, shall be recognised as an expense when they are incurred in the Statement of Financial Activities and not be carried forward as an asset.

309. Pre-contract costs shall be expensed as incurred in the Statement of Financial Activities. However directly attributable costs shall be recognised as an asset, when it is virtually certain that a contract will be obtained, and the contract is expected to result in future net cash inflows with a present value of no less than all amounts recognised as an asset. Costs incurred before the asset recognition criteria are met shall not be recognised as an asset.

B4: Cash and Cash Equivalents

310. There shall be separate disclosure in the notes to the accounts on the type of cash and cash equivalents, which normally comprise of cash and fixed deposits. For fixed deposits, the rate of interest and the terms shall be disclosed in the notes to the accounts.

C: Current Liabilities

C1: Trade and Other Payables

D: Non-current Liabilities

D1: Non-current Payables

311. Liabilities shall normally be recognised at their settlement value. In the case of provisions, this will be the amount that a charity would rationally pay to settle the obligation at the Balance Sheet date or to transfer it to a third party at that time and may therefore involve discounting.

312. Where there are creditors that do not fit into any of the following categories, the headings may be added to or adapted as appropriate to the type of creditor and nature of the charity. The totals for both short-term creditors (i.e. amounts falling due within one year) and long-term creditors (i.e. amounts falling due after more than one year) shall each be separately analysed in the notes giving amounts for appropriate classes like the following:

a. Loans and overdrafts;

b. Trade creditors;

c. Amounts due to subsidiary and associated undertakings;

d. Other creditors; and

e. Accruals and deferred income.

313. Where a charity is acting as an intermediary agent or as a custodian trustee for another organisation, then any assets held and the associated liabilities shall be separately identified in the Balance Sheet and additional information shall be disclosed in the notes to the financial statements. The notes to the financial statements shall provide sufficient detail so that the reader of the financial statements understands the relationship and nature of the transactions between the charity, the funding organisation and the beneficiary entitled to receive the funds.

314. The details shall also be provided when the charity is acting as an intermediary but is also the principal. However in this case the assets and liabilities will be included in the Balance Sheet.

D2: Provisions for Liabilities and Charges

315. A provision shall be recognised only when it is probable (i.e. more likely than not) that a present obligation exists as a result of a past event, and that it will require a transfer of economic benefits in settlement that can be estimated reliably. The amount of provision recognised shall be the best estimate of the expenditure required to settle the obligation at the Balance Sheet date. Where the effect of the time value of money is material, the amount of a provision shall be the present value

of the expected settlement amount of the obligation. Where discounting is used, the unwinding of the discount shall be shown as other finance costs adjacent to interest[6].

316. Where some or all of the expenditure required to settle a provision may be reimbursed by another party (e.g. through an insurance claim), the reimbursement shall be recognised as a separate asset, only when it is virtually certain to be received if the charity settles the obligation. In the Statement of Financial Activities, the expense relating to the provision may be presented net of the recovery. Gains from the expected disposal of assets shall be excluded from the measurement of a provision.

317. Provisions shall be reviewed at each Balance Sheet date and adjusted to reflect the current best estimate.

318. A provision shall be used only for expenditures for which the provision was originally recognised.

319. For each class of provision the following information must be provided:

a. The amount of the provision at the beginning and the end of the financial year;

b. Any amounts transferred to or from the provision during the year;

c. The source and application of the amounts transferred;

d. Particulars of each material provision included under ‘other provisions’ in the charity’s Balance Sheet in any case where the amount of that provision is material; and

e. Provisions shall be appropriately analysed in the Balance Sheet between liabilities due within one year and those falling due after one year.

320. Expenditure resulting from provisions that arise due to a legal or constructive obligation shall be accounted for in the Statement of Financial Activities. Such provisions shall be appropriately analysed in the Balance Sheet between liabilities due within one year and those falling due after one year.

321. The amount recognised as a liability shall be the best estimate of the expenditure required to settle the present obligation at the Balance Sheet date or transfer it to a third party at that time. When calculating this amount, consideration shall be given to:

a. The timing of the cash flows; and

b. Future events and uncertainties that may affect the amount required to settle the obligation.

[6] There are a number of acceptable methods of discounting, and the appropriate discount rate depends on the method adopted. However if cash flows are expressed in future prices and have been adjusted for risk, it will be appropriate to discount them at a risk-free rate such as market rate on relevant government bonds.

322. Where provisions are accrued in the current financial year but are to be paid over several years then future payments may have a reduced value in today's terms. Where the effect is material, the expenditure required to settle the obligation at the Balance Sheet date shall be discounted to their present value. The discount rate used shall reflect the current assessments of the time value of money and the risks specific to the provision. The interest rate, either for the cost of **borrowing** or investment, could be an appropriate discount rate.

323. The best estimate of the liability shall be reviewed at the Balance Sheet date and adjusted appropriately. If a transfer of resources is no longer needed to settle the obligation then the amount of the liability no longer representing an obligation shall be deducted from the expenditure category to which it was originally charged in the Statement of Financial Activities.

324. Where a charity earmarked part of its unrestricted funds for a particular future purpose, this intention to expend funds in the future is not recognised as a provision for a liability in the financial statements. Such earmarked amounts may be recorded by setting up a designated fund.

325. Particulars of all material provisions for liabilities and charges accrued in the Balance Sheet as liabilities shall be disclosed in the notes. Similarly, particulars of all material commitments in respect of specific charitable projects shall be disclosed if they have not been charged in the financial statements.

326. These particulars shall include the amounts involved, when the commitments are likely to be met and the movements on commitments previously reported. Particulars of all other material binding commitments shall also be disclosed (e.g. operating leases).

327. The notes shall distinguish between those commitments included in the Balance Sheet as liabilities and those that are intentions to spend and are not included, but in both cases shall detail:

a. The reason for the commitments, giving separate disclosure for material projects;

b. The total amount of the commitments, including amounts already charged in the financial statements;

c. The amount of commitments outstanding at the start of the year;

d. Any amounts charged in the Statement of Financial Activities for the year;

e. Any amounts released during the year due to a change in the value in the commitments; and

f. The amount of commitments outstanding at the end of the year and an indication as to how much is payable within one year and over one year.

328. Any designated funds relating to intentions to spend and not included as liabilities, shall be separately disclosed as part of the unrestricted funds of the charity

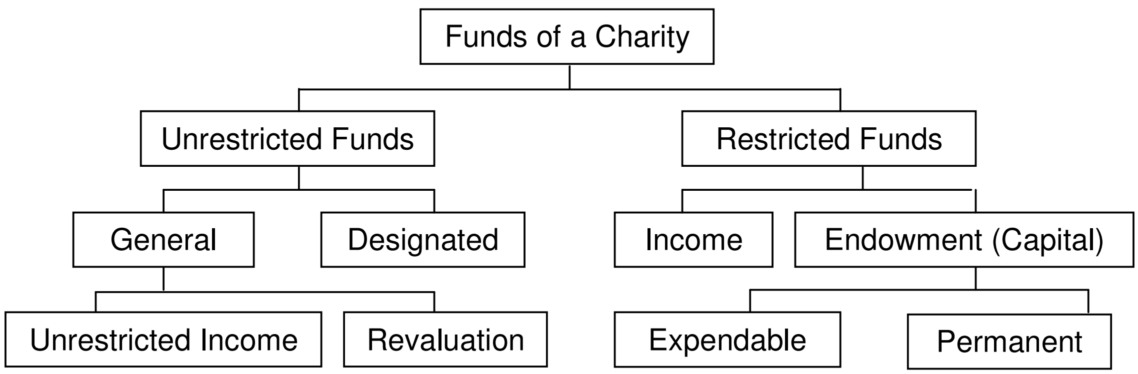
and appropriately described in the notes. The purpose of the disclosure is to identify that portion of the unrestricted funds that has been set aside to meet the commitments. Activities that are to be wholly financed from future income would not form part of such designation.

E: Funds of Charity

<u>General</u>

329. The funds of a charity comprise unrestricted income funds and restricted funds / special trust, as seen in Fig. 1.

Fig 1 – An example of funds of charities:



E1: Unrestricted Funds

E1a: Unrestricted Income Funds

E1b: Revaluation Reserve

E1c: Designated Funds

330. Nearly all charities have a fund, which is available to the charity trustees to apply for the general purposes of the charity as set out in its governing document. This is the charity's "unrestricted" fund (sometimes called a "general" fund) because the charity trustees are free to use it for any of the charity's purposes. Income generated from assets held in an unrestricted fund will be unrestricted income.

331. Unrestricted funds are expendable at the discretion of the charity trustees in furtherance of the charity's objects. If part of an unrestricted fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the charity trustees' discretion to apply the fund. Some charity trustees have power to declare specific trusts over unrestricted funds. If such a power is available and is exercised, the assets affected will form a restricted fund, and the charity trustees' discretion to apply the fund will be legally restricted. Unrestricted funds can be spent on the same purposes as restricted funds, for example, by spending more on a project for which a restricted grant has provided funding. Therefore, unrestricted funds may be transferred to meet any overspending on a restricted fund.

332. A power of accumulation as stipulated explicitly in the governing instruments, will allow charity trustees to create or augment endowment funds (restricted capital funds) from income funds (restricted or unrestricted). Without this power, charity trustees may not create endowment from income funds. Charity trustees need to be aware that if they use income funds to erect, extend or improve a building on land that is an endowment asset, then those income funds shall be treated as permanent endowment.

333. The charity trustees may earmark part of the charity's unrestricted funds to be used for particular purposes in the future. Such sums are described as "designated funds" and shall be accounted for as part of the charity's unrestricted funds. The charity trustees have the power to re-designate such funds within unrestricted funds. When a designation has been made at the Balance Sheet date, the amount of the designation may be adjusted subsequent to the year-end if more accurate information becomes available.

E2: Restricted Funds

E2a: Endowment Funds

E2b: Restricted Income Funds

334. Restricted funds are funds subject to specific trusts, which may be declared by the donor(s) or with their authority (e.g. in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are expendable at the discretion of the charity trustees in furtherance of some particular aspect(s) of the objects of the charity. Or they may be capital (i.e. endowment) funds, where the assets are required to be invested, or retained for actual use, rather than expended. Income generated from assets held in a restricted fund (e.g. interest) will be legally subjected to the same restriction as the original fund unless either:

a. The terms of the original restriction specifically say otherwise (for example, the expressed wishes of a donor or the terms of an appeal); or

b. The restricted fund is an endowment fund, the income of which is expendable at the discretion of the charity trustees.

335. Where income is received for goods and services provided, any surplus funds retained upon full performance of the service and used for general purposes, the income and related expenditure will most likely be unrestricted. However if any surplus is retrievable by the donor upon full performance, then the income most likely is restricted.

336. Where funds are provided for property, plant and equipment, the treatment of the property, plant and equipment acquired with those funds will depend on the basis on which they are held. The terms on which the funds were received may require that the property, plant and equipment be held by the charity on trust for a specific purpose. Alternatively, if the charity's governing instrument allows them to do so, the charity trustees may choose to settle the property, plant and equipment on trust for a specific purpose implied by the appeal (this will be legally binding as opposed to an

administrative decision taken by the charity trustees to include assets in a designated fund). In either case the asset will form part of restricted funds, as will a property, plant and equipment, which have been given to the charity on trust for a specific purpose. There is, however no general rule and the treatment will depend upon the circumstances of each individual case.

337. Expenditure may be charged to a restricted fund, only if there is a genuine anticipation of receipts that can properly be credited to the fund in order to meet the expenditure (e.g. where a decision has been taken to invite donations for that fund). The fund, which is actually drawn upon to finance the expenditure, shall be held upon trusts, which are wide enough to permit the expenditure (in case the expected receipts do not materialise). But if expenditure has been charged to an unrestricted fund, it shall not subsequently be recharged to restricted fund receipts simply in order to increase the fund of unrestricted income.

338. Where restricted income has been invested prior to application for a suitable charitable purpose, any income/gains derived from the investment will be added to, and form part of, the restricted income fund in question. Income derived from the investment of capital (endowment) funds may be applied for the general purposes of the charity (unrestricted income); unless a specific purpose has been declared by the donor for the application of the income from the capital fund in question. Such income will be applicable for that purpose and will be restricted income. Gains from the realisation of investments in a capital (endowment) fund form part of the fund itself.

339. A **permanent endowment fund** is an endowment fund where there is no power to convert the capital into income, which must generally be held indefinitely. This concept 'permanence' does not however necessarily mean that the assets held in the endowment fund cannot be exchanged (though in some cases the trusts will require the retention of a specific asset for actual use e.g. a historic building), nor does it mean that they are incapable of depreciation or loss. What it means is that the permanent endowment fund cannot be used as if it were income (i.e. to make payments or grants to others), however certain payments must be made out of the endowment, such as the payment of investment management fees where these relate to investments held within the endowment. Where assets held in a permanent endowment fund are exchanged, their place in the fund must be taken by the assets received in exchange. "Exchange" here may simply mean a change of investment, but it may also mean, for example, the application of the proceeds of sale of freehold land and buildings in the purchase or improvement of freehold property.

340. In some instances the trustees may have a power of discretion to convert endowed capital into expendable income in which case the fund is known as expendable endowment. Expendable endowment is distinguishable from "income" in that there is no actual requirement to spend the capital unless, or until, the charity trustees decide to. The fund must be invested to produce income that shall be spent for the purposes of the charity within a reasonable time of receipt. If such a power to expend the capital of the expendable endowment is exercised, the relevant funds become restricted or unrestricted income, depending upon whether the trusts permit expenditure for any of the purposes of the charity, or only for specific purposes.

341. The initial gift and subsequent increases and decreases in the amount of any endowment funds shall be shown in the Statement of Financial Activities as part of those funds.

Expenses Related to Endowment Investments

342. Any expenses incurred in the administration, or protection of an endowment investment shall be charged to the endowment fund. Examples of such expenses are the fees of someone who manages endowment investments, or the cost of improvements to land held as an endowment investment. It is only where the trusts of the charity provide to the contrary, or there are insufficient funds in the endowment to meet such costs, can they be charged against the other funds held by the charity.

343. However where charities have land held as endowment investments, then rent collection, property repairs and maintenance charges would normally be charged against the relevant income fund, as would the cost of rent reviews. Valuation fees and other expenses incurred in connection with the sale of such land would normally be charged to capital, i.e. against the gain (or added to the loss) realised on the disposal.

344. Valuation fees incurred for accounting purposes would normally, in the case of endowment investments, be charged to capital and recorded in the governance category of expenditure.

345. All income derived from assets held as endowment investments shall be included in the Statement of Financial Activities. Normally the income forms part of the unrestricted funds but if the application of the income is restricted to a particular purpose, the income and corresponding expenditure shall be appropriately identified in the respective restricted funds. Any income not spent at the year-end shall be carried forward in the appropriate unrestricted or restricted fund.

General Points

Asset Gains and Losses

346. If a gain is made on the disposal of an asset, the gain will form part of the fund in which the asset was held. An unrealised gain on an asset will also form part of the fund in which the asset is held. Similarly, unrealised losses and provisions for depreciation and impairment of an asset will reduce the fund in which the asset is (or, in the case of a realised loss, was) held. In order to ensure that gains, losses and provisions are added to or deducted from the correct fund, it is therefore essential to know which assets and liabilities are held in which fund.

Assets and Liabilities in a Fund

347. It is also important for the charity trustees to ensure that the assets and liabilities held in a fund are consistent with the fund type (e.g. if a fund which, because of donor restrictions, must be applied in the short term is represented by assets which cannot reasonably be expected to be realised in the short term, there is a real possibility that the charity will not be able to apply the funds as directed).

Reconciliation of Funds

348. The Statement of Financial Activities shall reflect the principal movements between the opening and closing balances on all the funds of the charity. It shall be analysed between unrestricted income funds, restricted income funds and endowment funds (permanent and expendable combined).

Particulars of Individual Funds and Notes to the Financial Statements

349. The notes to the financial statements shall provide information on the structure of the charity's funds so as to disclose the fund balances and the reasons for them, differentiating between unrestricted income funds (both general and designated), restricted income funds, permanent endowment and expendable endowment as well as identifying any material individual funds among them. In particular:

a. The assets and liabilities representing each type of fund of the charity shall be clearly summarised and analysed (e.g. investments, property, plant and equipment, net current assets) between those funds unless this information is presented in a columnar Balance Sheet.

b. Disclosure of how each of the funds has arisen (including designated funds), the restrictions imposed and the purpose of each fund shall be provided. An indication shall also be given as to whether or not sufficient resources are held in an appropriate form to enable each fund to be applied in accordance with any restrictions. For example, if a charity has a fund, which is to be spent in the near future, it shall be made clear in the notes whether or not the assets held (or expected to be received) in the fund are liquid assets.

c. Any funds in deficit shall always be separately disclosed. An explanation shall be given in the Annual Report. Designated funds shall never be in deficit.

d. Material transfers between different funds and allocations to designated funds shall be separately disclosed, without netting off, and shall be accompanied by an explanation of the nature of the transfers or allocations and the reasons for them.

e. Where, in relation to permanent endowment, a total return approach to investments has been adopted. The notes to the financial statements shall give particulars of the movements in the value of the unapplied total return for the financial year. The note shall reconcile the balance held as unapplied total return at the beginning with that at the end of the financial year.

Other Matters to be covered in the Notes to the Accounts

Post Balance Sheet events

350. A charity shall adjust the amounts recognised in its financial statements to reflect **adjusting events after the Balance Sheet date**.

351. A charity shall not adjust the amounts recognised in its financial statements to reflect **non-adjusting events after the Balance Sheet date.**

352. Non-disclosure of material non-adjusting events after the Balance Sheet date could influence the users' economic decisions made on the basis of the financial statements, so a charity shall disclose the following accordingly for each material category of non-adjusting event after the Balance Sheet date:

a. The nature of the event; and

b. An estimate of its financial effect or a statement that such an estimate cannot be made.

353. The date on which the financial statements are approved for issue and who gave that approval shall be disclosed in the financial statements.

Contingent liabilities and contingent assets

354. Contingent liabilities and contingent assets shall not be recognised but disclosed as a note to the financial statements.

355. Contingent assets are not recognised because it could result in the recognition of income that may never be realised. However when the realisation of the income is virtually certain, then the asset is not a contingent asset and the gain arising shall be included in the Statement of Financial Activities as an income and in the Balance Sheet as a debtor.

356. Where it becomes probable that there will be a future expenditure to settle an item previously regarded as a contingent liability, it shall cease to be contingent and shall be accrued in the financial statements. The amount of the liability shall (except in extremely rare circumstances where no reliable estimate can be made) be capable of being estimated with reasonable accuracy at the date on which the financial statements are approved.

357. The probability of a contingent asset or liability resulting in a future transfer of resources (to or from the charity) shall be continually assessed and the recognition of the asset or liability shall be reviewed as appropriate.

358. The following shall be disclosed for contingent liabilities. Except where their existence is remote, and for probable contingent assets:

a. A brief description of the nature of the contingent item;

b. Where practicable, an estimate of its financial effect (If such an estimate cannot be made, the financial statements shall explain why it is not practicable to make such an estimate); and

c. Its legal nature.

359. Where practicable, the aggregate amount, or estimated amount, of contracts for capital expenditure not provided for must be disclosed. Details of any other financial commitments not provided for which are relevant to assessing the charity's state of affairs must also be disclosed.

360. Particulars must be given of any charge on the assets of the charity to secure the liabilities of any other person, including where practicable, the amount secured.

361. Material contingent assets and liabilities shall be disclosed in the notes to the financial statements unless the probability of a future transfer of resources (to or from the charity) is extremely remote - in which case no disclosure is necessary.

362. Where there is more than one contingent asset or liability, they may be sufficiently similar in nature for them to be grouped together as one class and be disclosed in a single statement.

363. Where a liability has been accrued but there is still a contingent liability arising from the same set of circumstances then the notes to the financial statements shall link the provision and the contingent liability.

Guarantees

364. All material guarantees given by the charity, and the conditions under which liabilities might arise as a result of such guarantees, shall be disclosed in a note to the financial statements according to paragraph 358.

Loan Liabilities

365. If any specific assets (whether land or other property) of the charity are subject to a mortgage or charge given as security for a loan or other liability, a note to the financial statements shall disclose:

a. Particulars of the assets which are subject to the mortgage or charge; and

b. The amount of the loan or liability and its proportion to the value of the assets mortgaged or charged.

366. The amounts and interest and repayment terms of all inter-fund loans (including any loans from permanent endowment and summarised, if necessary) shall be disclosed in the notes to the financial statements.

Related party disclosures

General

367. Related parties include all of the following:

a. Any charity trustee and custodian trustee of the charity;

b. Any person or body:

i. With either the power to appoint or remove a significant proportion of the charity trustees of the charity. All or a majority of the charity trustees shall always be treated as a "significant proportion". Fewer than 50% of the charity trustees may be a "significant proportion" if they collectively have a dominant influence on the operation of the charity, as, for example, is likely to be the case if one body has the power to appoint/remove 7 of a body of 15 charity trustees, and 8 other different bodies had the right to appoint/remove 1 each; or

ii. Whose consent is required for the exercise of any of the discretions of those charity trustees; or

iii. Who is entitled to give directions to those charity trustees as to the exercise of any of those discretions.

c. Any charity/legal entity connected with the charity, and/or any charity trustee/director of such a charity/legal entity. A charity/legal entity connected with a charity in either of these situations:

i. It is controlled by the charity. "Controlled" means that the charity is able to decide that the affairs of this other charity/legal entity are conducted in accordance with the charity's wishes, where it is charity trustee/board member of that legal entity or has power to appoint or remove a significant proportion of its charity trustees/board members. Or

ii. An interest in it is beneficially owned by the charity. "Interest" means that the charity is:

- Interested in shares comprised in the equity share capital of the body of a nominal value of more than one fifth of that share capital; or

- Entitled to exercise or control the exercise of more than one-fifth of the voting power at any general meeting of that body.

d. Any other legal entity with which it is commonly controlled**.** Common control exists if:

i. The same person, or persons have the right to appoint a majority of the charity trustees/board members of both or all the charities/legal entities; or

ii. The same person, or persons, holds a majority of the voting rights in the administration of both or all of the charities.

Persons who are related with each other through family or business relationships shall be treated as the same person for the present purposes.

A charity is not necessarily related to another charity simply because a particular person happens to be a trustee of both. It will only be related if one charity subordinates its interests to the other charity in any transaction because of this relationship.

e. Any officer, agent or employee of the charity having authority or responsibility for directing or controlling the major activities or income of the charity; and

f. Any person connected to a person who is related to the charity including:

i. **Charity trustee's family members** or related person who may be expected to influence, or be influenced by, that person in their dealings with the charity;

ii. The charity trustees of any trust, not being a charity, the beneficiaries or potential beneficiaries of which include a charity trustee or related person or a person referred to in (i) as being connected with a charity trustee or to a related person, as the case may be

iii. Any business partner of a charity trustee or related person, or of any person referred to in (i) or (ii) as being connected with a charity trustee or to a related person, as the case may be

iv. Any body corporate, not being a company, which is controlled entirely by one or more charitable institutions, in which:

- The charity trustee has, or the charity trustee and any other charity trustees or person or persons referred to in (i), (ii) or (iii) above as being connected with a charity trustee, taken together, have a participating interest; or

- The related person has, or the related person and any other related parties of the charity, taken together, have a participating interest.

v. Any person or body who makes available to the charity the services of any person or body as a charity trustee is connected with a charity trustee.

368. Material transactions with related parties, irrespective of whether or not they are undertaken on an arm's length basis, shall be disclosed by way of a note to the financial statements. Such transactions might inhibit the charity from pursuing its

own separate interests. Any decision by a charity to enter into a transaction ought to be influenced only by the consideration of the charity's own interests.

369. This requirement is reinforced by legal rules, which, in certain circumstances, can invalidate transactions where the charity trustees have a conflict of interest. This does not necessarily mean that all transactions with related persons are influenced by the consideration of interests other than the charities or that they are liable to invalidation.

370. Transparency is particularly important where the relationship between the charity and the other party or parties to a transaction suggests that the transaction could possibly have been influenced by interests other than that of the charity. It is possible that the reported financial position and results may have been affected by such transactions and information about these transactions is therefore necessary for the users of the charity's financial statements.

371. **Related party transactions** potentially include:

a. Purchases, sales, leases and donations (including donations which are made in furtherance of the charity's objects) of goods, property, money and other assets such as intellectual property rights to or from the related party; and

b. The supply of services by the related party to the charity, and the supply of services by the charity to the related party. Supplying services includes providing the use of goods, property and other assets and finance arrangements such as making loans and giving guarantees and indemnities.

Where the charity:

a. Purchases, sells, leases, donates or transfers goods and other assets or liabilities;

b. Renders or receives services;

c. Provides or receives finance or financial support; (irrespective of whether a price is charged) to, from or on behalf of a related party; or

d. Provides or receives any other payments or benefits, which are made to charity trustees under, express provisions of the governing document of a charity or in fulfilment of its charitable objectives.

then such material[7] transactions shall be disclosed, including:

i. The names of the transacting related parties;

ii. A description of the relationship between the parties (including the interest of the related party or parties in the transaction);

iii. A description of the transactions;

[7] The materiality of a related party transaction shall be judged in terms of its significance to the charity.

iv. The amounts involved;

v. Any other elements of the transactions necessary for an understanding of the financial statements;

vi. The amounts due to or from related parties at the Balance Sheet and provisions for doubtful debts due from such parties at that date; and

vii. Amounts written off in the period in respect of debts due to or from related parties with explanation for such write offs.

372. Personal guarantees given by the charity trustees in respect of borrowings by the charity shall be disclosed in the notes to the financial statements.

373. Amounts included in the Statement of Financial Activities under "A1c: Investment Income" that were received or are receivable from group undertakings, shall be disclosed separately.

374. 'Interest Payable and Similar Charges' paid, or payable, to group undertakings, shall be shown separately.

375. Commitments which are undertaken on behalf of or for the benefit of (a) any parent undertaking or fellow subsidiary undertakings, or (b) any subsidiary undertaking of the charity, shall be disclosed separately from those commitments disclosed under paragraphs 358 – 361 and 391, and commitments undertaken under (a) shall be disclosed separately from those undertaken under (b).

376. Other transactions with related parties may be disclosed on an aggregated basis (aggregation of similar transactions by type of related party), unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the charity or is required by law.

377. Certain related party transactions that are unlikely to influence the pursuance of the separate independent interests of the charity, need not be disclosed unless there is evidence to the contrary. Examples include:

a. Donations received by the reporting charity from a related party, so long as the donor has not attached conditions which would, or might, require the charity to alter significantly the nature of its existing activities if it were to accept the donation (but any material grant by the reporting charity to a charity which is a related party shall be disclosed);

b. Minor or routine unremunerated services provided to a charity by people related to it;

c. Contracts of employment between a charity and its employees (except where the employees are the charity trustees or people connected with them);

d. Contributions by a charity to a **defined contribution plan** for the benefit of employees;

e. Sales of minor articles from a charity to a related party, where these minor articles are offered for sale to the general public on the same terms;

f. Provision of services to a related party who receives the services as part of a wider beneficiary class, and on the same terms as other members of the class; and

g. Payment or reimbursement of out-of-pocket expenses to a related party, including the charity trustees or people related to the charity trustees. (Including a charity trustee or person connected with a charity trustee - see paragraphs 379 - 380).

Charity Trustees' Remuneration and Benefits

Remuneration and Benefits

378. Unlike in the case of the directors of commercial companies, it is not the normal practice for charity trustees or people connected with them, to receive remuneration or other benefits from the charities for which they are responsible, or from institutions connected with those charities. Detailed disclosures of remuneration and benefits are therefore required where the related party is a charity trustee, or a person connected with a charity trustee. Where the related party is a charity trustee or a person connected with a charity trustee, the following points shall apply for the reporting on the transactions with such related parties:

a. Unless one of the exceptions in the above paragraph 377 applies, the transaction shall always be regarded as material, and be disclosed regardless of its size.

b. Each type of related party transaction must be separately disclosed. For example, particulars of the remuneration paid to each charity trustee or person connected with a charity trustee, shall be disclosed individually in the notes. Where the charity has made any defined contribution plan arrangements for charity trustees or persons connected with them, the amount of contributions paid and the accrued benefits must be disclosed in the notes for each related party.

c. Where remuneration has been paid to a charity trustee or a person connected with a charity trustee, the legal authority under which the payment was made (e.g. provision in the governing document of the charity, order of the Court or Commissioner of Charities) shall also be disclosed as the basis for such remuneration.

d. Where neither the charity trustees nor any persons connected with them have received any such remuneration, this fact shall be stated.

379. Disclosure is required for the expenditure that is related to the services provided by charity trustees in connection with the management of the affairs of the

charity or any of its subsidiaries, where the charity remunerates the charity trustees by:

a. Reimbursement;

b. Provision of allowances; or

c. Direct payment or accrual of any amount of consideration[8] to third parties for making available services to the charity trustees; and

the following shall be disclosed in a note to the financial statements:

a. Aggregate amount of these expenses;

b. Nature of the expenses (e.g. travel, subsistence, entertainment, etc); and

c. Number of charity trustees involved.

380. Where the charity trustees have received no such remuneration or benefits, this fact shall be stated.

381. No disclosure is required for the expenditures that are not related to the services provided by a charity trustee to the charity and the transactions are unlikely to influence the pursuance of the separate independent interests of the charity. These expenditures include but not limited to the following:

a. Reimbursement of purchases made by the charity trustees who act as agents for the charity, e.g. payment for stationery or refreshment; and

b. Routine expenditure that is attributable collectively to the services provided to the charity trustees, e.g. the hire of a room for meetings or providing reasonable refreshment at the meeting.

<u>Advances, Credits and Guarantees</u>

382. Disclosure is required for the following charity trustees' benefits by way of advances, credits and guarantees:

a. Advances and credits granted by the charity to its charity trustees; and

b. Guarantees of any kind entered into by the charity on behalf of its charity trustees.

For the purposes of this section, the charity trustees of a charity are the persons who were a trustee at any time in the financial year to which the financial statements relate.

383. The information required for an advance or credit is as follows:

[8] The reference to consideration includes benefits other than in cash and the estimated money value of such benefits and their nature must be disclosed.

a. Its amount;

b. An indication of the interest rate;

c. Its main conditions; and

d. Any amounts repaid.

384. The information required for a guarantee is as follows:

a. Its main terms;

b. The amount of the maximum liability that may be incurred by the charity (or its subsidiary); and

c. Any amount paid and any liability incurred by the charity (or its subsidiary) for the purpose of fulfilling the guarantee (including any loss incurred by reason of enforcement of the guarantee).

385. The total amounts stated under paragraphs 383(a); 383(d); 384(b) and 384(c) above must also be disclosed in the notes to the financial statements.

386. The requirements of this section apply in relation to every advance, credit or guarantee subsisting at any time in the financial year to which the financial statements relate:

a. Whenever it was entered into;

b. Whether or not the person was a charity trustee of the charity in question at the time it was entered into.

387. In the case of an advance, credit or guarantee involving an organisation that was the charity's subsidiary undertaking, whether or not the organisation was a subsidiary undertaking at the time it was entered into.

Employee Benefits

388. The following details on **employee benefits** expense shall be disclosed in the notes to the financial statements, providing sub-categories according to the manner in which the charity's activities are organised:

a. Total **short-term employee benefits**, giving the split between gross salaries and bonuses, Central Provident Fund contributions and Foreign Worker Levy, taxable benefits in kind and other short-term employee benefits for the year;

b. Average number of staff during the year shall be provided; and

c. An estimate of the average number of full time equivalent employees for the year, where material to the disclosure, e.g. due to the number of part-time staff.

389. The following details on employee benefits expense shall be disclosed in the notes to the financial statements, providing sub-categories according to the manner in which the charity's activities are organised:

390. An entity shall disclose key management personnel compensation in total and for each of the following categories:

a. Short-term employee benefits;

b. **Post-employment benefits**;

c. Other long-term benefits;

d. **Termination benefits**; and

e. Any incentives payment.

391. Particulars must be given of any employee benefits commitments included under any provision shown in the charity's Balance Sheet and any such commitments for which no provision has been made. Where any such commitment relates wholly or partly to employee benefits payable to past charity trustees and employees of the charity, separate particulars must be given of that commitment, so far as it relates to such retired benefits.

Ex-gratia Payments

392. **Ex-gratia payment** is the total amount or value of any:

a. Payment;

b. Non-monetary benefit;

c. Other expenditure of any kind; or

d. Waiver of rights to property to which a charity is entitled,

which is made not as an application of funds or property for charitable purposes but in fulfilment of a compelling moral obligation shall be disclosed in the notes to the financial statements.

Parent [9]

393. There shall be disclosure of the related party relationship when another party has **control** over the charity.

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[9] Information need not be disclosed with respect to an organisation that is established under the law of a country outside Singapore or carries on business outside Singapore, if in the opinion of the charity trustees the disclosure would be seriously prejudicial to the operations of that organisation, or to the operations of the charity or any of its subsidiaries, and the Commissioner of Charities agrees that the information need not be disclosed. Where advantage is taken of this exemption, that fact shall be stated in a note to the charity's annual financial statements.

394. If there is an ultimate controlling party, other than the immediate controlling party, there shall be disclosure of the charity's related party relationship with the ultimate controlling party. If the controlling party or the ultimate holding organisation is not known, that fact shall be disclosed. This information shall be disclosed irrespective of whether any transactions have taken place between the controlling parties and the charity.

395. Where the charity is a subsidiary, there shall be disclosure on the following information of the organisation that the charity trustees regard as the charity's ultimate parent:

a. Name of the ultimate parent; and

b. Its country of incorporation if outside Singapore and if known to the charity trustees.

396. Where the charity is a subsidiary, there shall be disclosure on the following information of the parent:

a. The group of which it is a member, for which group financial statements are drawn up;

b. If copies of either of the group financial statements referred to in (a) above are available to the public, the address from which they may be obtained; and

c. Particulars of the shareholding or other means of control.

Subsidiaries

397. The following information must be given where at the end of the financial year the charity has subsidiaries:

a. The name of each subsidiary must be stated;

b. If each subsidiary is incorporated outside Singapore, the country in which it is incorporated; if it is unincorporated, the address of its principal place of operations;

c. Particulars of the parent charity's shareholding or other means of control such as power to appoint board members or directors;

d. How its activities relate to those of the charity;

e. The aggregate amount of its assets, liabilities and reserves as at the end of its relevant financial year; and

f. A summary of its turnover and expenditure and its profit or loss for the year (or equivalent categories for charitable subsidiary).

398. Disclosure must be given in relation to shares of each class held by the charity in a subsidiary[10] –

a. The identity of the class; and

b. The proportion of the nominal value of the shares of that class represented by those shares.

The shares held by the charity itself must be distinguished from those attributed to the charity, which are held by or on behalf of a subsidiary.

399. That information need not be given if:

a. The charity is exempted by virtue of this CAS from the requirement to prepare group financial statements; or

b. It is not material.

400. The "relevant financial year" of a subsidiary is –

a. If its financial year ends with that of the charity, that year; and

b. If not, its financial year ending last before the end of the charity's financial year.

Membership of certain undertakings

401. The following information must be given where at the end of the financial year the charity is a member of a **qualifying undertaking**:

a. The name and legal form of the undertaking; and

b. The address of the undertaking's registered office (whether in or outside Singapore) or, if it does not have such an office, its head office (whether in or outside the Singapore).

402. Where the undertaking is a qualifying partnership there must also be stated in the notes to the charity's financial statements that the partnership is dealt with on a consolidated basis in group financial statements prepared by (i) a member of the partnership established under law, or (ii) a parent undertaking of such a member.

Disclosure of Accounting Policies

403. Charity trustees shall explain in the notes to the financial statements the accounting policies they have adopted to deal with material items. Explanations may be brief, but they shall be clear, fair and accurate. Changes to any of the policies that result in a material adjustment to prior periods shall be disclosed in detail.

[10] Disclosure requirements for holdings in organisations other than subsidiaries are set out in paragraph 266.

Charity trustees shall only include those notes, which are relevant to their charity. The following are some examples of matters for which the accounting policies shall be explained where the amounts involved are material:

Income Policy Notes

404. The policy for including each type of material income shall be given, which includes but not limited to the following:

a. A description of when a legacy is regarded as receivable;

b. The basis of recognition of donations in kind and **donated services and facilities**, specifically covering when such items are not included in the Statement of Financial Activities and the methods of valuation;

c. The basis of recognition of all grants receivable, including those for property, plant and equipment, and how the grants are analysed between the different types of income;

d. Whether any income is deferred and the basis for any deferrals;

e. The basis for including subscriptions for life membership;

f. Whether the income from endowment funds is unrestricted or restricted; and

g. Whether any income has been included in the Statement of Financial Activities net of expenditure and the reason for this.

Expenditure Policy Notes

405. The policy for including each type of material expenditure shall be given, which includes but not limited to the following:

a. The policy for the recognition of liabilities including constructive obligations shall be given. Where the liabilities are included as provisions, the point at which the provision is considered to become binding and the basis of any discount factors used in appropriate value calculations for long term commitments shall be given. This is particularly applicable to grants, the policy for which shall be separately identified.

b. The policy for including items within the relevant activity categories of expenditure shall be given. In particular the policy for including items within:

   i. Costs of generating funds;

   ii. Charitable activities; and

   iii. Governance costs.

c. The methods and principles for the allocation and apportionment of all costs between the different activity categories of expenditure in (b). This disclosure shall include the underlying principle i.e. whether based on staff time, staff salaries, space occupied or other. Where the costs apportioned are material, then further clarification on the method of apportionment used is necessary, including the proportions used to undertake the calculations.

Assets Policy Notes

406. The policy for capitalisation of property, plant and equipment for charity use shall be stated, which includes but not limited to the following:

a. Whether each class of asset is included at cost, valuation or revaluation and the method of valuation where applicable;

b. The value below which property, plant and equipment are not capitalised;

c. Whether or not "Preservation of Monuments" assets are capitalised and if not, the reason why (e.g. lack of reliable information, cost/benefit reason etc), specifying the acquisition and disposal policies for such assets;

d. The rates of depreciation applying to each class of property, plant and equipment; and

e. The policy with respect to impairment reviews of property, plant and equipment.

407. The policy for including investments in the financial statements shall be given. This shall be at market value but may need to be modified for the valuation of:

a. Investments not listed on a recognised stock exchange;

b. Investment properties; and

c. Investments in subsidiary undertakings.

408. The basis of inclusion in the Statement of Financial Activities of unrealised and realised gains and losses on investments shall be stated.

409. The basis for inclusion of inventories and work in progress (where relevant the amount of unsold or unused goods and materials shall be given).

Funds Structure Policy Notes

410. A brief description shall be given of the different types of funds held by the charity, including the policy for any transfer between funds and allocations to or from designated funds. Transfers may arise, for example, where there is a release of

restricted or endowed funds to unrestricted funds or charges are made from the unrestricted to other funds.

411. The policy for determining each designated fund shall be stated.

Other Policy Notes

412. These policies could include but not limited to the following:

a. Pension costs and any pension asset or liability;

b. Foreign exchange gains and losses;

c. Treatment of exceptional items;

d. Treatment of finance and operating leases; and

e. Treatment of irrecoverable GST.

Statement of Cash Flows

Introduction

413. A charity shall prepare a statement of cash flows in accordance with the requirements of this standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented. Cash flow information provides users of financial statements with a basis to assess the ability of the charity to generate cash and cash equivalents and the needs of the charity to utilise those cash flows.

Structure

414. The analysis of the cash movements shall accord with the charity's operations as reported in its Statement of Financial Activities, and be given in appropriate detail.

415. Movements in endowments shall not be included in cash flows from "**operating activities**" but shall be treated as increases or decreases in the financing section. This is achieved as follows:

a. Cash donations to endowment shall be treated as additions to endowment in the "financing" section;

b. The receipts and payments from the acquisition and disposal of investments shall be shown gross in the "capital expenditure and financial investment" section of the cash-flow statement. A single row shall then be included in this section showing the net movement in cash flows attributable to endowment investments. A corresponding row shall be included in the "financing" section for the same amount.

The row in the “financing” section shall reflect the cash into/(cash out of) the endowment fund whereas it will be the opposite direction in the “capital expenditure and financial investment” section; and

c. On the rare occasion when payments are made out of permanent endowment this shall be shown as a decrease in the “financing” section.

416. The disclosure requirements will depend upon the exact basis of preparation and content of the cash flows statement for each charity but the following are some of the more common disclosures:

a. Major transactions not resulting in cash movements shall be disclosed in the notes if necessary for an understanding of the underlying transactions. For instance, the release of expendable endowment;

b. Cash (and any financing) movements shall be reconciled to the appropriate opening and closing Balance Sheet amounts; and

c. A reconciliation of cash flows from “operating activities” within the cash flows statement to the net income/expenditure in the Statement of Financial Activities.

Special Sections

Taxation

General

417. Where applicable, **current tax** and **deferred tax** shall be recognised in the Statement of Financial Activities.

418. The material components of the (current and deferred) tax charge (or credit) for the period shall be disclosed separately.

419. Any special circumstances that affect the overall tax charge or credit for the period, or may affect those of future periods, shall be disclosed by way of a note to the Statement of Financial Activities and their individual effects quantified. The effects of a fundamental change in the taxation basis shall be included in the tax charge or credit for the period, and separately disclosed on the face of the Statement of Financial Activities.

Deferred tax

420. Deferred tax shall be provided using the liability method on **temporary differences** at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

a. Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor **taxable profit or tax loss**;

b. In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

c. In respect of deductible temporary differences and carry-forward of unused tax credits and unused tax losses, if it is not probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

421. The carrying amount of deferred tax assets shall be reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets shall be reassessed at each balance sheet date and recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilised.

422. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date.

423. Deferred taxes shall be recognised in the Statement of Financial Activities, except that deferred tax relating to items recognised directly in equity shall be recognised directly in equity and deferred tax arising from a business combination shall be adjusted against goodwill on acquisition.

Goods and Services Tax (GST)

424. Income shown in the Statement of Financial Activities shall exclude GST payable or receivable. Irrecoverable GST allocable to property, plant and equipment and to other items disclosed separately in the financial statements shall be included in their cost where practicable and material.

Foreign currency translation

425. Where sums originally denominated in foreign currencies have been brought into account under any items shown in the Balance Sheet or Statement of Financial Activities, the basis on which those sums have been translated into local currency must be disclosed.

426. Subject to the provisions of paragraph 428, each asset, liability, revenue or cost rising from a transaction denominated in a foreign currency shall be translated into the local currency at the exchange rate in operation on the date on which the

transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate shall be used. Where a trading transaction is covered by a related or matching **forward contract**, the rate of exchange specified in that contract may be used.

427. No subsequent translations shall normally be made once non-monetary assets have been translated and recorded.

428. At each Balance Sheet date, monetary assets and liabilities denominated in a foreign currency shall be translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Where there are related or matching forward contracts in respect of trading transactions, the rates of exchange specified in those contracts may be used.

429. All exchange gains or losses on settled transactions and unsettled monetary items shall be reported as part of the profit or loss for the period.

Consolidated Financial Statements

<u>General</u>

430. If at the end of a financial year, a charity subject to CAS is a parent, the charity trustees shall prepare consolidated financial statements for the year, on top of individual financial statements for the year. Consolidated financial statements are a set of financial statements prepared in addition to those prepared for the parent itself and to those prepared for each of the subsidiaries in its own right.

431. Charities utilise subsidiaries for a variety of purposes including undertaking non-charitable trading, for investment purposes and to carry out charitable activities. The difference between profit and not-for-profit undertakings is not sufficient in itself to justify non-consolidation. However where a subsidiary is a registered company, which is insolvent and is being wound up then the subsidiary can be excluded from consolidation.

432. Charities are required to comply with CAS upon consolidation, while non-charitable subsidiaries of a charity are required to comply with the standards that are applicable to them.

<u>Method of Consolidation</u>

433. All items of income and expenditure shall be shown gross after the removal of intra-group transactions, and similar items are treated in the same way. For instance, income from activities to generate funds in the charity shall be combined with similar activities in the subsidiary, and charitable activities within the charity shall be combined with similar activities in the subsidiary. Similarly, costs of generating funds and/or governance costs in the subsidiary shall be aggregated with those of the charity.

434. Each charity shall choose appropriate category headings within the permissible format of the Statement of Financial Activities and suitable

amalgamations of activities. The headings used shall reflect the underlying activities of the group. If it is not possible to exactly match items between the subsidiary undertaking and the parent charity, segmental information shall be provided so that the results of the parent charity and each subsidiary undertaking are transparent.

Disclosure

435. Where consolidated financial statements are prepared, the policy notes shall state the method of consolidation, and which subsidiaries or associated entities are included and excluded from the consolidation.

436. A charity shall, as far as practicable, present notes in a systematic manner. A charity shall cross-reference each item in the balance sheet and statement of financial activities and in the statement of cash flows to any related information in the notes.

437. The notes to the consolidated financial statements shall state the aggregate amount of the total investment of the charity in its subsidiaries and, unless the subsidiary is not material, in relation to each one:

a. Its name and country of incorporation/registration;

b. Particulars of the parent charity's shareholding or other means of control;

c. Principal activities and how its activities relate to those of the charity;

d. The aggregate amount of its assets, liabilities and funds; and

e. A summary of its turnover and expenditure and its profit or loss for the year (or equivalent categories for charitable subsidiaries).

438. If there are any **minority interests** external to the group, similar details to those in the above paragraph shall be provided relating to the minority interest held in the subsidiaries including any restrictions that may be placed on the group's activities.

439. If a charity has a large number of subsidiaries such that the disclosure would result in information of excessive length being given, the information need only be given in respect of those undertakings whose results or financial position materially affected the figures shown in the charity's annual financial statements. The full disclosure shall be made available (in the same way as the financial statements) to the Commissioner of Charities/ Sector Administrators and any member of the public upon request.

440. If subsidiaries are excluded from the consolidation or consolidated financial statements are not prepared, the charity trustees shall explain the reasons in a note to the charity's financial statements with reference to each excluded subsidiary.

441. Segmental information shall be provided, where the aggregation and adjustments required for consolidation may obscure the information about different undertakings and the activities included in the consolidated financial statements. It is

important that the presentation adopted and disclosure in the notes provides sufficient details to distinguish the key results of the charity from those of its subsidiaries. Examples of those items that shall be separately disclosed include the costs of generating funds, the costs of charitable activities and governance costs.

442. In consolidated financial statements, funds or reserves retained by subsidiaries other than funds available to be used in carrying out the charity's objects, shall be included under an appropriate separate fund heading in the Balance Sheet (e.g. funds retained within a non-charitable subsidiary.)

443. In preparing group financial statements, details must be shown in the notes to the group financial statements on:

a. Advances and credits granted to the charity trustees of the parent charity by the charity, or by any of its subsidiaries;

b. Advances and credits granted to the charity trustees, directors or staff of the subsidiary by the charity, or by any of its subsidiaries;

c. Advances and credits granted to the subsidiaries by the charity or by any of its subsidiaries; and

d. Guarantees of any kind entered into on behalf of the charity trustees of the parent charity, by that charity or by any of its subsidiary.

Control Test

444. Subsidiary can be identified by the measure of control exercised by the parent. Such control can be determined in the context of:

a. Voting rights (mainly stemming from share ownership); and/or

b. Control over the board or activities of the subsidiary.

445. A charity, however constituted, shall be regarded as a subsidiary where the parent has the power to exercise, or actually exercises, control over the subsidiary or the parent and subsidiary are managed on a unified basis. Control can arise in any of the following situations:

a. The trustees or directors and/or members and/or employees of the parent form or have the right to appoint or remove, the majority of the charity trustees of the subsidiary; or

b. The trustees or directors and/or members and/or employees of the parent are given the right to direct or approve the action of the charity trustees of the charity, as prescribed by the charity's governing instrument.

446. A subsidiary that is a charity with objects narrower than its parent will need to be accounted for by the use of one or more restricted fund columns in the consolidated financial statements.

Branches

447. A charity that operates through “branches” to raise funds and/or carry out its charitable purposes, shall account for these branches as part of the whole charity, and consolidated financial statements shall be prepared.

448. If any branch has been omitted from the financial statements, the reason for omission should be given and the names of the individual branches should be disclosed as a note to the accounts. Reference should also be made to any related organisations (such as supporters associations or subsidiaries not consolidated) explaining the accounting treatment adopted.

449. For the purpose of CAS, a “branch” is either:

a. Simply part of the administrative machinery of the reporting charity; or

b. A fund shown in the financial statements as a restricted or endowment fund which may be a separate legal entity which is administered by, or on behalf of, the reporting charity and whose funds are held for specific purposes which are within the general purposes of the reporting charity. The words “on behalf of” shall be taken to mean that, under the constitution of the separate charity, a substantial degree of influence can be exerted by the reporting charity over the administration of its affairs.

Characteristics of a branch include the following:

a. It uses the name of the reporting charity within its title;

b. It exclusively raises funds for the reporting charity and/or for its own local activities;

c. It uses the reporting charity’s registration number to receive tax relief on its activities;

d. It is perceived by the public to be the reporting charity’s local representative or its representative for a particular purpose; and/or

e. It receives support from the reporting charity through financial support, manpower support, advice, publicity materials, etc.

If the branch exists to carry out the primary objects of the charity, typically it will receive funds from the reporting charity for its work and may be staffed by employees of the reporting charity.

If the branch is not a separate legal entity, all funds held by a branch will be the legal property of the reporting charity, whether or not the branch has a separate bank account.

450. Organisations that are not “branches” include:

a. Groups of people who occasionally gather together to raise funds for one or a number of different charities, and

b. Special interest groups who are affiliated to a particular charity, but do not themselves undertake charitable activities (including fundraising for the charity).

451. Separate legal entities which may be known as branches but do not fall within the definition of a branch as defined in paragraph 449, shall prepare their own Annual Report and Financial statements for submission to the appropriate regulatory authority. If they are **connected charities**, the relationship should be explained in the Annual Report as required under Charities Act (Annual Report) Regulations.

452. All branch transactions shall be accounted for at gross in the reporting charity's own financial statements excluding those transactions which net off e.g. branch to branch transactions or those between the branches and the head office. Similarly all assets and liabilities of the branch including funds raised but not remitted to the reporting charity at the year-end shall be incorporated into the reporting charity's own Balance Sheet. This provision need not apply where the transactions and balances of the branches in aggregate are not material to the charity's financial statements.

453. Funds raised by a branch for the general charitable purposes of the reporting charity shall be accounted for as unrestricted funds in the financial statements of the reporting charity. Funds raised by a branch for specific purposes of the reporting charity shall be accounted for as restricted funds in the financial statements of the reporting charity. Funds held for the general purposes of a branch, which is a separate charity, shall be accounted for as restricted funds in the financial statements of the reporting charity.

454. Where a branch is not a separate legal entity, its financial statements must form part of the financial statements of the reporting charity, but it may be in the interests of stakeholders and beneficiaries for additional financial statements to be prepared covering only the branch.

Associates, Joint Ventures and Joint Arrangements

455. Where a charity exercises **significant influence** over the operating and financial policy of another undertaking then this is likely to be an associate undertaking. Where a charity beneficially holds, directly or indirectly (e.g. through subsidiaries) 20% or more of the voting rights in any undertaking, it is presumed that the charity has significant influence over its operating and financial policy, unless it can be demonstrated that this is not the case. Conversely, if a charity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

456. Charities providing grants or making programme related investments may on occasions combine funding with the provision of advice or expertise and on occasions may be invited by the recipient charity to provide or nominate a charity trustee with particular skills or expertise. Where the recipient charity operates with a small trustee body, this might be construed as creating an associate. An associate

will be created if the nomination or appointment is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the recipient charity's operating and financial policies. Where the charity trustee appointment is simply used to provide advice or expertise to the recipient charity whilst allowing the charity to adopt its own policies and strategies then an associate relationship is unlikely to be created.

457. In a joint venture situation, a separate charity is jointly controlled by two or more undertakings, all of which have a say in the operations of the joint venture, so that no single investing undertaking controls the joint venture but all together can do so.

458. Often charities also undertake joint arrangements where they may carry out activities in partnership with other bodies but without establishing a separate legal entity.

459. Associates shall be included in the financial statements based on the net equity method. The consolidated Statement of Financial Activities shall show the net interest in the results for the year in the associates as a separate row after the "net income/(expenditure) before transfers" row. In the Balance Sheet, the net interest in associates shall be shown as a separate row within property, plant and equipment investments. Where the charity's rights to the associate's assets are severely limited (e.g. because the majority prohibit any dividend distribution) then this shall be reflected in the valuation.

460. Joint ventures shall be accounted for on a gross equity method. This method requires the reporting charity to present its share of the gross income of joint ventures on the face of the consolidated profit and loss account (Statement of Financial Activities in charities). However this does not form part of the group income and must be clearly distinguished. For charities this can be achieved by including gross income from joint ventures in the Statement of Financial Activities on a line-by-line basis with an additional row showing the total share of gross income from joint ventures as a reduction in total income. In addition a row showing the net interest in the results for the year in the joint ventures as a separate row after the "net income/(expenditure)" row must be included (this may be combined with that of the associates). In the Balance Sheet the share of the gross assets and the gross liabilities shall be shown in a linked presentation within property, plant and equipment investments.

461. Where there are gains and losses on investments and unrealised gains on other property, plant and equipment, the net share relating to associates shall be shown on a separate row, with the gross share relating to joint ventures being shown either on a separate row or combined with the appropriate lines on the Statement of Financial Activities.

462. Where there is a joint arrangement, the charity's gross share of the income and expenditure and the assets and liabilities shall be included in the financial statements in the same way as for a branch. If under the arrangement the charity is jointly and severally liable for an obligation, it shall accrue the part of the obligation for which it is responsible, and treat the part of the obligation that is expected to be met by the other parties as a contingent liability.

463. The following disclosure shall be given in respect of each associate and joint venture:

a. Its name and country of incorporation/registration;

b. The charity's shareholding and other interests in it;

c. The nature of the activities of the associate or joint venture; and

d. The charity's interest in the results showing separately its share in:

i. Gross income by type;

ii. Costs of generating funds;

iii. Expenditure on charitable activities; and

iv. Expenditure on governance.

464. Particulars of any qualifications contained in any audit or other statutory report on its financial statements, and any note or reservation in those financial statements to call attention to a matter that, apart from the note or reservation, would have been properly referred to in such a qualification.

465. For joint arrangements, the notes to the financial statements shall provide appropriate details of the charity's commitments in the arrangement.

Summary Financial information

466. Any other summary financial information, in whatever form, shall be accompanied by a statement signed on behalf of the charity trustees as to:

a. The purpose of the information;

b. Whether or not it is from the full annual financial statements;

c. Whether or not these financial statements have been audited, independently examined or subject to a reporting accountant's report; and

d. Details of how the full annual financial statements, charity's report and external scrutiny report (as appropriate) can be obtained.

The Charity Trustees' report

467. The charity trustees of a charity must prepare a charity trustees' report for each individual financial year of the charity. Details of the disclosures to be provided in the charity trustees' report is covered under the Charities (Annual Report) Regulations.

Date from which Effective and Transitional Arrangements

468. The accounting practices set out in this Charities Accounting Standard (effective _____) shall be regarded as standard in respect of financial statements relating to accounting periods being on or after [xx xx xx]. Earlier application is permitted[11].

[11] Earlier application is not required for accounting periods commencing on or before [xx xx xx]. The CAS remains applicable with effect from [xx xx xx].

APPENDIX 1 - GLOSSARY

These short definitions offer quick reference that is not meant for definitive guidance.

A

Accounting policies are the principles, bases, conventions, rules and practices applied by an charity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

a. Recognising;

b. Selecting measurement bases for; and

c. Presenting assets, liabilities, gains, losses and changes to a charity's funds. Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the profit and loss account or Balance Sheet it is to be presented.

Activity cost category is the type of costs incurred in pursuit of a defined activity (e.g. provision of services to elderly people or counselling), and is achieved by adding together all the costs (salaries, rents, depreciation etc) relating to that specific activity. The three main 'high level' activities that charities preparing accruals financial statements will report on are generating funds, charitable activity and governance costs of the charity.

Adjusting events after the Balance Sheet date are (favourable and/or unfavourable) events that occur between the balance sheet date and the date when the financial statements are authorised for issue, and provide evidence of conditions that existed at the balance sheet date

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Applied research is the original or critical investigations undertaken in order to gain new scientific or technical knowledge and directed towards a specific practical aim or objective.

Asset is a resource controlled by a charity as a result of past events and from which future economic benefits are expected to flow to the charity.

Associate is a charity, including an unincorporated charity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Attributable profit (on long-term contracts) refers to that part of the total profit currently estimated to arise over the duration of the contract, after allowing for estimated remedial and maintenance costs and increases in costs so far as not recoverable under the terms of the contract, that fairly reflects the profit attributable to that part of the work performed at the accounting date. No profit should be attributable to that part of the work performed until the profitable outcome of the contract can be assessed with reasonable certainty.

B

Balance Sheet is a financial statement that presents the relationship of a charity's assets, liabilities and equity at a point in time. It is also known as the "Statement of Financial Position".

Borrowings are **capital instruments** that are classified as liabilities.

Branches (which may also be known as supporters' groups, friends' groups, members' groups, communities or parishes which are part of a common trust etc.) are entities or administrative bodies set up, for example, to conduct a particular aspect of the activities of the reporting charity, or to conduct the activities of the reporting charity in a particular geographical area. They may or may not be legal entities, which are separate from the reporting charity.

Business is an integrated set of activities and assets conducted and managed for the purpose of:

a. Furthering the objectives of the charity;

b. Providing a return to investors; or

c. Providing lower costs, other economic and social benefits directly and proportionately to stakeholders.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues and provide social benefits. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.

C

Capital refers to resources which become available to a charity and which the charity trustees are legally required to invest or retain and use for its purposes. "Capital" may be permanent endowment, where the charity trustees have no power to convert it into income and apply it as such, or expendable endowment, where they do have this power

Capital is also used in its various accounting meanings, such as the capital elements of property, plant and equipment, working capital or share capital.

Capital instruments refer to all instruments that are issued (or arrangements entered into) by reporting entities as a means of raising finance, including shares, debentures, loans and debt instruments, options and warrants that give the holder the right to subscribe for or obtain capital instruments. In the case of consolidated financial statements the term includes capital instruments issued by subsidiaries except those that are held by another member of the group that is included in the consolidation.

Charities Act refers to the Charities Act (Chapter 37) in the Republic of Singapore.

Charities are any institutions established under the Charities Act.

Charity trustees are persons having the general control and management of the administration of a charity regardless of what they are called. Custodian trustees are not within this definition. They are the governing Board members in most cases.

For instance, in the case of an unincorporated association the executive or management committee members are its charity trustees. In the case of a charitable company limited by guarantee, it is the directors who are the charity trustees.

Those concerned in any way with the administration of charities shall note that the status of a charity trustee is defined in terms of the function to be performed, and not by reference to the title given to any office, or membership of any committee or committees.

Charity trustee's family members refer to:

a. The charity trustee's spouse or civil partner;

b. The charity trustee's children or step-children;

c. Any children or step-children of a person within paragraph (b) (and who are not children or step-children of the charity trustee) who live with the charity trustee and have not attained the age of 18; and

d. The charity trustee's parents.

It excludes a person who is a charity trustee of the charity.

Connected charities are charities that have common, parallel or related objects and activities, and either:

a. Common control; or

b. Unity of administration (e.g. shared management).

Within this category may be charities, which come together under one umbrella organisation or are part of a federal structure. Also see related parties.

These connected charities exclude charities that take part in a shared services arrangement.

Consignment inventory is the inventory held by one party (the 'dealer') but legally owned by another (the 'manufacturer'), on terms that give the dealer the right to sell the inventory in the normal course of its business or, at its option, to return it unsold to the legal owner.

Consolidated financial statements are the financial statements of a group prepared by consolidation. A group is a parent undertaking and its subsidiary undertakings. Consolidation is the process of adjusting and combining financial information from the individual financial statements of a parent undertaking and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the group as a single economic charity.

Constructive obligation is an obligation that derives from an charity's actions where:

a. By an established pattern of past practice, published policies or a sufficiently specific current statement, the charity has indicated to other parties that it will accept certain responsibilities; and

b. As a result, the charity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or non-occurrence of one or more uncertain future events not wholly within the charity's control.

Contingent liability is either:

a. A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the charity's control; or

b. A present obligation that arises from past events but is not recognised because:

    i. It is not probable that an expenditure embodying economic benefits will be required to settle the obligation; or

    ii. The amount of the obligation cannot be measured with sufficient reliability.

Control (over a charity) is the power to govern the financial and operating policies of a charity so as to obtain benefits from its activities. With this power, the parent can both direct and derive benefit from the subsidiary.

a. Direction is achieved if the charity or its charity trustees:

    i. Hold or control the majority of the voting rights,

    ii. Have the right to appoint or remove a majority of the board of directors or charity trustees of the subsidiary undertaking,

    iii. Have the power to exercise, or actually exercise a significant influence over the subsidiary, or

    iv. Manage the charity and the subsidiary on a unified basis

b. Benefit derived can either be economic benefit that results in a net cash inflow to the charity, or can arise through the provision of goods or services to the benefit of the charity, or its beneficiaries.

Costs of inventories are defined as being that expenditure which has been incurred in the normal course of business in bringing the product or service to its present location and condition. This expenditure shall include, in addition to cost of purchase, such costs of conversion (including, for example, attributable overheads) as are appropriate to that location and condition. Borrowing costs that are directly attributable to the acquisition, construction or production of inventory may be included as part of the cost.

Costs of generating voluntary income are the costs actually incurred by a charity, or by an agent, in inducing others to make gifts to it that are voluntary income.

a. Such costs will include the costs of producing fundraising advertising, marketing and direct mail materials, as well as any remuneration payable to an agent. It will normally include publicity costs but not those used in an educational manner in furtherance of the charity's objects.

b. Such costs will exclude fundraising trading costs.

Current tax is the amount of tax estimated to be payable or recoverable in respect of the taxable profit or loss for a period, along with adjustments to estimates in respect of previous periods.

Custodian trustees are any other non-executive trustees (other than the charity itself, or a charity trustee of the charity) who hold the title to property belonging to the charity,

D

Deferred income are resources (normally cash) received by a charity that do not meet the criteria for recognition as income in the Statement of Financial Activities as entitlement to the income does not exist at the Balance Sheet date. This will arise for example, in the case of income received but not yet earned (in the case of a contract) which is deferred to match with performance under the contract or where the conditions attaching to a grant prevents its immediate recognition.

Deferred income is not recognised in the Statement of Financial Activities until the charity is entitled to the income and instead is disclosed as a liability in the Balance Sheet.

Deferred tax is the estimated future tax consequence of transactions and events recognised in the financial statements of the current and previous periods.

Deferred tax assets are the amounts of income taxes potentially recoverable in future periods in respect of:

a. Deductible temporary differences;

b. The amount of unused tax losses carried forward; and

c. The amount of unused tax credits carried forward.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of **taxable temporary differences**.

Defined contribution plans are **post-employment benefit plans** under which an charity pays fixed contributions into a separate charity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated replacement cost approach is a valuation method that seeks to make a realistic estimate of the current cost of constructing an asset, which has the same service potential as the existing asset.

Depreciation is the systematic allocation of the cost, or other amount substituted for cost, less its residual value of an asset over its useful life.

Derivative is a financial instrument or other contract with all of the following characteristics:

a. Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c. It is settled at a future date.

Designated fund is unrestricted fund that has been set aside for designated purpose/s based on the charity trustees' discretion. Designated funds may also be used where donors have expressed a preference without imposing a trust. Such funds so designated remain unrestricted since the trustees can remove the designation at any time.

Development is the use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products or services, to install new processes or systems before the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Directly attributable costs are costs that relate directly to securing the specific contract after the asset recognition criteria for pre-contract costs are met, if they can be separately identified and measured reliably.

Discontinued operation is a component of an charity that either has been disposed of, or is classified as held for sale, and

a. Represents a separate major line of business or geographical area of operations,

b. Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or

c. Is a subsidiary (e.g. charity, social enterprise, etc) acquired exclusively with a view to resell.

Donated services and facilities are gifts of facilities, beneficial loan arrangements, or services from volunteers.

Donations are gifts to charities that comprises of **donations in cash** and donations in kind

Donations in cash are cash donations that include cash, cheques, drafts, postal orders and any monetary instruments received by the charities without any conferment of benefit in return to the donors.

Donations in kind are donations or gifts other than cash.

E

Employee benefits are all forms of consideration given by a charity in exchange for service rendered by employees.

Endowment fund is a capital fund that is held on trust to be retained for the benefit of the charity.

Equity is the residual interest in the assets of the charity after deducting all its liabilities.

Equity instrument is any contract that evidences a residual interest in the assets of a charity after deducting all of its liabilities.

Estimation techniques include but not limited to the following:

a. Methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period; and

b. Different methods used to estimate the proportion of trade debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Exceptional items are material items that derive from events or transactions that fall within the ordinary activities of the reporting entity and individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence.

Exchange transaction is a transaction in which one party supplies goods or services to another party in exchange for a consideration, usually monetary.

Ex-gratia payments are payments made at the discretion of charity trustees and not as a result of a contract or other legal obligation. Ex-gratia payments are of two distinct types:

a. Those made by a charity in relation to its charitable activities (e.g. extra payments to retiring employees). These will not normally need to be disclosed.

b. Those where a charity believes it is expedient to make in relation to an obligation which is not within its charitable objects and powers. This may be, for example, to settle a claim in respect of a legacy that would otherwise consume charitable resources in legal expenses.

Expenditure refers to all the costs incurred in the course of expending or utilising the charity's funds. This includes all claims against the charity upon being recognised as liabilities by the charity trustees, as well as all accruals and payments made by the charity trustees of a charity, and all losses on the disposal of property, plant and equipment (other than investments), together with all provisions for impairment of tangible property, plant and equipment or programme related investments. This is to be distinguished from Total Expenditure listed in the glossary below

F

Finance charge is the amount borne by the lessee over the lease term, representing the difference between the total of minimum lease payments (including any residual amounts guaranteed by the lessee) and the amount at which the lessee records the leased asset at the inception of the lease.

Financial asset is any asset that is:

a. Cash;

b. An **equity instrument** of another charity;

c. A contractual right:

   i. To receive cash or another financial asset from another charity; or

   ii. To exchange financial assets or financial liabilities with another charity under conditions that are potentially favourable to the charity; or

d. A contract that will or may be settled in the charity's equity instruments and is:

   i. A non-derivative for which the charity is or may be obliged to receive a variable number of the charity's equity instruments; or

   ii. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the charity's equity instruments. For this purpose the charity's equity instruments do not include instruments that are contracts for the future receipt or delivery of the charity's equity instruments.

Financial instrument is a contract that gives rise to a financial asset of one charity and a **financial liability** or equity instrument of another charity.

Financial liability is any liability that is:

a. A contractual obligation to:

i. Deliver cash or another financial asset to another charity; or

ii. Exchange financial assets or financial liabilities with another charity under conditions that are potentially unfavourable to the charity; or

b. A contract that will or may be settled in the charity's equity instruments and is:

i. A non-derivative for which the charity is or may be obliged to deliver a variable number of the charity's equity instruments; or

ii. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the charity's equity instruments. For this purpose the charity's equity instruments do not include instruments that are contracts for the future receipt or delivery of the charity's equity instruments

Financial position is the relationship of the assets, liabilities and equity of a charity as reported in the Balance Sheet.

Financial statements refer to a set of structured representation of the financial position, financial performance and cash flows of any charity.

Financial year is a period that begins with the first day of the accounting reference period and ends with the last day of that period.

Forward contract is an agreement to exchange different currencies at a specified future date and at a specified rate. The difference between the specified rate and the spot rate ruling on the date the contract was entered into is the discount or premium on the forward contract.

Fundraising costs consist of two categories:

a. Costs of raising voluntary income; and

b. Fundraising trading costs.

Fundraising trading costs comprise of the costs of trading to raise funds including the cost of goods sold and any other costs associated with a trading operation.

Funds refers to a pool of income, held and maintained separately from other pools because of the circumstances in which the income was originally received or the way in which they have subsequently been treated. At the broadest level a fund will be one of two kinds: a restricted fund or an unrestricted fund.

G

Going concern refers to the charity's ability to continue functioning without the intention to liquidate or cease operations.

Governance costs are costs associated with the governance arrangements of the charity, which relate to the general running of the charity as opposed to those costs associated with fundraising or charitable activity. The costs will normally include internal and external audit, legal advice for charity trustees and costs associated with constitutional and statutory requirements e.g. the cost of trustee meetings and preparing statutory financial statements. Included within this category are any costs associated with the strategic as opposed to day-to-day management of the charity's activities.

Government-funded educational institutions refer to all MOE schools (primary schools, secondary schools, junior colleges and centralised institutes), National University of Singapore, Nanyang Technological University, Singapore Management University, LASALLE College of the Arts and the Nanyang Academy of Fine Arts and any other Education Institutions specified by MOE.

Goodwill refers to future economic benefits arising from assets that are not capable of being individually identified and separately recognised.

Grant is any voluntary payment (or other transfer of property) in favour of a person or institution. Grant payments, when made by a charity, are any such voluntary payments made in furtherance of its objects. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the grant, or property acquired with the aid of the grant, or part of it, being reclaimed.

Gross income is total income before adjustments, deductions or exemptions. It does not include the gains from disposals of property, plant and equipment and investments asset revaluation gains or any income being received into the endowment funds. It will however include funds released from endowments.

In relation to consolidated accounts, gross income will relate to the gross income of the group after any adjustments arising from consolidation (e.g. inter-group sales).

I

Impairment loss is the amount by which the carrying amount of an asset exceeds in the case of:

a. Inventories, its selling price less costs to complete and sell, or

b. Other non-financial assets, its market or observable value less costs to sell.

Inalienable asset is an asset that a charity is required by law to retain indefinitely for its own use/benefit and therefore cannot dispose of without external consent, whether prohibited by its governing document, the donor's wishes or in some other way. Normally the asset will belong to the charity's "permanent endowment", where it is held on trusts, which contemplate its retention and continuing use but not its disposal. However in the case of a gift-in-kind of a "wasting asset", such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. In that case the endowment will be expended to the extent of the aggregate amount of its depreciation or amortisation properly provided for in the annual financial statements (i.e. based on its currently anticipated useful life).

Inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

a. A lease is classified as either an operating or a finance lease; and

b. In the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

Income refers to gross inflow of economic benefits during the period arising in the course of the ordinary activities of a charity when those inflows result in increases in funds of charity, other than increases relating to contributions from funds participants. Generally, all income that becomes available to a charity including contributions to endowment (capital) funds but excluding gains and losses on investment assets. Gross income includes all trading and investment income, legacies, donations, grants and gains from disposals of property, plant and equipment for use by the charity. Income shall be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity's assets.

This term is to be distinguished from the term gross income that is used for threshold purposes.

Institution of a Public Character ("IPC") refers to Charities Act.

Intangible asset is an identifiable non-monetary asset of (i) the market value of the leased asset and (ii) any initial direct costs of the lessor.

Interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the market value of the leased asset and (ii) any initial direct costs of the lessor.

Inventories are assets that are:

a. Held for sale in the ordinary course of business;

b. In the process of production for such sale; or

c. In the form of materials or supplies to be consumed in the production process or in the rendering of services.

Investment management costs include the costs of:

a. Portfolio management;

b. Obtaining investment advice;

c. Administration of the investments;

d. Rent collection, property repairs and maintenance charges.

Valuation fees incurred for accounting purposes would normally be charged to the governance cost category of the relevant funds that hold the properties being valued.

Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs.

Investment property is an interest in property (land or building – or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

a. Use in the production, supply of goods or services or for administrative purposes; or

b. Sale in the ordinary course of business.

J

Joint control is a contractually agreed sharing of control over an economic activity. (Under Glossary – Joint Venture)

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of operations, assets, or entities that have **joint control**.

K

Key management personnel are persons having authority and responsibility over planning, directing and controlling the activities, directly or indirectly, including any director (whether executive or otherwise) of that charity.

L

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Legal entity is an establishment that is recognised in the eyes of the law as an organisation with legal rights and duties. Examples of legal entities include companies and societies.

Liability is an obligation of a charity to transfer economic benefits which:

a. Is expected to be settled by the charity parting with assets or in some way losing an economic benefit; and

b. Results from past transactions or events;

c. Embodies a present duty or responsibility to one or more other entities that entails settlement at a specified or determinable future date, on the occurrence of a specified event, or on demand; and

d. Results from a duty or responsibility, which obligates the charity either legally, or practically (a constructive obligation), because it would be financially or otherwise operationally damaging to the charity not to discharge the duty or responsibility.

A moral obligation - such as results from the making of a non-contractual promise - does not create a liability unless it meets the definition above.

Liquidity is the ability to convert an asset to cash quickly.

M

Materiality is the final test of what information shall be given in a particular set of financial statements. An item of information is material to the financial statements if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of stewardship. Immaterial information will need to be excluded to avoid clutter, which impairs the understandability of other information provided.

Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects. The principal factors to be taken into account are set out below. It will usually be a combination of these factors, rather than any one in particular, that will determine materiality.

a. The item's size is judged in the context both of the financial statements as a whole and of the other information available to users that would affect their evaluation of the financial statements. This includes, for example, considering how the item affects the evaluation of trends and similar considerations.

b. Consideration is given to the item's nature in relation to:

    i. The transactions or other events giving rise to it;

    ii. The legality, sensitivity, normality and potential consequences of the event or transaction;

    iii. The identity of the parties involved; and

    iv. The particular headings and disclosures that are affected.

If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.

Charity trustees are responsible for deciding whether an item is or is not material. In cases of doubt an item shall be treated as material.

This process may result in different materiality considerations being applied depending on the aspect of the financial statements being considered. For example, the expected degree of accuracy expected in the case of certain statutory disclosures e.g. charity trustees' remuneration, may make normal materiality considerations irrelevant.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

a. For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

b. For a lessor, any residual value guaranteed to the lessor by:
   i. The lessee;

   ii. A party related to the lessee; or

   iii. A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

However if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than market value at the date the option becomes exercisable for it to be reasonably certain, that the option will be exercised at the inception of the lease, the minimum lease payments comprise of the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned directly or indirectly through subsidiaries, by the parent.

N

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Net realisable value (of an asset) is the amount at which the asset could be disposed of, less any direct selling costs.

Non-adjusting events after the Balance Sheet date are (favourable and/or unfavourable) events that occur between the balance sheet date and the date when the financial statements are authorised for issue, and are indicative of conditions that arose after the balance sheet date.

O

Obligation is either a legal obligation or a constructive obligation, where the charity has indicated to other parties that it will accept certain responsibilities and has created valid expectations in those other parties that it will discharge those responsibilities.

Operating activities are the principal revenue-producing activities of the charity and other activities that are not investing or financing activities.

Operating lease is a lease that does not transfer substantially the entire risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.

P

Parent is a charity that has one or more subsidiaries

Performance is the fulfilment of the charity's contractual **obligations** to a client through the supply of goods and services.

Performance-related grant is a grant that has the characteristics of a contract in that:

a. The terms of the grant require the performance of a specified service that furthers the objectives of the grant maker and

b. Where payment of the grant receivable is conditional on a specified output being provided by the grant recipient.

Permanent endowment fund is an endowment fund where the charity has no power to convert the capital into income, which must generally be held indefinitely.

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a charity provides post-employment benefits for one or more employees.

Present value is a current estimate of the present discounted value of the future net cash flows in the normal course of business.

"Preservation of Monuments" assets refer to "monuments" as defined in the Preservation of Monuments Act and are assets of historical, artistic or scientific importance that are held to advance preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education. Such assets are central to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities. Examples of these assets are:

a. Charities with preservation objectives may hold specified or historic buildings or a complex of historic or architectural importance or a site where a building has been or where its remains can be seen.

b. Conservation charities may hold land relating to the habitat needs of species, or the environment generally, including areas of natural beauty or scientific interest.

c. Museums and art galleries hold collections and artefacts to educate the public and to promote the arts and sciences.

Prior period adjustments are material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring adjustments or corrections of accounting estimates made in prior periods.

Property, plant and equipment are assets that:

a. Are tangible in nature and held for use in the production or supply of goods or services, for rental to others, for investment, or for administrative purposes, and

b. Are expected to be used during more than one period.

Provision is a liability of uncertain timing or amount. It is recognised when a charity has a present obligation (a legal or constructive obligation exists at the Balance Sheet date) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

Public accountability is the accountability to those present and potential resource providers and others external to the charity who make economic decisions but who are not in a position to demand reports tailored to meet their particular information needs.

Purchased goodwill is goodwill that is established as a result of the purchase of a business accounted for as an acquisition. It represents the difference between the cost of the acquired business and the aggregate of the values recorded for the identifiable assets and liabilities acquired. Positive goodwill arises when the acquisition cost exceeds the aggregate fair values of the identifiable assets and liabilities. Negative goodwill arises when the aggregate values of the identifiable assets and liabilities of the entity exceed the acquisition cost. (Para 45)

Pure research is the *e*xperimental or theoretical work undertaken primarily to acquire new scientific or technological knowledge for its own sake rather than directed towards any specific aim or application. (Para 208)

Q

Qualifying undertaking is a qualifying legal entity, of which members are legal entities. This includes any comparable legal entity incorporated in or formed under the law of any country or territory outside Singapore.

R

Related party transaction is a transfer of income, services or obligations between related parties, regardless of whether a price is charged.

Reporting period is the period covered by financial statements or by an interim financial report.

Research is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Reserves refer to the freely available income funds of a charity. This definition of reserves therefore normally excludes:

a. Permanent endowment funds;

b. Expendable endowment funds;

c. Restricted funds;

d. And any part of unrestricted funds not readily available for spending, specifically; and

e. Income funds, which could only be realised by disposing of property, plant and equipment, held for charity use and performance related investments.

Individual charities may have more or less reserves available to them than this simple calculation suggests for example:

a. Expendable endowments may be readily available for spending or

b. Unrestricted funds may be earmarked or designated for essential future spending and reduce the amount readily available.

Residual value (of an asset) is the estimated amount that a charity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Restricted funds are funds that are subjected to specific trusts, which may be declared by the donor(s) or with their authority (e.g. in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds comprise of:

a. Restricted income funds; and

b. Endowment funds.

Restricted income funds are funds that are expendable at the discretion of the charity trustees in furtherance of some particular aspect(s) of the objects of the charity.

S

Short-term employee benefits are employee benefits (other than termination benefits) that fall due wholly within twelve months after the end of the period in which the employees render the related service.

Significant influence is the power to participate in the financial and operating policy of a charity, which has no control over these policies. Significant influence could be evidenced in one or more ways like:

(a) Representation on the board of directors or equivalent governing body of the investee;

(b) Participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) Material transactions between the investor and the investee;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

Social investments (also known as programme related investments) are made directly in pursuit of the organisation's charitable purposes. Although they can generate some financial return, the primary motivation for making them is not financial. Such investments could include loans to individual beneficiaries (e.g. for initial set-ups) or to other charities (for example, in relation to regeneration projects).

Statement of Cash Flows is a financial statement that provides information about the changes in cash and cash equivalents of a charity for a period, showing separately changes during the period from operating, investing and financing activities.

Statement of Financial Activities is a financial statement that presents the net income or expenditure, and reconciliation of all movements in the charity's funds for a period.

Subsidiary is a charity, including an unincorporated charity such as a partnership that is controlled by another charity (known as the parent).

Support costs are costs that are necessary to deliver an activity, but do not produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

T

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Taxable temporary differences are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Temporary differences are differences between the tax basis of an asset or liability and its carrying amount in the financial statements that will result in a taxable or deductible amount when the carrying amount of the asset or liability is recovered or settled. Temporary differences may be either taxable or deductible.

Termination benefits are employee benefits payable as a result of either:

a. An charity's decision to terminate an employee's employment before the normal retirement date; or

b. An employee's decision to accept voluntary redundancy in exchange for those benefits.

Third parties are persons other than:

a. The charity trustee himself or a person connected with him or organisations controlled by him; and

b. The charity or any of its subsidiaries.

Total expenditure is a term used within the Charities Act to determine the thresholds that govern the requirements for financial statements scrutiny, submission of reports, financial statements and an annual return to the Commissioner of Charities. Total Expenditure includes gross expenses from all sources such as operating expenditure, capital expenditure, and capital losses from sale of investments but excludes unrealised losses and any amounts paid out of endowment funds.

Trading refers to trading activities are those carried out under contract, whether at the point of sale or otherwise, where goods and services are provided in return for consideration for those goods or services. Normally, trading activities are carried out on a regular basis with a view to making profits, though it is possible that some one-off activities could be regarded as trading.

However in an economic sense, trading can be regarded as the provision of goods and services in return for a payment whether or not this payment is in fact under contract. Therefore certain incoming grants which are in legal sense donations, but which have specific terms attached to them such that a charity becomes entitled to the payment on the provision of specified goods or services are in the context of this CAS recognised on the same basis as trading income. This is because the charity has an obligation to provide the specific services or goods in the same way that it would have to provide them under contract. If it fails to provide the goods or services then, if the funds are by way of grant, this will be a breach of trust, but if they are by way of contract, this will be by way of breach of contract. The legal remedies of the funding body are different depending upon the circumstances.

Similarly, the sale of donated goods is in a legal sense regarded as the realisation of a donation. However in the context of this CAS it is regarded as trading, and recognised as an activity for generating funds, because it is so similar to the sale of bought in goods as to be indistinguishable in the actual processes involved except for the legal distinction.

For income and goods and services tax purposes trading must be interpreted within the meaning of the legislation governing those taxes.

U

Unapplied total return fund is the accumulated total return on investment for permanent endowment fund, less any part of the return, which the charity trustees have previously applied for the purposes of the charity or have previously allocated to income funds.

Unrestricted funds are expendable at the discretion of the charity trustees in furtherance of the charity's objects. Unrestricted funds comprise of:

a. Unrestricted income funds

b. Designated funds

Useful life is the period over which an asset is expected to be available for use by a charity or the number of production or similar units expected to be obtained from the asset by a charity.

V

Voluntary income comprise of gifts that will not normally provide any return to the donor other than the knowledge that someone will benefit from the donation. These exclude any gifts that are quasi-contractual (in that a certain service to a certain level must be provided), but include gifts that must be spent on some particular area of work (i.e. restricted funds).

APPENDIX 2 – LIST OF FINANCIAL REPORTING STANDARDS EXCLUDED FROM CHARITIES ACCOUNTING STANDARD

The following is a list of the Financial Reporting Standards extant at the date of issue of CAS, which are not applicable to charities applying CAS. The standards and relevant interpretations issued by the ASC should only be applied in so far as they are relevant to activities being carried out by an individual charity.

S/N	No.	Titles
1.	FRS 29	Financial Reporting in Hyperinflationary Economies
2.	FRS 33	Earnings Per Share
3.	FRS 34	Interim Reporting
4.	FRS 41	Agriculture
5.	FRS 102	Share-based Payment
6.	FRS 104	Insurance Contracts
7.	FRS 107	Financial Instruments Disclosures
8.	FRS 106	Exploration for and Evaluation of Mineral Resources
9.	FRS 108	Operating Segments

APPENDIX 3 – LIST OF ADDITIONAL FINANCIAL REPORTING STANDARDS TO BE COMPLIED BY LARGE CHARITIES

The following is a list of additional Financial Reporting Standards to be complied by large charities (as defined under the Charities Act).

S/N	No.	Titles
1.	FRS 32	Financial Instruments: Disclosure and Presentation
2.	FRS 36	Impairment of Assets
3.	FRS 38	Intangible Assets
4.	FRS 39	Financial Instruments: Recognition and Measurement
5.	FRS 40	Investment Property
6.	FRS 107	Financial Instruments: Disclosures

APPENDIX 4 – GUIDELINES FOR DEPRECIATION

1. The ASC understands that Singapore Land Authority (SLA) grants short term leases to charities, either a 3-year tenancy or yearly Temporary Occupation Licence (TOL). In accordance with the accounting practice, the auditors will require the charities to depreciate the buildings based on the tenure of the lease. This is notwithstanding that the charities may have incurred a huge expenditure in developing a purpose-built building or to reconfigure and renovate an existing disused government building. There are instances that auditors took the prudent stand and qualified charities' financial statements for not depreciating the building value over the short lease period, which if so done would mean unrealistically high depreciation and huge deficits for charities.

2. Hence, ASC proposes the following recommended depreciation policy (see Table below) to provide guidance for depreciation policy for charities. The purpose of the guidance is to provide leeway for the charities and auditors to take into account Singapore's land lease arrangement, which is typically short lease, and shall not to be taken as prescriptive.

Assets	**Recommended Depreciation Policy**
Freehold Buildings	50 years
Purpose Built Buildings on State Land	30 years
Premises at State building on Temporary Occupation Licence (TOL) or Tenancy Agreement	3-9 years
Premises at HDB Void Decks	2-5 years