

# **CHARITIES ACCOUNTING STANDARD**

Charities Accounting Standard (CAS) was issued by the Singapore Accounting Standards Council on 24 June 2011 and applies to financial periods beginning on or after 1 July 2011.

## CONTENTS

	<u>Paragraph</u>
<b>PREFACE</b>	<b>A1 – A14</b>
<b>INTRODUCTION</b>	<b>B1 – B12</b>
<b>CHARITIES ACCOUNTING STANDARD</b>	
<b>Scope</b>	
<b>General</b>	
Requirement to Prepare Financial Statements	1 – 2
Compliance with the CAS	3
Consistency of Presentation	4 – 6
Accounting Policies	7 – 14
Accounting Estimates	15 – 20
Correction of Prior Period Errors	21 – 25
Offsetting	26
Going Concern	27
Prudence	28
Accounting for Separate Funds	29 – 32
Requirements Pertaining to Different Types of Financial Statements when a Charity Holds Investments in Subsidiaries, Associates or Joint Ventures	33 – 34
Disclosures and Formats	35 – 38
Statement of Financial Activities Format	39
Balance Sheet Format	40
Statement of Cash Flows Format	41
<b>Statement of Financial Activities</b>	
<b>General</b>	
Introduction	42
Structure	43 – 44
Adaptation of Formats	45 – 47
Gain or Loss on Disposal of an Asset	48 – 49
Cost of Audit, Independent Examination or Reporting Accountant Services and Other Financial Services	50
<b>Income</b>	
Basic Principles	51 – 55
Analysis and Apportionment	56 – 58
Contractual Arrangements	59 – 64
Grants and Donations Receivable	65 – 72
Income Subject to Restrictions	73 – 74
Funds Received as Agent or Trustee of Another Charity	75
Disclosure	76 – 78
<b>A1: Income from Generated Funds</b>	
<b>A1a: Voluntary Income</b>	79
Legacies	80 – 85
Donations in Kind	86 – 89

<b>A1b: Activities for Generating Funds</b>	90 – 92
<b>A1c: Investment Income</b>	93 – 95
<b>A2: Income from Charitable Activities</b>	96 – 99
Contracts for Services	100 – 103
<b>A3: Other Income</b>	104
<b>Expenditure</b>	
General Rules on the Recognition of Expenditure	105
Contractual Arrangements	106 – 109
Non-contractual Arrangements	110
Start-up and Pre-contract Costs	111 – 112
Exceptional Costs	113
Support Costs	114 – 118
Apportionment of Costs	119 – 126
Analysis of Expenditure into Activity Categories	127
<b>B1: Costs of Generating Funds</b>	128 – 129
<b>B1a: Costs of Generating Voluntary Income</b>	130 – 133
<b>B1b: Fundraising Trading: Cost of Goods Sold and Other Costs</b>	134 – 135
<b>B1c: Investment Management Costs</b>	136
<b>B2: Charitable Activities</b>	137 – 140
Grant Making	141 – 151
<b>B3: Governance Costs</b>	152 – 154
<b>B4: Other Expenditure</b>	155
<b>C: Tax Expense</b>	156 – 158
Goods and Services Tax (GST)	159
<b>D: Gross Transfers between Funds</b>	160 – 162
<b>E: Reconciliation of Funds</b>	163
<b>Balance Sheet</b>	
Introduction	164 – 165
Structure	166 – 172
Current/Non-current Distinction	173 – 177
<b>A: Non-current Assets</b>	
<b>A1: Property, Plant and Equipment</b>	178 – 189
Depreciation	190 – 196
Disclosure	197 – 202
<b>A2: “Preservation of Monuments” Assets</b>	203 – 215
<b>A3: Intangible Assets</b>	
Recognition	216 – 218
Initial Measurement	219 – 224
Measurement after Recognition	225 – 231
Disclosure	232 – 234
<b>A4: Non-current Investments</b>	
<b>A4a: Investment Assets</b>	
General	235
Investment Properties	236 – 241
Investments in Financial Assets	242 – 245
Disclosure	246 – 253

<b>B: Current Assets</b>	
<b>B1: Inventories</b>	254 – 258
Long-term Contracts/Construction Contracts	259 – 263
Percentage of Completion Method	264 – 274
Consignment Inventory	275
<b>B2: Trade and Other Receivables</b>	276 – 280
<b>B3: Current Investments</b>	281 – 282
<b>B4: Cash and Cash Equivalents</b>	283
<b>C: Current Liabilities</b>	
<b>D: Non-current Liabilities</b>	
General	284 – 294
<b>C1: Trade and Other Payables</b>	295 – 299
<b>C2: Current Tax Payable</b>	300
<b>D1: Non-current Payables</b>	301
<b>D2: Provisions for Liabilities and Charges</b>	302 – 308
<b>D3: Deferred Tax Liabilities</b>	309 – 313
Tax Base	314 – 316
Disclosure	317
<b>E: Funds of Charity</b>	
General	318
<b>E1: Unrestricted Funds</b>	
<b>E1a: Unrestricted Income Funds</b>	
<b>E1b: Designated Funds</b>	
General	319 – 322
<b>E2: Restricted Funds</b>	
<b>E2a: Restricted Income Funds</b>	
<b>E2b: Endowment Funds</b>	
General	323 – 330
Expenses Related to Endowment Investments	331 – 334
Asset Gains and Losses	335
Reconciliation of Funds	336
Disclosure of Particulars of Individual Fund	337
<b>Other Matters to be Disclosed in the Notes to the Financial Statements</b>	
<b>Post Balance Sheet Events</b>	338 – 341
<b>Contingent Liabilities and Contingent Assets</b>	342 – 348
<b>Commitments</b>	349 – 350
<b>Guarantees and Collaterals</b>	351 – 352
<b>Related Party Disclosures</b>	353 – 366
<b>Governing Board Members' Remuneration and Benefits</b>	
Remuneration and Benefits	367
Advances, Credits and Guarantees	368 – 369
<b>Employee Benefits</b>	370 – 371
<b>Parent</b>	372 – 375
<b>Disclosure of Accounting Policies</b>	376
Income Policy Notes	377
Expenditure Policy Notes	378
Tax Expense Policy Notes	379
Assets Policy Notes	380 – 387

Liabilities Policy Notes	388 – 391
Funds Structure Policy Notes	392 – 393
Other Policy Notes	394
<b><i>Other Disclosure in the Notes to the Financial Statements</i></b>	<b>395</b>
<b>Statement of Cash Flows</b>	
Introduction	396
Structure	397 – 398
Operating Activities	399 – 400
Investing Activities	401
Financing Activities	402
Reporting Cash Flows from Investing and Financing Activities	403
Non-cash Transactions	404 – 405
Others	406
<b>Special Sections</b>	
<b><i>Leases</i></b>	<b>407 – 411</b>
Accounting by Lessees	412 – 417
Accounting by Lessors	418 – 423
Sale and Leaseback Transactions	424 – 427
Disclosure by Lessees	428 – 429
Disclosure by Lessors	430 – 431
<b><i>Impairment of Assets</i></b>	
Impairment of Inventories	432 – 434
Impairment of Investment Properties	435 – 450
Impairment of Investments in Subsidiaries, Jointly Controlled Entities or Associates	451 – 452
Impairment of Trade and Other Receivables (including Finance Lease Receivables but excluding Prepayments) and Investment Assets other than Investment Properties, Investments in Subsidiaries, Jointly Controlled Entities or Associates	453 – 457
Disclosures	458 – 460
<b><i>Foreign Currency Translation</i></b>	
Functional Currency	461 – 464
Reporting Foreign Currency Transactions in the Functional Currency	465 – 469
Net Investment in a Foreign Operation	470 – 471
Use of a Presentation Currency other than the Functional Currency	472 – 478
Disclosure	479 – 482
<b><i>Business Combinations and Goodwill</i></b>	<b>483 – 498</b>
<b><i>Subsidiaries</i></b>	
Consolidated Financial Statements	499 – 522
Separate Financial Statements	523 – 526
<b><i>Branches</i></b>	<b>527 – 532</b>
<b><i>Associates and Joint Ventures</i></b>	
Investments in Associates	533 – 546
Investments in Joint Ventures	547 – 557
Separate Financial Statements	558 – 561

**Transitional to the CAS**

Scope of this Section	<b>562 – 563</b>
First-time Adoption	<b>564 – 566</b>
Procedure for Preparing Financial Statements at the Date of Transition	<b>567 – 570</b>
Disclosure	<b>571 – 574</b>

**APPENDIX 1 – GLOSSARY**

**APPENDIX 2 – LIST OF FINANCIAL REPORTING STANDARDS  
AND INTERPRETATIONS OF FINANCIAL REPORTING  
STANDARDS EXCLUDED FROM CHARITIES ACCOUNTING  
STANDARD**

**APPENDIX 3 – GUIDELINES FOR DEPRECIATION POLICY**

## 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 (ASC) took over the task to make or formulate accounting standards from the Council on Corporate Disclosure and Governance. In addition to making or formulating accounting standards for companies, the Accounting Standards Council also makes or formulates 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 make or formulate accounting standards for charities.

### Charities Accounting Standard

A4 The Accounting Standards Council has developed a set of accounting standards for charities (the Charities Accounting Standard). The Charities Accounting Standard is developed based on the requirements of the Financial Reporting Standards, taking into account the context and circumstances relevant to the charity sector. It aims to better meet the needs of the charity sector and its stakeholders.

A5 The Charities Accounting Standard sets out the basis for preparing and presenting **financial statements** for the charity sector.

A6 For charities that adopt the Charities Accounting Standard, the provisions of the Charities Accounting Standard shall be applied if the transaction, event or condition is specifically addressed in the standard. However, these charities need not follow a requirement in the Charities Accounting Standard if the effect of doing so would not be material. For transactions, events or conditions not dealt with in the Charities Accounting Standard, these charities shall refer to the requirements and guidance in the Charities Accounting Standard and Financial Reporting Standards dealing with similar and related issues, in descending order, in developing and applying their accounting policies.

A7 In developing the Charities Accounting Standard, the Accounting Standards Council took reference from:

- a. International Financial Reporting Standard for Small and Medium-sized Entities;
- b. Financial Reporting Standard for Smaller Entities issued by the Accounting Standards Board of the United Kingdom;
- c. Statement of Recommended Practice (Revised 2005) on Accounting and Reporting by Charities issued by the Charity Commission for England and Wales; and
- d. Recommended Accounting Practice 6 (RAP 6) on Accounting and Reporting by Charities issued by the Council of the Institute of Certified Public Accountants of Singapore. RAP 6 will be withdrawn after the issuance of the Charities Accounting Standard.

### Guiding Principle

A8 In developing the Charities Accounting Standard, the Accounting Standards Council is guided by the principle that 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.

### Key Highlights of the Charities Accounting Standard

A9 Greater relevance – It captures the Financial Reporting Standards requirements that are largely applicable to the charity sector.

A10 Enhanced presentation format – It prescribes the requirements to present the **Statement of Financial Activities** to provide greater clarity as to how a charity receives and applies its **income** to meet its objectives.

A11 Consistent interpretation – A glossary of accounting terms used in the Charities Accounting Standard is 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 interpretation.

### Preparation of Financial Statements

A12 The main obligation of the **governing board members** in preparing financial statements is to give a true and fair view of the charity's income and **expenditure** and cash flows during the **financial period** and of its state of affairs at the end of the period. To achieve this, the governing board members' judgement may dictate the disclosure of more information than what the Charities Accounting Standard prescribes.



## Using the Charities Accounting Standard

A13 In the Charities Accounting Standard:

- a. “Governing board members” refer to members of the governing body of a charity or **trustees** for a charity having the general control and management of the administration of the charity. In practice, other equally valid terms are used, such as management committee members or board of directors.
- b. “Financial statements” refer to:
  - i. Financial statements of a charity if the charity is not required to prepare **consolidated financial statements**,
  - ii. Consolidated financial statements of a **parent** charity and its **subsidiaries**, if the parent charity is required to prepare consolidated financial statements.

A14 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

B1 The Charities Accounting Standard (CAS) is applicable to financial periods beginning on or after 1 July 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 financial periods beginning before 1 July 2011 (or for a prior period for which it was not required to apply the CAS) 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 developed based on the requirements of the Financial Reporting Standards (FRS)<sup>1</sup>, taking into account the context and circumstances relevant to the charity sector. The appendices contained in this standard form part of the CAS. 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).

B3 The objectives of the CAS are to:

- a. Improve the quality of financial reporting environment of charities;
- b. Enhance the relevance, comparability and understandability of information presented in the financial statements of charities;
- c. Assist those who are responsible for the preparation of the financial statements of charities; and
- d. Reduce diversity in accounting practice and presentation across charities.

### General recognition and measurement principles

B4 For transactions or events not addressed in the CAS, governing board members shall use their judgement in developing and applying an accounting policy that results in information that is:

- a. Relevant to the economic decision-making needs of users, and
- b. Reliable, in that the financial statements:

---

<sup>1</sup> Financial Reporting Standards are Standards and Interpretations prescribed by the Accounting Standards Council. They comprise:

- a. Financial Reporting Standards; and
- b. Interpretations of Financial Reporting Standards.

- i. Represent faithfully the **financial position**, financial activities and cash flows of the charity;
- ii. Reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- iii. Are neutral, i.e. free from bias;
- iv. Are prudent; and
- v. Are complete in all material respects.

B5 In making the judgement described in paragraph B4, governing board members shall refer to, and consider the applicability of, the following sources in descending order:

- a. The requirements and guidance in the CAS dealing with similar and related issues;
- b. The definitions, recognition criteria and measurement concepts for **assets**, **liabilities**, income and expenditure, and the accounting principles and policies set out in the respective sections of the CAS; and
- c. The requirements and guidance in the FRS dealing with similar and related issues.

## **Purpose of Financial Statements**

B6 The purpose of preparing a charity's financial statements is to discharge the governing board members' duty of **public accountability** and stewardship. The CAS sets out the accounting standards for this purpose but governing board members 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. Financial statements prepared in accordance with the 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.

B7 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.

B8 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.

B9 The **Statement of Cash Flows** provides information on the ability of the charity to generate cash and cash equivalents and the needs of the charity to utilise those cash flows.

B10 The notes to the financial statements:

- a. Present information about the basis of preparation of the financial statements and the specific accounting policies used;
- b. Disclose the information required by the CAS that is not presented elsewhere in the financial statements; and
- c. Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

B11 In the extremely rare circumstances, the governing board members could 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 the CAS is allowed only if it is not prohibited by the **Charities Act** and Regulations. Under all circumstances, the charity is required to make the following disclosures:

- a. That the governing board members have concluded that the financial statements present fairly the charity's financial position, financial activities and cash flows;
- b. That the charity has complied with the CAS, except that it has departed from a particular requirement to achieve a fair presentation;
- c. The nature of the departure, including the treatment that the CAS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in paragraph B6, and the treatment adopted; and
- d. For each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

B12 When a charity has departed from a requirement in the CAS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraphs B11(c) and (d).

Charities Accounting Standard (CAS) is set out in paragraphs 1 to 574 and Appendices 1 to 3. All the paragraphs have equal authority. The CAS should be read in the context of its core principle highlighted in the Preface and Introduction.
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

## CHARITIES ACCOUNTING STANDARD

### Scope

The Charities Accounting Standard (CAS) is available as an alternative financial reporting framework to Financial Reporting Standards (FRS) for all registered charities and Institutions of a Public Character that are registered under the Charities Act, except for charities that hold significant investments in any subsidiary, **associate** or **joint venture** that is not a charity. Such charities shall adopt the FRS as their financial reporting framework.

### General

#### Requirement to Prepare Financial Statements

1. The governing board members shall prepare a set of financial statements for each financial period of the charity, which comprises:
  - a. A Statement of Financial Activities for the financial period;
  - b. A Balance Sheet as at the end of the financial period;
  - c. A Statement of Cash Flows for the financial period;
  - d. Notes explaining the accounting policies adopted and other notes which explain or expand upon the information presented in the financial statements referred to above or which provide further useful information; and
  - e. The comparative figures for the previous financial period provided in accordance with the CAS.
2. The Statement of Financial Activities, Balance Sheet and Statement of Cash Flows shall be given equal prominence in the financial statements and shall not be relegated to the notes to the financial statements.

#### Compliance with the CAS

3. A charity whose financial statements comply with the CAS shall make an explicit and unreserved statement of such compliance<sup>2</sup>. If the financial statements depart from the CAS in any material respect, this shall be disclosed in the notes to the financial statements giving the nature, reason and justification for the departure, the treatment adopted, and the financial impact.

---

<sup>2</sup> This statement may be included within the notes to the financial statements and could read as follows: "These financial statements have been prepared in accordance with the Charities Accounting Standard". If abbreviated financial statements are also prepared, the statement shall be reproduced in the abbreviated financial statements.

## Consistency of Presentation

4. A charity shall retain the presentation and classification of items in the financial statements from one period to the next unless:
  - a. It is apparent, following a significant change in the nature of the charity's operations or a review of its financial statements, that another presentation or classification would be more appropriate; or
  - b. The CAS requires a change in presentation.
  
5. When the presentation or classification of items in the financial statements is changed, the charity shall reclassify comparative amounts unless reclassification is impracticable. When comparative amounts are reclassified, the charity shall disclose:
  - a. The nature of the reclassification;
  - b. The amount of each item or class of items that is reclassified; and
  - c. The reason for the reclassification.
  
6. If it is impracticable to reclassify comparative amounts, the charity shall disclose:
  - a. The reason for not reclassifying the amounts; and
  - b. The nature of the adjustments that would have been made if the amounts had been reclassified.

## Accounting Policies

7. Accounting policies are the specific principles, bases, conventions and rules by which transactions are recognised, measured and presented in the financial statements.
  
8. The financial statements shall be accompanied by an explanation of the basis on which they have been prepared.
  
9. Accounting policies shall be consistent with the requirements of the CAS. Where a charity has a choice, it shall select the policies that are most appropriate to its particular circumstances, taking into account the objectives of:
  - 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 trends and evaluate relative financial activities, financial position and cash flows.

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

10. Accounting policies shall be applied consistently to similar transactions, other events and conditions. They shall be reviewed regularly to ensure that they remain the most appropriate to the charity's particular circumstances.

11. A charity shall change an accounting policy only if the change:

- a. Is required by changes to the CAS; or
- b. Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the charity's financial activities, financial position or cash flows.

12. Changes in accounting policies shall be accounted for in the financial statements as follows:

- a. A change in accounting policy resulting from a change in the requirements of the CAS shall be accounted for in accordance with the transitional provisions, if any, specified in that amendment; and
- b. All other changes in accounting policy shall be accounted for retrospectively.

13. When a change in accounting policy is applied retrospectively, a charity shall adjust the opening balance of each affected component of funds for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. When it is impracticable to determine the period-specific effects of a change in accounting policy on comparative information for one or more prior periods presented, a charity shall apply the new accounting policy to the **carrying amounts** of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of funds for that period. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, a charity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

14. When a change in accounting policy has an effect on the current period or any prior period, or might have an effect on future periods, a charity shall disclose the following in the notes to the financial statements:

Change in accounting policy resulting from a change in the requirements of the CAS:

- a. The nature of the change in accounting policy;
- b. For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement item affected;

- c. The amount of the adjustment relating to periods before those presented to the extent practicable; and
- d. An explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above.

Voluntary change in accounting policy:

- a. The nature of the change in accounting policy;
- b. The reasons why applying the new accounting policy provides reliable and more relevant information;
- c. To the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
  - i. For the current period;
  - ii. For each prior period presented; and
  - iii. In the aggregate for periods before those presented.
- d. An explanation if it is impracticable to determine the amounts to be disclosed in (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Accounting Estimates

15. As a result of the uncertainties inherent in a charity's activities, many items in a charity's financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

- a. Bad debts;
- b. **Inventory** obsolescence; and
- c. The useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets.

16. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

17. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

18. A change in accounting estimate is therefore an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and **obligations** associated with, assets and liabilities.

19. Changes in accounting estimates shall be accounted for prospectively.



20. A charity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, that fact shall be disclosed.

#### Correction of Prior Period Errors

21. Prior period errors are omissions from, and misstatements in, the charity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a. Was available when financial statements for those periods were authorised for issue, and
- b. Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

22. Such errors include the effect of mathematical mistakes, mistake in applying accounting policies, oversights or misinterpretations of facts, and fraud.

23. To the extent practicable, a charity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its recovery by:

- a. Restating the comparative figures for the prior period presented in which the error occurred, or
- b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and funds for the earliest prior period presented.

24. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, a charity shall restate the opening balances of assets, liabilities and funds for the earliest period for which retrospective restatement is practicable (which may be the current period). When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, a charity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

25. A charity shall disclose the following about prior period errors:

- a. The nature of the prior period error;
- b. For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- c. To the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
- d. If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

### Offsetting

26. A charity shall not offset assets and liabilities, or income and expenditure, unless required or permitted by the CAS.

### Going Concern

27. A charity shall be presumed to be operating as a **going concern**. The governing board members shall consider whether there are significant doubts about the charity's ability to continue as a going concern, and in assessing whether the going concern assumption is appropriate, taking into account all available information about the future, which is at least but is not limited to, twelve months from the **reporting date**. When the governing board members are aware, in making the assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the charity's ability to continue as a going concern, the charity shall disclose those uncertainties. When the charity does not prepare financial statements on a going concern basis, it shall disclose the fact, together with the basis on which the financial statements are prepared and the reasons why the charity is not regarded as a going concern. The financial statements shall not be prepared on a going concern basis if the governing board members establish after the reporting 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 and liabilities is re-evaluated individually and, if so, the basis used shall be disclosed.

### Prudence

28. 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 income and assets are not overstated and expenditure 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 deliberately understate income or assets or overstate expenditure or liabilities.

### Accounting for Separate Funds

29. Charities that have more than one fund under their control are required to comply with additional requirements. Their financial statements shall provide a summary of the main funds, differentiating in particular between 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 **restricted fund**, the notes to the financial statements shall group the restricted funds under one or more headings.

30. Charities shall keep accounting records in a way that 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 accounting for funds is set out in paragraphs 318 to 337.

31. Any amount of funds that are set aside, proposed to be set aside, withdrawn or proposed to be withdrawn shall be disclosed by way of a note to the financial statements unless they are presented elsewhere in the financial statements.

32. For each item of funds that is disclosed separately in the financial statements, the following information shall be provided:

- a. The amount of the funds at the beginning and end of the financial period;
- b. Any amount transferred to or from the funds during the period; and
- c. The source and application of the amounts transferred.

#### Requirements Pertaining to Different Types of Financial Statements when a Charity Holds Investments in Subsidiaries, Associates or Joint Ventures

33. A charity that holds investments in subsidiaries shall prepare consolidated financial statements in addition to **separate financial statements**. The procedures for preparing consolidated financial statements are set out in paragraphs 499 to 522. If the charity also holds investments in associates and/or joint ventures, these investments shall be accounted for in accordance with the requirements set out in paragraphs 533 to 557 in the charity's consolidated financial statements. The accounting for these investments in the charity's separate financial statements is set out in paragraphs 523 to 526 and 558 to 561.

34. A charity that holds investments in associates and/or joint ventures but not subsidiaries shall prepare financial statements in which these investments are accounted for in accordance with the requirements set out in paragraph 533 to 557 in addition to separate financial statements. The accounting for these investments in the charity's separate financial statements is set out in paragraphs 558 to 561.

#### Disclosures and Formats

35. A charity's financial statements shall comply with the formats of the Statement of Financial Activities, Balance Sheet and Statement of Cash Flows specified below.

36. The financial statements may include more detailed disclosures than any of the items listed in the specified formats.

37. Where there is no amount to be shown for an item in the current and previous financial periods, the line listed in the specified formats shall not be included. Every item in the Statement of Financial Activities, Balance Sheet, Statement of Cash Flows and notes to the financial statements shall show comparative amounts for the previous financial period. The comparative amount for an item shall be shown, where there is an amount to be shown for the previous financial period but not for the current financial period.

38. A charity shall, as far as practicable, present notes in a systematic manner. A charity shall cross-reference each item in the Statement of Financial Activities, Balance Sheet and Statement of Cash Flows to any related information in the notes.

## Statement of Financial Activities Format

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

Reference	Table A: Statement of Financial Activities	Current period			Current Period Total	Prior Period Total
		Notes	Unrestricted Funds	Restricted Funds		
<b>A</b>	<b>Income</b>					
A1	Income from generated funds					
A1a	Voluntary income					
A1b	Activities for generating funds					
A1c	Investment income					
A2	Income from charitable activities					
A3	Other income					
	<b>Total income</b>					
<b>B</b>	<b>Expenditures</b>					
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					
	<b>Total expenditures</b>					
	<b>Net income/expenditure before tax expense</b>					
<b>C</b>	<b>Tax expense</b>					
	<b>Net income/expenditure</b>					
<b>D</b>	<b>Gross transfers between funds</b>					
	<b>Net movement in funds</b>					
<b>E</b>	<b>Reconciliation of Funds</b>					
	Total funds brought forward					
	<b>Total funds carried forward</b>					

## Balance Sheet Format

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

Reference	Table B: Balance Sheet	Notes	Current Period	Prior Period
<b>A</b>	<b><i>Non-current assets</i></b>			
A1	Property, plant and equipment			
A2	“Preservation of Monuments” assets			
A3	Intangible assets			
A4	Non-current investments:			
A4a	Investment assets			
	<b>Total non-current assets</b>			
<b>B</b>	<b><i>Current assets</i></b>			
B1	Inventories			
B2	Trade and other receivables			
B3	Current investments			
B4	Cash and cash equivalents			
	<b>Total current assets</b>			
<b>C</b>	<b><i>Current Liabilities</i></b>			
C1	Trade and other payables			
C2	Current tax payable			
	<b>Net current assets or liabilities</b>			
	<b>Total assets less current liabilities</b>			
<b>D</b>	<b><i>Non-current Liabilities</i></b>			
D1	Non-current payables			
D2	Provisions for liabilities and charges			
D3	Deferred tax liabilities			
	<b>Net assets or liabilities</b>			
<b>E</b>	<b><i>Funds of charity</i></b>			
E1	Unrestricted funds			
E1a	Unrestricted income funds			
E1b	Designated funds			
	<b>Total unrestricted funds</b>			
E2	Restricted funds			
E2a	Restricted income funds			
E2b	Endowment funds			
	<b>Total restricted funds</b>			
	<b>Total charity funds</b>			

Statement of Cash Flows Format

41. The Statement of Cash Flows shall be shown in the format below.

<b>Table C: Statement of Cash Flows</b>	<b>Notes</b>	<b>Current Period</b>	<b>Prior Period</b>
<b><u>Cash Flows from Operating Activities</u></b>			
Net income/(expenditure) before tax expense			
Adjustments for:			
Interest income			
Interest expense			
Non-cash donations			
Funds, gifts, donations, grants received specifically for endowment funds			
Depreciation of property, plant and equipment/"Preservation of Monuments" assets/investment properties			
Amortisation of intangible assets			
Impairment losses on investments			
Net (gain)/loss on disposal of property, plant and equipment/"Preservation of Monuments" assets/intangible assets/investments assets			
<b>Operating Cash Flows before Changes in Working Capital</b>			
Inventories			
Trade and other receivables			
Trade and other payables			
Provisions for liabilities and charges			
<b>Net Cash Flows from Operations</b>			
Income taxes paid			
<b>Net Cash Flows from (Used in) Operating Activities</b>			
<b><u>Cash Flows from Investing Activities</u></b>			
Disposal of property, plant and equipment/"Preservation of Monuments" assets			
Purchase of property, plant and equipment/"Preservation of Monuments" assets			
Disposal of intangible assets			
Purchase of intangible assets			
Disposal of investment assets			
Purchase of investment assets			
Interest received			
Dividends received			
<b>Net Cash Flows from (Used in) Investing Activities</b>			

<b>Cash Flows from Financing Activities</b>			
Proceeds from borrowings			
Repayment of borrowings			
Interest paid			
Funds, gifts, donations, grants received specifically for endowment funds			
<b>Net Cash Flows from (Used in) Financing Activities</b>			
<b>Net increase (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents, beginning balance			
<b>Cash and cash equivalents, ending balance</b>			

## Statement of Financial Activities

### *General*

#### Introduction

42. The Statement of Financial Activities is a single statement showing all income and expenditure of a charity in the financial period 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, and provides a reconciliation of all movements in the charity's funds.

#### Structure

43. 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 endowment funds. 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.

44. If a charity has more than one type of fund, the statement shall show in columns, the movements in each type of funds, and total movements of all the funds collectively. Comparative figures for the previous financial period shall be presented on the face of the statement only in respect of the aggregate amounts for all the funds collectively. Comparative information for each type of funds is not required to be presented.

## Adaptation of Formats

45. Charities shall present additional information in the Statement of Financial Activities in order to convey a proper understanding of the nature of all their activities, where necessary using notes to the financial statements. The Statement of Financial Activities shall provide a clear link between income and expenditure and the types of activities undertaken by the charity, where possible. For example:

- 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 “A1b: Income from activities for generating funds” and “B1b: **Fundraising Trading Costs**”.

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

46. The governing board members shall present information in the financial statements with clarity. A charity shall present additional line items, columnar items, headings and subtotals in the Statement of Financial Activities when such presentation provides information as to how a charity receives and applies its income to meet its objectives.

47. Category headings shall be omitted where there is nothing to report in both the current and prior 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.

## Gain or Loss on Disposal of an Asset

48. The gain or loss on the disposal of an asset shall be accounted for in net income or expenditure in the Statement of Financial Activities in the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount of the asset.

49. 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 net 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

50. 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 and financial advice. Where no other financial services have been provided, this fact shall be disclosed.

## ***Income***

### Basic Principles

51. 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 net assets. 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 **probable** that the income will be received; and
- c. Measurement – when the amount of the income can be measured with sufficient reliability.

52. 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.

53. Within the charity sector, entitlement to income may arise from a wide variety of transactions varying from contractual (i.e. 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 be used on any of the charity's purposes). Judgement will be required in deciding how individual transactions fit into this framework and in identifying those factors that are likely to lead to different accounting treatments. In order to understand how accounting standards apply to different funding arrangements, governing board members need to determine for each source of funds:

- a. The legal framework (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.

54. When a charity receives payment from a customer 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.

55. 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.

### Analysis and Apportionment

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

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

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

### Contractual Arrangements

59. 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, a charity would not have entitlement to this 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.

60. 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 are conditional upon the delivery of the specified level of service and in such circumstances, income should be recognised to the extent that the charity has provided the services or goods.

61. 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. The former limits how a recipient charity may expend funds to particular purposes but does not require a specific and measurable output to be delivered by the charity as a condition of a charity's entitlement to the funds. Such restricted grants are recognised on the basis set out in paragraph 73 below.

62. Where charities receive membership subscriptions, the nature of these subscriptions may be similar to that of a gift, or a contractual arrangement to 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 is provided. If the subscriber receives rights to such benefits evenly over the period of membership, then recognising such membership income on a straight-line basis over the period of time covered by the subscription may be an appropriate **estimation technique** for income recognition.

63. Charities may also, on occasions, undertake activities under a long-term contract. Owing to the length of time taken to complete such contracts, it may be appropriate to recognise income and the related expenditure while contracts are in progress.

64. 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 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 to be recognised based on the proportion of costs incurred for work performed to date in comparison with the estimated total expenditure to be incurred on the contract. In the case of services, it may be appropriate to use the time spent to date 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 income.

#### Grants and Donations Receivable

65. A pre-requisite for 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.

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

67. 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 to the income until these conditions are met. The income should not be recognised until there is sufficient evidence that the conditions set can be met.

68. 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.

69. 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 financial period should be accounted for as **deferred income** and recognised as a liability until the financial period in which the recipient charity is allowed by the condition to expend the income.

70. Where the existence of a condition prevents the recognition of an income that is receivable in the future, a **contingent asset** should be disclosed where it is probable that the condition will be met in the future.

71. 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.

72. Where either a grant or a donation is given specifically to provide funding for 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. Once acquired, the use of the asset will either be restricted or unrestricted. If its use is unrestricted, the governing board members may consider creating a **designated fund** reflecting the value of the asset. The relevant fund will then be reduced over the **useful life** of the asset in line with its **depreciation**. Depreciation should be debited to the relevant designated funds where the asset is held, if this is the intention.

### 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 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 terms on which the funds were provided. 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.

## Funds Received as Agent or Trustee of Another Charity

75. Some funds received by a charity do not belong to the charity, for instance, where the charity receives the funds in circumstances where the charity, acting as agent or trustee of another charity, is legally bound to pay them over to a specified **third party**/the beneficiary charity and has no legal responsibility for ensuring the charitable application of the funds. In these circumstances, the charity that receives the funds as an agent or trustee should not recognise the funds as income in the Statement of Financial Activities. The funds received and the corresponding liabilities shall be presented net in the Balance Sheet. Details of the agent or custodian arrangement shall be disclosed in the notes to the financial statements.

### Disclosure

76. 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 income 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.

77. If the charity has received income from sources outside Singapore during the financial period, the amount 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.

78. Where a charity holds funds on behalf of a third party, the notes to the financial statements should analyse the movement of funds received during the period relating to each party or type of party where material. Where funds are held for related parties, the disclosure shall be given regardless of whether the amount is material or not.

## ***A1: Income from Generated Funds***

### ***A1a: Voluntary Income***

79. **Voluntary income** includes income generated from the following sources:
- a. Gifts and donations, including legacies and **donations in kind**, 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; and
  - c. Membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services.

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**.

### Legacies

80. 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 amount of the income can be measured with sufficient reliability.

81. 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 amount 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).

82. The entitlements, certainty of receipt and measurability conditions are 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 reliable estimate of the legacy receivable, in which case it shall not be included in the Statement of Financial Activities.

83. Where a charity receives a letter before the financial period end advising that a payment of its interest in an estate will be made, the intended payment shall be accrued in the Statement of Financial Activities and the Balance Sheet in the current financial period.

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

85. Where the charity has been notified of material legacies and these legacies are not 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 or a statement that a reliable estimate cannot be made shall be disclosed in the notes to the financial statements. Similar disclosures shall be provided for any material assets bequeathed to the charity but subject to a life tenancy interest held by a third party.

## Donations in Kind

86. Where the value of donations in kind can be estimated with sufficient reliability, they shall be recorded as income. 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 the value of donations in kind cannot be estimated with sufficient reliability, the charities shall disclose this fact in the notes to the financial statements.

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

- a. Where a donation in kind has been made to a charity for distribution or for internal use by the charity, the income shall be recognised within “voluntary income” in the financial period in which the donation in kind is receivable.
- b. Where a donation in kind has been made to a charity for conversion into cash, the income shall be recognised within “activities for generating funds” in the financial period in which the donation in kind is receivable. An adjustment shall be made to the initial value recognised upon realisation of the donation in kind, if this is different from the initial value. However, where it is not practicable to estimate the value of the donation in kind with sufficient reliability, the income shall be included in the financial period in which the donation in kind is sold. Such donation in kind, whilst regarded as a donation in legal terms, is in economic terms similar to **trading** and shall therefore be included within “activities for generating funds”. The most common example is that of second-hand goods donated for resale.

88. In all cases, the amount at which donations in kind are included in the Statement of Financial Activities shall be either a sufficiently reliable estimate of their value to the charity or the amount actually realised.

89. The basis of valuation shall be disclosed in the accounting policies notes to the financial statements.

### ***A1b: Activities for Generating Funds***

90. Activities for generating funds are the trading activities carried out by a charity to generate income, which will be used to fund 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 not use for operational purposes.

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

92. 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 components are viewed as contributing to a single economic activity. Governing board members shall consider the component of the activities being undertaken to determine the most appropriate manner of presenting the income from such activities 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 (i.e. activities for generating funds) but it may also sell a small amount of goods made by its beneficiaries (i.e. income from charitable activities). It would be acceptable to classify all the income from the shop as "shop income" under activities for generating funds.

### ***A1c: Investment Income***

93. Investment income includes income from investment assets, including dividends, interest and rents.

94. Where a charity has subsidiaries:

- a. All payments to the charity by its subsidiaries 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 separate financial statements.
- b. The exact amount of a gift aid payment from a subsidiary relating to a financial period can often only be precisely determined subsequent to the period end, for example, with the calculation of taxable profits. Provided that a receivable for the gift aid payment existed at the period end, the amount of the receivable as at period end shall be adjusted where calculations subsequent to the period end provide greater accuracy.
- c. Gift aid payments from subsidiaries shall be separately disclosed in the parent charity's Statement of Financial Activities within investment income, or, if not material, in the notes to the financial statements.

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



## **A2: Income from Charitable Activities**

96. 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 its customers the goods or services as part of the direct charitable activities of the charity<sup>3</sup>. It includes any income received which is 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.

97. 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.

98. 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
- f. Ancillary trades connected to a primary purpose in (a) to (e).

99. 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 Financial Activities. It shall be sufficiently detailed so that the users of the financial statements understand 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 those used for expenditure on charitable activities.

### Contracts for Services

100. 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.

---

<sup>3</sup> These transactions are often referred to as being part of the charity’s trading activities.

101. A contract for services shall be accounted for as a long-term contract where contract activity falls into different financial 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.

102. 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 stage of completion of the contract activity at the end of the **reporting period**.

103. 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.

### ***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 gains on the disposal of property, plant and equipment, and **intangible assets**.

## ***Expenditure***

### 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, or an asset is reduced without a commensurate decrease in recognised liabilities or increase in another asset.

### Contractual Arrangements

106. Where a charity enters into a contract for the supply of goods or services, expenditure is recognised in the Statement of Financial Activities 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) unless the expenditure qualifies for capitalisation as assets such as inventory.

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.

108. A grant that is 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 in the Balance Sheet and charge as expenditure to the Statement of Financial Activities where a **constructive obligation** arises to make the grant payment.

#### Non-contractual Arrangements

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 together with the corresponding expenditure.

#### Start-up and Pre-contract Costs

111. Start-up costs shall be accounted for on a basis consistent with the accounting treatment for 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 expenditure when they are incurred in the Statement of Financial Activities.

112. Pre-contract costs shall be recognised as expenditure as incurred in the Statement of Financial Activities. However, costs that relate directly to a contract and are incurred in securing the contract shall be included as part of contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as expenditure in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

### Exceptional Costs

113. Exceptional costs incurred by a charity 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.

### Support Costs

114. 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.

115. 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 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.

116. 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.

117. The notes to the financial statements shall also identify the amount of support costs apportioned to the relevant activity cost category they support. The disclosures required may, for example, be presented as follows (with totals reconciling with the Statement of Financial Activities and other notes as appropriate):

<b>Charitable Activities</b>	<b>Activities undertaken directly SGD</b>	<b>Grant funding of activities SGD</b>	<b>Support costs SGD</b>	<b>Total SGD</b>
Major Activity 1				
Major Activity 2				
Major Activity 3				
Other activities				
Total				

118. 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

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

120. 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. Support costs may not be attributable to a 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.

121. 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).

122. 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 financial periods.

123. 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).

124. 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.

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

126. Where any fundraising activity is identified as meeting the criteria of a multi-purpose activity and part of the costs of the fundraising activity is apportioned to charitable activities, the basis for the identification of such multi-purpose activities and the apportionment of the related costs to charitable activities shall be explained in the accounting policy notes.

#### Analysis of Expenditure into Activity Categories

127. The Statement of Financial Activities provides an analysis of the expenditure incurred 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***

128. 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 asset maintenance.

129. 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 goods or services under the terms of a grant or contract.

### ***B1a: Costs of Generating Voluntary Income***

130. Costs of generating voluntary income, including agents' costs where fundraising agents are used, shall be included within this category.

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

132. The start-up costs of a new fundraising activity may be material in the context of the overall fundraising activity. Because of their size or incidence, such costs should be separately disclosed in the financial statements.

133. 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 shall match the detailed analysis of voluntary income.

### ***B1b: Fundraising Trading: Cost of Goods Sold and Other Costs***

134. 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.

135. 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***

136. Where investment managers deduct investment management fees from investment income, the investment income shall be recognised at gross in the Statement of Financial Activities and the investment management fees shall be reported within the “**Investment Management costs**” category.

### ***B2: Charitable Activities***

137. Expenditure on charitable activities comprises all the resources 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. Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken.

138. 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 and explain the activity funded.

139. 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.



140. 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 charitable activities undertaken and the expenditure on these activities. 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.

### Grant Making

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

142. 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.

143. 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.

144. 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 in the notes to the financial statements.

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

146. Further information provided in relation to grant making shall provide users of financial statements 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 type and range of recipient(s) of the funding shall be provided, so that the users can appreciate the beneficiaries supported.

147. 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; or
- 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 and the number and total amount of grants made to that institution during the financial period need not be disclosed.

148. The analysis and explanation shall help the users of financial statements understand how the grants made relate to the objects of the charity and the policy adopted by the governing board members in pursuing these objects.

149. The analysis and explanation in the notes shall provide details on the total grants expenditure as at period end, including:

- a. An analysis of grants expenditure according to each category of recipients, i.e. institutions and individuals (details of individuals or institutions are not required); and
- b. An analysis of grants expenditure according to nature or type of activity or project being supported.

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

<b>Analysis</b>	<b>Grants to Institutions Total Amount (SGD)</b>	<b>Grants to Individuals Total Amount (SGD)</b>	<b>Total Grants Expenditure (SGD)</b>
Activity or Project 1			
Activity or Project 2			
Activity or Project 3			
<b>Total</b>			

150. The analysis of grants shall provide the users 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, performing arts, welfare of people in financial need, and help to people seeking to further their education. Some charities may decide that it is appropriate to provide further analysis. For example, showing a geographical analysis of the number and amount of grants made.

151. The governing board members may provide further analysis and explanation of the purposes for which grants were made in the charity’s Annual Report or by means of a separate publication. Such analysis does not relieve the governing board members of the requirement to provide sufficient details in the notes to the financial statements where necessary.

### **B3: Governance Costs**

152. 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.

153. 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 governing board members and costs associated with constitutional and statutory requirements, e.g. the cost of governing board members' 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 the charity's charitable or income generation activities).

154. The accounting policy notes to the financial statements 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**

155. Other expenditure will include the payment of any expenditure 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 cost categories. 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.

### **C: Tax Expense**

156. Where applicable, **current tax** and **deferred tax** shall be recognised in the Statement of Financial Activities as income or expenditure, except to the extent that the tax arises from a **business combination** or a transaction or event which is recognised outside income or expenditure directly in funds. Deferred tax arising from a business combination is adjusted against **goodwill** on acquisition.

157. The following shall be disclosed in the notes to the financial statements:

- a. The material components of the tax charge (or credit) for the period. Components of tax charge (or credit) may include:
  - i. Current tax expense (income);

- ii. Any adjustments recognised in the period for current tax of prior periods;
  - iii. The amount of deferred tax expense (income) relating to the origination and reversal of **temporary differences**;
  - iv. The amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
  - v. The amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
  - vi. The amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
  - vii. Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a **deferred tax asset**; and
  - viii. The amount of tax expense (income) relating to those changes in accounting policies and errors that are included in income or expenditure, because they cannot be accounted for retrospectively.
- b. An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:
    - i. A numerical reconciliation between tax expense (income) and the product of net income/expenditure before tax expense multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
    - ii. A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.
  - c. An explanation of changes in the applicable tax rate(s) compared to the previous accounting period.

158. 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 financial statements with their individual effects quantified. The effects of a fundamental change in the taxation basis (that is not a change in accounting policy or a correction of prior period errors) shall be included in the tax charge or credit in the period of change, and separately disclosed either on the face of the Statement of Financial Activities or in the notes to the financial statements.

#### Goods and Services Tax (GST)

159. Income tax expense 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 shall be included in their cost where it meets the criteria for capitalisation and is material.

## ***D: Gross Transfers between Funds***

160. 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.

161. 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 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.

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

## ***E: Reconciliation of Funds***

163. The net movement of funds represents the increase or decrease in a charity's resources available for deployment in undertaking future activities. Charities also further their objectives by making investments in a programme or social related nature. Charities may also receive gifts of an endowed nature, which are identified separately in the financial statements. Whilst endowments provide a source of income or service generation in future periods, they are not available to finance expenditure.

## **Balance Sheet**

### Introduction

164. The Balance Sheet provides a snapshot of the charity's assets and liabilities at the end of its financial period and how assets and liabilities are split between the different types of funds.

165. The Balance Sheet also provides a snapshot of the types of 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 also shows funds that the governing board members have designated for specific future use.

## Structure

166. As a minimum, a charity shall:

- a. Present the following line items on the face of the Balance Sheet:
  - i. Property, plant and equipment;
  - ii. "Preservation of Monuments" assets;
  - iii. Intangible assets;
  - iv. Investment assets;
  - v. Inventories;
  - vi. Trade and other receivables;
  - vii. Current investments;
  - viii. Cash and cash equivalents;
  - ix. Trade and other payables;
  - x. Current tax payable;
  - xi. Non-current payables;
  - xii. Provisions for liabilities and charges;
  - xiii. **Deferred tax liabilities**; and
  - xiv. Funds of the charity
- b. Distinguish between 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.

167. Charities may 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 manner similar 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 should be omitted.

168. Further details of the assets and liabilities shall be provided in the Balance Sheet or the notes to the financial statements. For example, non-current trade and other receivables shall be separately presented in the Balance Sheet if the amount is material. Otherwise the total amounts of the category shall be analysed in the notes to the financial statements.

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

170. 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).

171. The CAS does not prescribe the order or format in which a charity presents items. Paragraph 166 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.

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

- a. The amounts, nature and liquidity of assets;
- b. The function of assets within the charity; and
- c. The amounts, nature and timing of liabilities.

#### Current/Non-current Distinction

173. 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 174 and 176, 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, "receivables" being less liquid than "cash and cash equivalents" are presented before "cash and cash equivalents" if the presentation is based on ascending order of liquidity.

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

- a. It expects to realise the asset, or intends to sell or consume the asset, 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.

175. The 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.

176. A charity shall classify a liability as current when:

- a. It expects to settle the liability in its normal operating cycle;

- b. It holds the liability primarily for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting date; or
- d. The charity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

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

177. 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**

### **A1: Property, Plant and Equipment**

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

179. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- a. It is probable that future economic benefits associated with the item will flow to the charity, and
- b. The cost of the item can be measured reliably.

180. An item of property, plant and equipment shall initially be measured at its cost.

181. The cost of an item of property, plant and equipment comprises all of the following:

- a. Its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- b. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality; and



- c. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a charity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

182. All **borrowing costs** (such as interest) that are directly attributable to the construction of property, plant and equipment shall be recognised as expenditure in the Statement of Financial Activities in the period in which they are incurred, i.e. such costs are not allowed to be capitalised.

183. Capitalisation of 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 its intended 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 a charity's operations.

184. 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 recognised at its full acquisition cost.

185. Where a functional item of property, plant and equipment has been received as a gift or donation by the charity, it shall be included in the Balance Sheet at the amount that the charity estimate it would have to pay in the open market for an equivalent item at the date of the gift or donation, provided the amount can be estimated with sufficient reliability. Where the amount cannot be estimated with sufficient reliability, this fact shall be disclosed in the financial statements.

186. Parts of some items of property, plant and equipment may require replacement at regular intervals (e.g. the roof of a building). A charity shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria in paragraph 179 are met. The carrying amount of those parts that are replaced is derecognised.

187. 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 which contain clearly distinguishable and separable parts which are held for different purposes, i.e. partly functional and partly investment, shall be apportioned and analysed in the Balance Sheet between property, plant and equipment and **investment properties**. Land and buildings contain parts which are clearly distinguishable and separable only if the parts could be sold separately or leased out separately under a finance lease.
- b. All other land and buildings held for mixed purposes shall be included within investment properties only if an insignificant portion is held for use by the charity.

188. A charity shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation. A charity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment as expenditure in the Statement of Financial Activities in the period in which the costs are incurred.

189. Property, plant and equipment shall not be revalued and are not required to be assessed for impairment under the CAS.

### Depreciation

190. Paragraphs 191 to 196 apply to all property, plant and equipment, including "Preservation of Monument" assets.

191. The cost less estimated **residual value** of a property, plant and equipment shall be depreciated on a systematic basis over its useful 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 expenditure in the Statement of Financial Activities unless another section of the CAS requires it to be included in the carrying amount of another asset.

192. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

193. 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. A charity 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.

194. 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 life. In the case of freehold properties where the land has unlimited life, the land is not depreciated.

195. The useful lives and residual values of property, plant and equipment shall be reviewed at least at each financial period-end and, when necessary, revised to reflect changes in expectations. A charity shall account for a change in useful life or residual value as a change in an accounting estimate. 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 life.

196. The depreciation method applied to an asset shall be reviewed at least at each financial period-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. A charity shall account for such a change as a change in accounting estimate. The carrying amount of the property, plant and equipment at the date of the change is depreciated using the new method over the remaining useful life.

### Disclosure

197. Paragraphs 198 to 202 apply to all property, plant and equipment other than "Preservation of Monuments" assets.

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

199. For each class of property, plant and equipment, a charity shall disclose the following information in the notes to the financial statements:

- a. The gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period.
- b. A reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
  - i. Additions;
  - ii. Disposals;

- iii. Transfers;
  - iv. Depreciation charge for the period; and
  - v. Other changes.
- c. The depreciation methods used.
  - d. The useful lives or the depreciation rates used.

200. The disclosure prescribed in paragraphs 199(a) and (b) may be achieved by using a table such as that below, omitting any rows and columns that are not applicable to a charity's particular circumstances:

	Freehold Land & Buildings	Leasehold Land & Buildings	Plant & Machinery	Fixtures, Fittings & Equipment	Assets under Construction	Total
<b>Cost</b>						
Balance brought forward						
Additions						
Transfers						
Disposals						
Balance carried forward						
<b>Accumulated depreciation</b>						
Balance brought forward						
Depreciation charge for the period						
Transfers						
Disposals						
Balance carried forward						
<b>Net Carrying Amount</b>						
Brought forward						
Carried forward						

201. Subject to paragraph 202, where there is a significant difference between the carrying amount and market value of properties (i.e. land and buildings), the market value of the properties and the bases on which such market value are derived shall be disclosed in the notes to the financial statements. The names of the persons making the valuation and the particulars of their qualifications shall also be disclosed. If the person making the valuation is the governing board member, an employee or officer of the charity, this fact shall be disclosed.

202. If it is impracticable to determine the market value of properties, the charity shall disclose this fact and the reasons for the impracticability in the financial statements.

## **A2: “Preservation of Monuments” Assets**

203. “Preservation of Monuments” assets refer to “**monuments**” that are assets of historical, artistic or scientific importance held to advance preservation, conservation and educational objectives of charities and through public access contributed 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. Charities with conservation objectives 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.

204. 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 a 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, 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).

205. “Preservation of Monuments” assets shall be included in a separate row in the Balance Sheet.

206. Subject to paragraph 207, paragraphs 179 to 189 shall be applied to the recognition and measurement of “Preservation of Monuments” assets.

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

208. “Preservation of Monuments” assets that are donated to a charity or that are omitted from a charity’s Balance Sheet prior to the charity’s adoption of the CAS may be omitted from the charity’s Balance Sheet prepared in accordance with the CAS if and only 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 governing board members’ stewardship of the assets.

209. 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 for any material sub-classes of assets held within the “Preservation of Monuments” asset category. Whilst it may not be practicable to apply the cost/benefit test on an asset-by-asset basis, the assessment shall nonetheless be considered in the context of particular parts or sub-classes within a “Preservation of Monuments” asset. 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.

210. 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.

211. 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.

212. An appropriate depreciation policy shall be applied to “Preservation of Monuments” assets in accordance with paragraphs 191 to 196. However, certain “Preservation of Monuments” assets may have an indefinite useful life and/or a high residual value resulting in any depreciation charge being immaterial.

213. For each class of “Preservation of Monuments” assets (e.g. collections, artefacts, and historic houses), a charity shall provide the information prescribed in paragraphs 199 and 214 in the notes to the financial statements. The required disclosure in paragraphs 199(a) and (b) may be achieved by using the table shown under paragraph 200.

214. The following information on “Preservation of Monuments” assets, whether or not they have been capitalised in the financial statements of a charity, shall also be provided in the notes:

- a. An analysis or narrative that enables the users to appreciate the age, scale and nature of the “Preservation of Monuments” assets held and the use made of them,
- b. Where details of the cost (or current value) of donated “Preservation of Monuments” assets or the carrying amount of “Preservation of Monuments” assets disposed of during the financial period are not available (e.g. due to non-capitalisation in previous periods), a brief description of the nature of the donated assets or assets disposed of, the reasons why details of the cost, current value or carrying amount are not available, and 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.

215. 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. 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. Such assets may be omitted from the Balance Sheet of a charity in accordance with paragraph 208. The notes to the financial statements shall provide similar disclosures as those required under paragraph 214 and a statement explaining why the assets are omitted from the Balance Sheet.

### ***A3: Intangible Assets<sup>4</sup>***

#### Recognition

216. A charity shall recognise an intangible asset as an asset if, and only if:
- a. It is probable that the expected future economic benefits that are attributable to the asset will flow to the charity;
  - b. The cost or value of the asset can be measured reliably; and
  - c. The asset does not result from expenditure incurred internally on an intangible item.

---

<sup>4</sup> This section applies to accounting for all intangible assets other than goodwill arising from business combinations (see section “Business Combinations and Goodwill”).

217. The probability recognition criterion in the above paragraph is always considered satisfied for intangible assets that are separately acquired.

218. An intangible asset acquired in a business combination is normally recognised as an asset because its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either

- a. Is not separable from goodwill, or
- b. Is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.

### Initial Measurement

219. A charity shall measure an intangible asset initially at cost.

### *Internally generated intangible assets*

220. A charity shall recognise expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an expenditure when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in the CAS.

221. As examples of applying the preceding paragraph, a charity shall recognise expenditure on the following items in net income or expenditure and shall not recognise such expenditure as intangible assets:

- a. Internally generated brands, logos, publishing titles, customer lists and items similar in substance.
- b. Start-up activities (i.e. start-up costs), which include expenditure to open a new facility or business (i.e. pre-opening costs) and expenditure for starting new operations or launching new products or processes (i.e. pre-operating costs).
- c. Training activities.
- d. Advertising and promotional activities.
- e. Relocating or reorganising part or all of the charity.
- f. Internally generated goodwill.

### *Separate acquisition*

222. The cost of a separately acquired intangible asset comprises:

- a. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- b. Any directly attributable cost of preparing the asset for its intended use.



223. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset.

#### *Acquisition as part of a business combination*

224. If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

#### Measurement after Recognition

225. After initial recognition, intangible assets shall be measured at cost less accumulated **amortisation**. Intangible assets are not required to be assessed for impairment under the CAS.

226. For the purpose of the CAS, all intangible assets shall be considered to have a finite useful life which shall not exceed 10 years. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the charity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the charity without significant cost.

227. The depreciable amount of intangible assets shall be amortised on a straight-line (or another more appropriate) basis over their useful lives.

228. Amortisation begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases when the intangible asset is derecognised.

229. The residual value of an intangible asset shall be assumed to be zero unless:

- a. There is a commitment by a third party to purchase the asset at the end of its useful life; or
- b. There is an active market for the asset and:
  - i. Residual value can be determined by reference to that market; and
  - ii. It is probable that such a market will exist at the end of the asset's useful life.

230. The useful lives, amortisation method and residual value shall be reviewed at the end of each reporting period and revised if necessary, subject to the constraint that the revised useful life shall not exceed 10 years from the date of acquisition.

231. Intangible assets shall not be revalued.

## Disclosure

232. A charity shall disclose the following for each class of intangible assets:
- a. The gross carrying amount and the accumulated amortisation at the beginning and end of the reporting period.
  - b. A reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
    - i. Additions;
    - ii. Disposals;
    - iii. Amortisation charge for the period; and
    - iv. Other changes.
  - c. The amortisation methods used.
  - d. The useful lives or the amortisation rates used.
  - e. The line item in the Statement of Financial Activities in which any amortisation of intangible assets is included.

The information under (a) and (b) above may be provided in a table format similar to that set out in paragraph 200.

233. A charity shall also disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the charity's financial statements.

234. A charity shall disclose the aggregate amount of research and development expenditure recognised as expenditure in the Statement of Financial Activities during the period.

### ***A4: Non-current Investments<sup>5</sup>***

#### ***A4a: Investment Assets***

##### General

235. Investment assets generally include investment properties, investments in debt or **equity instruments** and cash held for investment purposes.

---

<sup>5</sup> This section applies to accounting for all non-current investments other than investments in subsidiaries, associates and joint ventures (see sections "Subsidiaries" and "Associates and Joint Ventures").

## Investment Properties

236. Investment property is held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. Therefore, an investment property generates cash flows largely independently of the other assets held by the charity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. Property, Plant and Equipment applies to owner-occupied property.

237. A charity shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable costs such as legal and brokerage fees, property transfer taxes and other transaction costs. A charity shall apply the requirements set out in paragraphs 179 to 186 to its investment properties.

238. Subsequent to initial recognition, investment properties shall be measured at cost less accumulated depreciation and accumulated impairment losses. Investment properties shall not be revalued or measured at fair value subsequent to initial recognition. A charity shall recognise the costs of day-to-day servicing of an investment property as expenditure in the Statement of Financial Activities in the period in which the costs are incurred.

239. A charity shall apply the requirements set out in paragraphs 191 to 196 in relation to the depreciation of its investment property.

240. A charity shall apply the requirements set out in paragraphs 435 to 450 to determine whether its investment property is impaired.

241. After the recognition of an impairment loss, the depreciation charge for an investment property shall be adjusted in future periods to allocate the investment property's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## Investments in Financial Assets

242. A charity shall recognise an investment in a financial asset only when it becomes a party to the contractual provisions of the instrument.

243. A charity shall measure an investment in a financial asset initially at the transaction price excluding transaction costs, if any, which shall be recognised as expenditure immediately in the Statement of Financial Activities.

244. Subsequent to initial measurement, a charity shall measure investments in financial assets at cost less any accumulated impairment losses. Investments in financial assets shall not be measured at fair value subsequent to initial recognition.

245. A charity shall apply the requirements set out in paragraphs 453 to 457 to determine whether its investments in financial assets are impaired.

Disclosure

246. A charity shall disclose the following in the notes to the financial statements for each class of investment assets:

- a. The gross carrying amount and the accumulated impairment (aggregated with accumulated depreciation in the case of investment properties) at the beginning and end of the reporting period.
- b. A reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
  - i. Additions;
  - ii. Disposals;
  - iii. Transfers;
  - iii. Depreciation charge for the period, where applicable;
  - iv. Impairment losses recognised or reversed;
  - v. Other changes.

The above information may be provided in a table format as set out below (headings shall be omitted where they are not applicable, e.g. depreciation charge for all investment assets other than investment properties):

	<b>SGD</b>
<b>Cost</b>	
Balance brought forward	
Additions	
Transfers	
Disposals	
Balance carried forward	
<b>Accumulated Depreciation and Impairment Losses</b>	
Balance brought forward	
Depreciation charge for the period	
Impairment loss for the period	
Transfers	
Disposals	
Balance carried forward	
<b>Net Carrying Amount</b>	
Brought forward	
Carried forward	

247. The notes shall also provide an analysis of investment assets at the end of the financial period by distinct classes of investments. The classes of investments normally include:

- a. Investment properties;
- b. Investments listed on a recognised stock exchange, such as common investment funds, open ended investment companies, and unit trusts;
- c. Investments in entities which are related parties;
- d. Other unlisted securities; and
- e. Any other investments.

248. All investments shall be further analysed between:

- a. Investment assets in Singapore; and
- b. Investment assets outside Singapore.

Investment in **equity** or debt securities 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 as to whether such entities invest their funds in or outside Singapore.

249. For each item that includes listed investments, the aggregate market value of the listed investments must be disclosed in the financial statements.

250. Where the charity has at the end of the financial period an investment which represents more than 20% of the carrying value of the charity's total assets, the following must be disclosed in relation to that undertaking:

- a. The name of the undertaking;
- b. The country in which it is incorporated;
- c. If it is unincorporated, its principal place of business;
- d. The principal activities of the undertaking; and
- e. The proportion of ownership interest and, if different, the proportion of voting power held.

251. The depreciation methods and the useful lives or the depreciation rates used for investment properties shall be disclosed in the notes to the financial statements.

252. Where there is a significant difference between the carrying amount and market value of investment properties, the market value of the investment properties and the bases on which such market value are derived shall be disclosed in the notes to the financial statements. The names of the persons making the valuation and the particulars of their qualifications shall also be disclosed. If the person making the valuation is the governing board members, an employee or officer of the charity, this fact shall also be disclosed.

253. 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.

## **B: Current assets**

### **B1: Inventories**

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

255. A charity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Distribution costs shall not be included.

256. A charity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs. All other inventory items shall be measured using either the first-in, first-out (FIFO) or weighted average cost formula. The same cost formula shall be used for all inventories having a similar nature and use to the charity.

257. A charity shall apply the requirements set out in paragraphs 432 to 434 to determine whether its inventories are impaired, i.e. the carrying amount is not fully recoverable.

258. The following shall be disclosed in the notes to the financial statements:

- a. The total carrying amount of inventories and the carrying amount in classifications appropriate to the charity; and
- b. The amount of inventories recognised as expenditure during the period.

### Long-term Contracts/Construction Contracts

259. Long-term/**construction 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 the stage of completion of the contract.

260. When the outcome of a long-term/construction contract can be estimated reliably, a charity shall recognise contract revenue and contract costs associated with the contract as income and expenditure respectively by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable measurement of the stage of completion of the contract at the end of the reporting period, the costs incurred on the contract and to complete the contract, and the total contract revenue, and that it is probable that the economic benefits associated with the contract will flow to the charity.

261. The requirements of this section are usually applied separately to each construction contract. However, in some circumstances, it is necessary to apply this section to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

262. When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:

- a. Separate proposals have been submitted for each asset;
- b. Each asset has been subject to separate negotiation, and the charity and its customer are able to accept or reject that part of the contract relating to each asset; and
- c. The costs and revenues of each asset can be identified.

263. A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:

- a. The group of contracts is negotiated as a single package;
- b. The contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
- c. The contracts are performed concurrently or in a continuous sequence.

#### Percentage of Completion Method

264. This method is used to recognise income from rendering services and from construction contracts. A charity shall review and, when necessary, revise the estimates of income and expenditure as the service or construction contract progresses.

265. A charity shall determine the stage of completion of a contract using the method that measures most reliably the work performed. Possible methods include:

- a. The proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments.
- b. Surveys of work performed.
- c. Completion of a physical proportion of the service or construction contract work.

Progress payments and advances received from customers often do not reflect the work performed.

266. A charity shall recognise costs that relate to future activity on the contract, such as for materials or prepayments, as an asset if it is probable that the costs will be recovered.

267. A charity shall recognise as expenditure immediately in the Statement of Financial Activities any costs whose recovery is not probable.

268. When the outcome of a service or construction contract cannot be estimated reliably:

- a. A charity shall recognise income only to the extent of contract costs incurred that it is probable will be recoverable, and
- b. The charity shall recognise contract costs as expenditure in the period in which they are incurred.

269. When it is probable that total contract costs will exceed total contract revenue on a construction or service contract, the expected loss shall be recognised as expenditure immediately.

270. If the collectibility of an amount already recognised as contract revenue is no longer probable, the charity shall recognise the uncollectible amount as expenditure rather than as an adjustment of the amount of contract revenue.

271. Long-term/construction contracts shall be presented in the Balance Sheet as follows:

- a. The gross amount due from customers for contract work shall be presented as an asset within trade and other receivables; and
- b. The gross amount due to customers for contract work shall be presented as a liability within trade and other payables.

272. The gross amount due from customers for contract work is the net amount of:

- a. Costs incurred plus recognised profits; less
- b. The sum of recognised losses and progress billings

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

273. The gross amount due to customers for contract work is the net amount of:

- a. Costs incurred plus recognised profits; less
- b. The sum of recognised losses and progress billings

for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

274. A charity shall disclose each of the following for contracts in progress at the end of the reporting period:

- a. The aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
- b. The amount of progress billings to date;
- c. The amount of advances received; and
- d. The amount of retentions.



Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Advances are amounts received by the charity before the related work is performed.

### Consignment Inventory

275. **Consignment inventory** that is held by a charity as a dealer is not an asset of the charity and shall not be included on the charity's Balance Sheet until the charity ceases to have the right to return the inventory. Any deposits placed by the charity in relation to the consignment inventory shall be included under "other receivables".

### ***B2: Trade and Other Receivables***

276. Trade and other receivables excluding prepayments shall be initially recognised at their transaction price, excluding transaction costs, if any. Transaction costs shall be recognised as expenditure in the Statement of Financial Activities as incurred. Prepayments shall be initially recognised at the amount paid in advance for the economic resources expected to be received in the future.

277. After initial recognition, trade and other receivables excluding prepayments shall be measured at cost less any accumulated impairment losses. Prepayments shall be measured at the amount paid less the economic resources received or consumed during the financial period.

278. A charity shall apply the requirements set out in paragraphs 453 to 457 to determine whether its trade and other receivables are impaired.

279. Trade and other receivables shall be analysed in the notes to the financial statements between current and non-current disclosing amounts for the following:

- a. Trade receivables (which include net GST receivables);
- b. Amounts due from subsidiaries, associates, joint ventures and other related parties;
- c. Other receivables; and
- d. Prepayments and deposits.

Where there are receivables that do not match any of the above categories, additional headings should be added or adapted as appropriate. Where non-current receivables are material, in the context of total non-current assets, they shall be separately shown in the Balance Sheet.

280. If a charity gives any amount of loan to any parties (e.g. legal or non-legal entities, persons or the charity's staff<sup>6</sup>), 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 governing board members;
- b. Amount of loan given;
- c. Collaterals obtained;
- d. Interest receivable;
- e. Repayment terms and the rate of interest charged; and
- f. Any amounts repaid.

The above disclosure is also required for loans that were fully repaid during the financial period.

### ***B3: Current Investments***

281. A charity shall apply the requirements set out in paragraphs 242 to 245 to account for its current investments.

282. The disclosures set out in paragraphs 246 to 253 shall be provided in the notes to the financial statements where applicable.

### ***B4: Cash and Cash Equivalents***

283. There shall be separate disclosure in the notes to the financial statements of the type of cash and cash equivalents, which normally comprise cash and fixed deposits. For fixed deposits, the rate of interest and the terms shall be disclosed. Charities shall also disclose the amount of cash and cash equivalents that are not available for use.

## ***C: Current Liabilities***

### ***D: Non-current Liabilities***

#### General

284. Liabilities are recognised as soon as there is a present legal or constructive obligation committing the charity to the expenditure. Liabilities will arise when a charity is under a present obligation to make a transfer of value to another party as a result of past transactions or events.

---

<sup>6</sup> Disclosures are required if there is no existing policy for extending loans to the charity's staff as a form of employee benefits.

285. A constructive obligation arises where the charity's actions 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 that party in a sufficiently specific manner to raise a valid expectation on the part of that party 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 does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to those affected in a sufficiently specific manner to raise a valid expectation in them that the charity will discharge its responsibilities.

286. 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.

287. A term in a grant agreement or offer that relieved a donor charity from a future obligation in the event of a lack of fund 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.

288. 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.

289. 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.

290. 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 would not be carried out in practice to determine whether funding should be provided in the subsequent years of the commitment, then the review stipulation shall not be interpreted as a condition. Hence, a liability for the full three years of the grant shall be recognised in the Balance Sheet and charge as expenditure to the Statement of Financial Activities.

- 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 in the Balance Sheet and charge as expenditure to the Statement of Financial Activities.

291. 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.

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

293. The governing board members may wish to designate some of the charity's income funds for future settlement of contingent liabilities and other planned expenditure that are not recognised as liabilities at the reporting date.

294. Where subsequent events make the recognition of a liability no longer appropriate, the liability shall be reversed by crediting 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 if the effect is material.

### ***C1: Trade and Other Payables***

295. Trade and other payables excluding accruals shall be recognised at their transaction price, excluding transaction costs, if any, both at initial recognition and at subsequent measurement. Transaction costs shall be recognised as expenditure in the Statement of Financial Activities as incurred. Accruals shall be recognised at the best estimate of the amount payable.

296. Current and non-current payables recognised in the Balance Sheet shall each be separately analysed in the notes to the financial statements disclosing amounts for appropriate classes such as the following. Where there are payables that do not fit into any of the following categories, additional headings should be added or adapted as appropriate.

- a. Loans and overdrafts;
- b. Trade payables;
- c. Amounts due to subsidiaries, associates, joint ventures and other related parties;
- d. Other payables; and
- e. Accruals.

297. Where a charity is acting as an agent or as a trustee for another organisation, any assets held in **trust** and the corresponding liabilities shall be presented net in the Balance Sheet and additional information shall be disclosed in the notes to the financial statements to enable users of the financial statements to understand the relationship and nature of the transactions between the charity, the funding organisation and the beneficiary entitled to receive the funds.

298. A charity shall disclose information that enables users of its financial statements to evaluate the significance of loans for its financial position and financial activities. Such information would normally include the terms and conditions of the loans (such as interest rate, maturity, repayment schedule, collateral given and restrictions that the loans impose on the charity).

299. If any specific assets (whether land or other property) of the charity are pledged as collaterals for a loan or other liability, the following shall be disclosed in the notes to the financial statements:

- a. Particulars of the assets which are pledged as collateral, including their carrying amounts; and
- b. The terms and conditions relating to the pledge.

## ***C2: Current Tax Payable***

300. Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset. Current tax for current and prior periods shall be measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

## ***D1: Non-current Payables***

301. A charity shall apply the requirements set out under the “Trade and Other Payables” section to recognise and measure non-current payables.

## ***D2: Provisions for Liabilities and Charges***

302. A provision shall be recognised only when a present obligation (legal or constructive) exists as a result of a past event, it is probable (i.e. more likely than not) that a transfer of economic benefits in settlement will be required, and the amount of the obligation can be estimated reliably. The amount of provision recognised shall be the best estimate of the expenditure required to settle the obligation at the reporting date. The best estimate of the expenditure required to settle the obligation is the amount that a charity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party. The terms of settlement shall also be disclosed.

303. Where some or all of the amount 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. The amount recognised for reimbursement shall not exceed the amount of provision. 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 even if the expected disposal is closely linked to the event giving rise to the provision.

304. A charity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognised shall be recognised as expenditure in the Statement of Financial Activities unless the provision was originally recognised as part of the cost of an asset.

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

306. Provisions shall be appropriately analysed in the Balance Sheet between current and non-current liabilities.

307. For each class of provision recognised under “Provisions for Liabilities and Charges”, the following information must be provided:

- a. The amount of the provision at the beginning and at the end of the financial period;
- b. Any additions, utilisations or reversals during the period; and
- c. The particulars of each material provision. These particulars shall include the nature of the obligation, the expected timing of the outflow of resources, the uncertainties about the amount and timing of the outflow, and the amount of any expected reimbursement and the amount of reimbursement recognised as asset in the financial statements.

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

### ***D3: Deferred Tax Liabilities***

309. Deferred tax shall be provided based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except for the following:

- a. Where the deferred tax arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor **taxable net income (net expenditure)**;
- b. In respect of temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the charity and it is probable that the temporary differences will not reverse in the foreseeable future; and
- c. In respect of **deductible temporary differences**, unused tax credits and unused tax losses, if it is not probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised.

310. 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 by the end of the reporting period.

311. The measurement of deferred tax liabilities and assets shall reflect the tax consequences that would follow from the manner in which the charity expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

312. Deferred tax assets and liabilities shall not be discounted.

313. The carrying amount of deferred tax assets shall be reviewed at the end of each reporting period 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 recovered. Unrecognised deferred tax assets shall be reassessed at the end of each reporting period and recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

## Tax Base

314. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to a charity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

315. The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of income which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the income that will not be taxable in future periods.

316. Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which the CAS is based: that a charity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences.

## Disclosure

317. A charity shall disclose the following in the notes to the financial statements:
- a. The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the Balance Sheet.
  - b. The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised.
  - c. In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
    - i. The amount of the deferred tax assets and liabilities recognised in the Balance Sheet; and
    - ii. The amount of the deferred tax income or expense recognised in the Statement of Financial Activities, if this is not apparent from the changes in the amounts recognised in the Balance Sheet.
  - d. The amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:
    - i. The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing **taxable temporary differences**; and
    - ii. The charity has suffered a loss in either the current or preceding period.

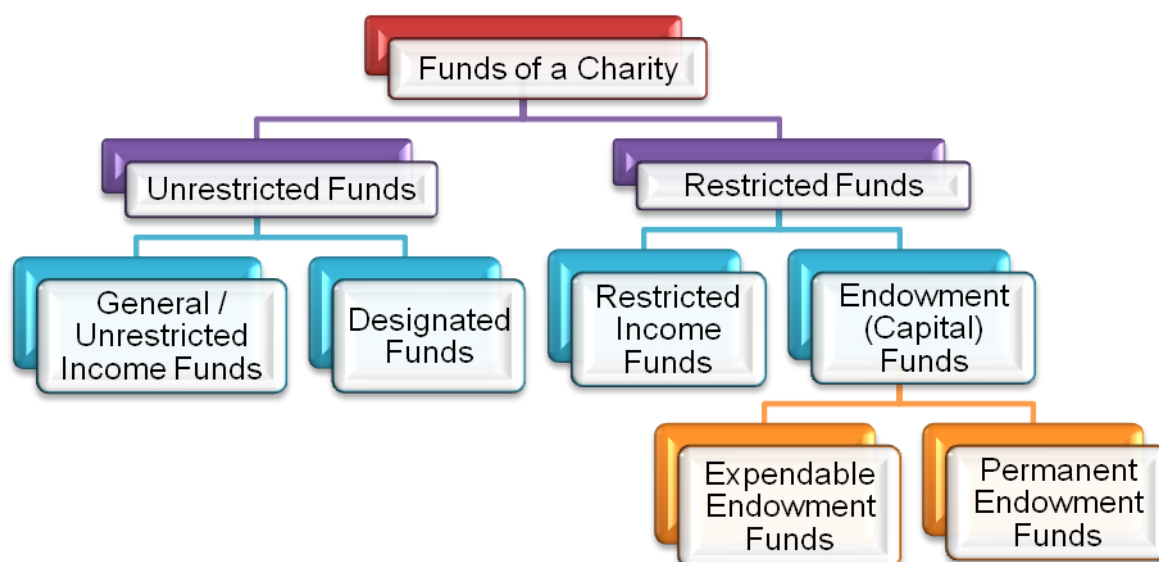


## ***E: Funds of Charity***

### General

318. 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: Designated Funds***

### General

319. Nearly all charities have a fund, which is available to the governing board members 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 governing board members 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.

320. Unrestricted funds are expendable at the discretion of the governing board members 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 governing board members' discretion to apply the fund. Some governing board members 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 governing board members' 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 shortfall in a restricted fund.

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

322. The governing board members 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 governing board members have the power to re-designate such funds within unrestricted funds. When a designation has been made at the reporting date, the amount of the designation may be adjusted subsequent to the period end if more accurate information becomes available.

## ***E2: Restricted Funds***

### ***E2a: Restricted Income Funds***

### ***E2b: Endowment Funds***

#### General

323. 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 governing board members 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 subject 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 governing board members.

324. Where funds are received for goods and services provided and, any surplus funds retained upon full performance of the contractual obligations are available for use 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 and related expenditure will most likely be restricted.

325. 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 terms on which the funds were provided. The terms on which the funds were received may require that the property, plant and equipment be held by the charity for a specific purpose. The asset will form part of restricted funds, which have been given to the charity for a specific purpose and the charity shall disclose the nature of the restriction in the financial statements accordingly. There is, however no general rule and the treatment will depend upon the circumstances of each individual case.

326. Expenditure may be charged to a restricted fund only if funds have been received or there is a genuine anticipation of receipts that can properly be credited to the fund in order to meet the expenditure. The fund, which is actually drawn upon to finance the expenditure, must be adequate to finance the expenditure even if the expected receipts do not materialise. When 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.

327. 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. 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. 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.

328. 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 of “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 to make payments or grants to others, except that certain payments must be made out of the endowment fund, such as the payment of investment management fees where these relate to investments held within the endowment fund. 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 from sale of freehold land and buildings in the purchase of another freehold property.

329. In some instances the governing board members 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 governing board members 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.

330. 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

331. Any expenditure 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. 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.

332. 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 endowment fund, i.e. against the gain (or added to the loss) realised on disposal.

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

334. 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 period end shall be carried forward in the appropriate unrestricted or restricted fund.

#### Asset Gains and Losses

335. If a gain or loss is made on the disposal of an asset, the gain or loss will form part of the fund in which the asset was held. Similarly, depreciation and impairment losses of an asset will reduce the fund in which the asset is held. In order to ensure that gains, losses, depreciation and impairment losses are added to or deducted from the correct fund, it is therefore essential to know which assets are held in which fund.

#### Reconciliation of Funds

336. 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 (including designated funds), restricted income funds and endowment funds (permanent and expendable combined).

## Disclosure of Particulars of Individual Fund

337. 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. Disclosure of how each of the funds has arisen (including designated funds), the restrictions imposed and the purpose of each fund. 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 applied in the near future, disclosure shall be made in the notes on whether the assets held (or expected to be received) in the fund are liquid assets.
- b. Assets and liabilities under each fund shall be clearly summarised and analysed in columnar format in accordance with the line items presented on the face of the Balance Sheet. In addition, for assets under the restricted funds, details of each major class of assets within each Balance Sheet line item (e.g. refer paragraph 200 for each major class of assets within the property, plant and equipment category), including its amount at the reporting date, shall also be disclosed.
- c. Any funds in deficit shall always be separately disclosed. An explanation of the reasons for the deficit shall be given in the notes to the financial statements.
- 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.

## **Other Matters to be Disclosed in the Notes to the Financial Statements**

### ***Post Balance Sheet Events***

338. A charity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect **adjusting events after the end of the reporting period**.

339. A charity shall not adjust the amounts recognised in its financial statements to reflect **non-adjusting events after the end of the reporting period**.

340. Non-disclosure of material non-adjusting events after the reporting 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 reporting 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.

341. 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***

342. A contingent liability is either a possible but uncertain obligation whose existence will be confirmed only by the occurrence or non occurrence of uncertain future event(s) not wholly within the control of the charity or a present obligation that is not recognised because it fails to meet one or both of the following conditions:

- a. It is probable (i.e. more likely than not) that the charity will be required to transfer economic benefits in settlement, and
- b. The amount of the obligation can be estimated reliably.

343. A charity shall not recognise a contingent liability as a liability, except for contingent liabilities of an acquiree in a business combination. When a charity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

344. Disclosure of a contingent liability is required unless the possibility of an outflow of resources is remote. Where the possibility of an outflow of resources is not remote, a charity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:

- a. An estimate of its financial effect, measured in accordance with the measurement requirements for "Provisions for Liabilities and Charges";
- b. An indication of the uncertainties relating to the amount or timing of any outflow; and
- c. The possibility of any reimbursement.

If it is impracticable to make one or more of the above disclosures, that fact shall be stated.

345. 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 related asset is not a contingent asset and the gain arising shall be recognised in the Statement of Financial Activities as an income and in the Balance Sheet as an asset. If an inflow of economic benefits is probable but not virtually certain, a charity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect. If it is impracticable to make this disclosure, the fact shall be stated.

346. Where it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

347. 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.

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

### ***Commitments***

349. Details of all material commitments in respect of specific charitable projects, contracts for capital expenditure, etc, shall be disclosed in the notes to the financial statements. Such details shall include:

- a. The nature and reasons for the commitments, giving separate disclosure for material projects;
- b. The total amount of the commitments, including amounts already recognised in the financial statements;
- c. The amount of commitments outstanding at the start of the period;
- d. The amount of new commitments approved during the period
- e. Any amounts recognised in the financial statements during the period;
- f. Any amounts released during the period due to a change in the amount of the commitments; and
- g. The amount of commitments outstanding at the end of the period and an indication as to how much is payable within one year and after one year.

350. Any designated funds relating to intentions to spend and not recognised as liabilities shall be separately disclosed as part of the unrestricted funds of the charity and appropriately described in the notes to the financial statements. 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.

### ***Guarantees and Collaterals***

351. All material guarantees given by the charity, including the relationship of the beneficiaries with the charity, the amount of the guarantees and the conditions under which liabilities might arise as a result of such guarantees shall be disclosed in the notes to the financial statements.

352. 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.

### ***Related Party Disclosures***

353. Related parties include all of the following:

- a. A person or a close member of that person's family is related to a charity if that person:
  - i. Has **control** or **joint control** over the charity;
  - ii. Has **significant influence** over the charity; or
  - iii. Is a governing board member, trustee or member of the **key management personnel** of the charity or of a parent of the charity.
- b. An entity is related to the charity if any of the following conditions applies:
  - i. The entity and the charity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - ii. The entity is an associate or joint venture of the charity (or an associate or joint venture of a member of a group of which the charity is a member) and vice versa;
  - iii. The entity and the charity are joint ventures of the same third party;
  - iv. The entity is a joint venture of a third entity and the charity is an associate of the third entity and vice versa;
  - v. The entity is controlled or jointly controlled by a person identified in (a); and
  - vi. A person identified in (a)(i) has significant influence over the entity or is a governing board member, trustee or member of the key management personnel of the entity (or of a parent of the entity).

354. Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the charity and include:

- a. That person's children and spouse or domestic partner;
- b. Children of that person's spouse or domestic partner; and
- c. Dependants of that person or that person's spouse or domestic partner.

355. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.



356. In the context of the CAS, the following are not related parties:
- a. A charity and another entity simply because they have a governing board member, trustee, or other member of key management personnel in common or because the governing board member, trustee or other member of key management personnel of the charity has significant influence over the entity and vice versa.
  - b. A charity and another entity simply because they share joint control over a joint venture.
  - c.
    - i. Providers of finance,
    - ii. Trade unions,
    - iii. Public utilities, and
    - iv. Departments and agencies of a government that does not control, jointly control or significantly influence the charity, simply by virtue of their normal dealings with a charity (even though they may affect the freedom of action of a charity or participate in its decision-making process).
  - d. A donor, grantor, customer, supplier, franchisor, distributor or general agent with whom a charity transacts significantly simply by virtue of the resulting economic dependence.

357. In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the charity that has significant influence over the associate are related to each other.

358. A related party relationship could have an effect on the net income or expenditure and financial position of a charity. Related parties may enter into transactions that unrelated parties would not. For example, a charity that sells goods to its subsidiary at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

359. The net income or expenditure and financial position of a charity may be affected by a related party relationship even if **related party transactions** do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the charity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the charity of a fellow subsidiary engaged in the same activity as the former trading partner.

360. For these reasons, knowledge of a charity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its activities by users of financial statements, including assessments of the risks and opportunities facing the entity.

361. For the purposes of this section, the governing board members/related parties of a charity include those persons/parties who were the governing board members/related parties of the charity at any time during the financial periods to which the financial statements relate.

362. Related party transactions may include:

- a. Purchases, sales, leases and donations (including those 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;
- b. The supply of services by the related party to the charity, and the supply of services by the charity to the related party, including those which are made in furtherance of the charity's objects. Supplying services includes providing the use of goods, property and other assets; and
- c. The provision of financial support to or from related party such as extending loans, giving guarantees and indemnities, and settlement of liabilities by or on behalf of the related party.

363. Unless there is evidence to the contrary, donations received by a charity from a related party that are not attached with conditions which would, or might, require the charity to alter significantly the nature of its existing activities, if the charity was to accept the donation, are not required to be disclosed as these transactions are unlikely to influence the pursuance of the separate independent interests of the charity.

364. If a charity has had related party transactions during the financial periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

- a. A description of the transactions;
- b. The amounts involved;
- c. Any other elements of the transactions necessary for an understanding of the potential effect of the relationship on the financial statements;
- d. The amounts of outstanding balances, including commitments, at the reporting date, and their terms and conditions (including whether they are secured), the nature of the consideration to be provided in settlement, and details of any guarantees given or received;
- e. Provisions for doubtful debts related to the amount of outstanding balances;
- f. Expenditure recognised during the financial period in respect of bad or doubtful debts due from related parties; and
- g. Amounts written off in the financial period in respect of debts due to or from related parties with explanation for such write offs.

365. The disclosures required by the above paragraph shall be made separately for each of the following categories of related party:

- a. The parent;
- b. Entities with joint control or significant influence over the charity;
- c. Subsidiaries;
- d. Associates;
- e. Joint ventures in which the charity is a venturer;
- f. Governing board members;
- g. Trustees;
- h. Key management personnel of the entity or its parent; and
- i. Other related parties.

366. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the charity or is required by law.

### ***Governing Board Members' Remuneration and Benefits***

#### **Remuneration and Benefits**

367. Unlike in the case of the directors of commercial entities, it is not the normal practice for a governing board member or a close member of the governing board member's family to receive remuneration, benefits allowances or other manner of compensation from the charity for which he/she is responsible and from the charity's subsidiaries. Detailed disclosures of such remuneration, benefits, allowances or other manner of compensation are therefore required where the related party is a governing board member, or a close member of the governing board member's family. A charity shall apply the following to the reporting of all remuneration, benefits, allowances or other manner of compensation<sup>7</sup>, whether or not paid/payable directly by the charity and its subsidiaries, to such related parties:

- a. Particulars of the amount paid/payable in respect of each governing board member or a close member of the governing board member's family shall be disclosed individually in the notes.
- b. Where the remuneration, benefits, allowances or other manner of compensation have been paid to a governing board member or a close member of the governing board member's family, 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.
- c. Where neither the governing board member nor any close member of the governing board member's family has received any such remuneration, benefits, allowances or other manner of compensation, this fact shall be stated.

---

<sup>7</sup> These include all non-cash benefits and compensation.

## Advances, Credits and Guarantees

368. The following information is required to be disclosed for advances, credits and guarantees provided to a governing board member or a close member of the governing board member's family by a charity and entities related to the charity:

- a. For an advance or credit:
  - i. The total amount of advance or credit and the outstanding balance at the reporting date;
  - ii. An indication of the interest rate and repayment terms;
  - iii. Its main conditions (e.g. whether it is secured or guarantee have been received by the charity); and
  - iv. Any amounts repaid during the financial period.
- b. For a guarantee:
  - i. Its main terms;
  - ii. The total maximum liability that may be incurred by the charity and the outstanding guarantee at the reporting date; and
  - iii. Any amount paid and any liability incurred by the charity for the purpose of fulfilling the guarantee (including any loss incurred by reason of enforcement of the guarantee) during the financial period and as at the reporting date.

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

- a. Whenever it was entered into;
- b. Whether or not the person was a governing board member of the charity at the time it was entered into so long as the person was or is a governing board member at any time during the financial period.

## ***Employee Benefits***

370. The following details on **employee benefits** expense, including **ex-gratia payments** if any, shall be disclosed in the notes to the financial statements:

- a. Total amount of **short-term employee benefits**, giving the split between gross salaries and bonuses, Foreign Worker Levy, benefits in kind and other short-term employee benefits such as short-term compensated absences for the period;
- b. Total amount of **post-employment benefits** such as contributions to Central Provident Funds;
- c. Total amount and nature of **other long-term employee benefits**;
- d. Total amount and nature of ex-gratia payments; and
- e. Total amount and nature of **termination benefits**.

371. A charity 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 employee benefits;
- d. Ex-gratia payments; and
- e. Termination benefits.

### ***Parent***

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

373. If there is an ultimate controlling party, other than the immediate controlling party, there shall be disclosure of the charity's related party relationships with both the immediate and ultimate controlling parties/parents. If the immediate 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.

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

- a. Name of the ultimate parent; and
- b. Its country of incorporation if known to the governing board members.

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

- a. Name of the immediate parent and its country of incorporation;
- b. The group of which the parent is a member, for which consolidated financial statements are drawn up; and
- c. Details of the means of control over the charity.

### ***Disclosure of Accounting Policies***

376. A charity shall explain in the notes to the financial statements the accounting policies which are relevant to an understanding of the financial statements of the charity. Explanations may be brief, but they shall be clear and accurate. Changes to any of the accounting policies shall be disclosed in detail. A charity shall only include those notes which are relevant to the charity. The following are some examples of matters for which the accounting policies shall be explained unless the amounts are immaterial.

## Income Policy Notes

377. The policy for each type of material income shall be disclosed, which includes but is 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, the methods of valuation and the circumstances under which such items would not be included in net income or expenditure in the Statement of Financial Activities;
- 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. The methods used to determine long-term/construction contract revenue and the stage of completion of contracts in progress;
- e. The basis for any deferrals in the recognition of income;
- f. The basis for presenting income net of expenditure in the Statement of Financial Activities; and
- g. The basis and method for the apportionment of income into different activity categories.

## Expenditure Policy Notes

378. The policy for each type of material expenditure shall be disclosed, which includes but is not limited to the following:

- a. The policy for the recognition of liabilities, including constructive obligations and provisions, and the related expenditure. This is particularly applicable to grants, the policy for which shall be separately identified.
- b. The policy for the categorisation of expenditure into the relevant activity cost categories shall be disclosed. In particular, the policy for including items within:
  - i. Costs of generating funds;
  - ii. Costs of charitable activities; and
  - iii. Governance costs.
- c. The methods and principles for the allocation and apportionment of all support costs between the different activity cost categories in (b) above. This disclosure shall include the underlying principle, i.e. whether based on staff time, staff salaries, and space occupied or others. Where the support costs apportioned are material, then further clarification on the method of apportionment used is necessary, including the proportions used to undertake the calculations.

## Tax Expense Policy Notes

379. The policy for recognising and measuring income tax expense shall be disclosed.

## Assets Policy Notes

380. The policy for recognising and measuring property, plant and equipment shall be disclosed, which includes but is not limited to the following:

- a. The basis for capitalisation of costs incurred, including subsequent expenditure, for property, plant and equipment;
- b. The basis of measurement for each class of property, plant and equipment, including "Preservation of Monuments" assets and property, plant and equipment received as gifts or donations, at initial recognition and subsequent to initial recognition;
- c. The estimated useful lives or depreciation rates used for each class of property, plant and equipment;
- d. The depreciation methods used for each class of property, plant and equipment;
- e. The policy on categorisation of property, plant and equipment as "Preservation of Monuments" assets; and
- f. The policy on categorisation of land and buildings held for mixed purposes, i.e. partly as functional property and partly for investment.

381. The policy for recognising and measuring intangible assets shall be disclosed, which includes but is not limited to the following:

- a. The basis for capitalisation of initial and subsequent expenditure for intangible assets, including research and development expenditure;
- b. The basis of measurement at initial recognition and subsequent to initial recognition; and
- c. The estimated useful lives or amortisation rates used for each class of intangible assets; and
- d. The amortisation methods used for each class of intangible assets.

382. The policy for recognising and measuring investments, including investment properties, and investments in subsidiaries, associates and joint ventures, shall be disclosed. In particular, for investment properties, the policy to be disclosed includes but is not limited to the following:

- a. The basis for capitalisation of costs incurred, including subsequent expenditure;
- b. The basis of measurement at initial recognition and subsequent to initial recognition;
- c. The estimated useful lives or depreciation rates used;
- d. The depreciation methods used; and

- e. The policy on categorisation of land and buildings held for mixed purposes, i.e. partly as functional property and partly for investment.

383. The policy for recognising and measuring inventories shall be disclosed, which includes but is not limited to the following:

- a. The cost formula used; and
- b. The basis of measurement for goods donated for resale.

384. The policy for recognising and measuring construction work in progress shall be disclosed, including the methods used to determine the stage of completion of contracts in progress.

385. The policy for recognising and measuring trade and other receivables shall be disclosed.

386. The policy for recognising and measuring income and receivables arising from lease arrangements shall be disclosed, including the basis for determining whether an arrangement is an operating or finance lease and the corresponding accounting treatment.

387. The policy for recognising and measuring impairment of assets, including investment assets, inventories and trade and other receivables, shall be disclosed. The disclosure shall include but is not limited to the frequency of review for impairment, the methods used to determine the amount of impairment losses, and if **recoverable amount** is fair value less costs to sell, the basis used to determine fair value less costs to sell.

#### Liabilities Policy Notes

388. The policy for recognising and measuring trade and other payables shall be disclosed.

389. The policy for recognising and measuring payables and expenditure arising from lease arrangements shall be disclosed, which includes but is not limited to the basis for determining whether an arrangement is an operating or finance lease and the corresponding accounting treatment.

390. The policy for recognising and measuring provisions for liabilities and charges shall be disclosed.

391. The policy for recognising and measuring current and deferred tax provisions shall be disclosed.

#### Funds Structure Policy Notes

392. 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.

393. The policy for determining each designated fund shall be disclosed.



## Other Policy Notes

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

- a. The basis of accounting for subsidiaries, associates and joint ventures in the consolidated financial statements of the charity, or in the case of a charity that does not have any subsidiaries, the financial statements of the charity which are not separate financial statements;
- b. The basis of accounting for business combinations;
- c. The treatment of funds held on behalf of others;
- d. The recognition and measurement of foreign exchange gains and losses;
- e. The treatment of exceptional items; and
- f. The treatment of irrecoverable GST.

## ***Other Disclosures in the Notes to the Financial Statements***

395. A charity shall provide the following information in its financial statements, in addition to the information required to be provided in the other sections of this standard:

- a. Information about judgements – a charity shall disclose the judgements, apart from those involving estimations (see (b) below) that the governing board members have made in the process of applying the charity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
- b. Information about key sources of estimation uncertainty – a charity shall disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment in the carrying amount of assets and liabilities within the next financial period in respect of those assets and liabilities. The disclosure shall include details of their nature and their carrying amounts as at the end of the reporting period.

## **Statement of Cash Flows**

### Introduction

396. 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. Cash and cash equivalents include cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Structure

397. 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. The statement of cash flows shall be disclosed in total column format. A charity shall present additional line items in the Statement of Cash Flows when such presentation is relevant to an understanding of the charity's ability to generate cash and cash equivalents and the needs of the charity to utilise those cash flows.

398. A charity shall present a Statement of Cash Flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.

## Operating Activities

399. Operating activities are the principal income-producing activities of the charity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of income and expenditure. Examples of cash flows from operating activities are:

- a. Cash receipts from gifts, donations, grants, membership subscriptions, sponsorships, etc (other than those received specifically for endowment funds).
- b. Cash receipts from fundraising activities, temporary letting and licensing arrangement of properties for functional use by the charity, etc.
- c. Cash payments to suppliers for goods and services.
- d. Cash payments to employees.
- e. Cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities.

400. A charity shall present cash flows from operating activities using the indirect method, whereby net income or expenditure is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expenditure associated with investing or financing cash flows.

## Investing Activities

401. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

- a. Cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets.
- b. Cash receipts from sales of property, plant and equipment, intangible assets and other long-term assets.

- c. Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments classified as cash equivalents).
- d. Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents).
- e. Cash advances and loans made to other parties.
- f. Cash receipts from the repayment of advances and loans made to other parties.

### Financing Activities

402. Financing activities are activities that result in changes in the size and composition of the contributed endowment funds and **borrowings** of a charity. Examples of cash flows arising from financing activities are:

- a. Cash proceeds from funds, grants, donations or gifts received specifically for endowment funds.
- b. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings.
- c. Cash repayments of amounts borrowed.
- d. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

### Reporting Cash Flows from Investing and Financing Activities

403. A charity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities

### Non-cash Transactions

404. A charity shall exclude from the Statement of Cash Flows investing and financing transactions that do not require the use of cash or cash equivalents. A charity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities.

405. Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of a charity. The exclusion of non-cash transactions from the Statement of Cash Flows is consistent with the objective of a Statement of Cash Flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- a. The acquisition of assets either by assuming directly related liabilities or by means of a finance lease; and
- b. The release of expendable endowment.

## Others

406. A charity shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the Statement of Cash Flows to the equivalent items presented in the Balance Sheet. However, a charity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the Statement of Cash Flows is identical to the amount similarly described in the Balance Sheet.

## **Special Sections**

### **Leases**

407. 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.

408. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- a. The lease transfers ownership of the asset to the lessee by the end of the **lease term**;
- b. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the **inception of the lease**, that the option will be exercised;
- c. The lease term is for the major part of the economic life of the asset even if title is not transferred;
- d. At the inception of the lease the **present value** of the **minimum lease payments** amounts to at least substantially all of the fair value of the leased asset; and
- e. The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

409. Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- a. If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- b. Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- c. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

410. The examples and indicators in paragraphs 408 and 409 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease.

411. Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

### Accounting by Lessees

#### *Finance Leases*

412. At the commencement of the lease term, a lessee shall recognise finance leases as assets and liabilities in its Balance Sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset.

413. The present value of the minimum lease payments should be calculated using the **interest rate implicit in the lease**. If this cannot be determined, the lessee's incremental borrowing rate shall be used.

414. Subsequent to initial recognition, a lessee shall apportion minimum lease payments between the **finance charge** and the reduction of the outstanding liability using the **effective interest method**. The total finance charge under a finance lease shall be allocated to each financial period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability, or a reasonable approximation thereto. The straight-line method may provide such a reasonable approximation. Contingent rents shall be charged as expenditure in the Statement of Financial Activities in the periods in which they are incurred.

415. A finance lease gives rise to depreciation expense for leased assets as well as finance expense for each accounting period. The depreciation policy for leased assets shall be consistent with that for assets that are owned, and the depreciation recognised shall be calculated in accordance with the requirements under the "Property, Plant and Equipment" and "Intangible Assets" sections above. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be depreciated over the shorter of the lease term or its useful life.

#### *Operating Leases*

416. The lease payments under an operating lease shall be recognised 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 representative of the time pattern of the lessee's benefit.

417. Incentives to sign an operating lease, in whatever form they may take, shall be spread by the lessee on a straight-line basis over the lease term.

### Accounting by Lessors

#### *Finance Leases*

418. The amount due from the lessee under a finance lease shall be recorded in the Balance Sheet of a lessor as a receivable at the amount of the net investment in the lease. The **net investment in a lease** is the lessor's gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:

- a. The minimum lease payments receivable by the lessor under a finance lease; and
- b. Any unguaranteed residual value accruing to the lessor.

419. For finance leases (other than those involving manufacturer or dealer lessors), initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

420. 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 in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately in net income or expenditure in the Statement of Financial Activities.

#### *Operating Leases*

421. 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 of the lessee's benefit from the leased asset. The aggregate cost of incentives, if any, shall be recognised as a reduction of rental income over the lease term.

422. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

423. An asset held by a lessor for use in operating leases shall be accounted for consistently with similar assets (e.g. property, plant and equipment, intangible asset or investment property) and depreciated over its useful life.

#### Sale and Leaseback Transactions

424. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease.

#### *Accounting by the Seller/Lessee*

425. In a sale and leaseback transaction that results in a finance lease, any gain (i.e. the excess of the sales proceeds over the carrying amount of the asset) shall be deferred and amortised in the Statement of Financial Activities of the seller/lessee over the lease term.

426. 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 fair value;
- b. If the sale price is below fair value, any gain or loss shall be recognised immediately unless the loss is compensated for by future rentals at below market price. In this case, the seller/lessee shall defer and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used; or
- c. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

#### *Accounting by the Buyer/Lessor*

427. 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 418 to 423.

#### Disclosure by Lessees

428. Lessees shall make the following disclosures for finance leases:

- a. For each class of asset, the net carrying amount at the end of the reporting period.
- b. A reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, a lessee shall disclose the total of future minimum lease payments at the end of the reporting period, and their present value, for each of the following periods:
  - i. Not later than one year;

- ii. Later than one year and not later than five years; and
- iii. Later than five years.

The finance lease liabilities 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 reporting date in respect of finance leases that have been entered into but whose commencement occurs after the period-end.
- d. A general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

429. In respect of operating leases, lessees shall disclose:

- a. The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
  - i. Not later than one year;
  - ii. Later than one year and not later than five years; and
  - iii. Later than five years.
- b. Lease payments recognised as expenditure in the Statement of Financial Activities during the financial period.
- c. A general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

#### Disclosure by Lessors

430. Lessors shall make the following disclosures for finance leases:

- a. A reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:
  - i. Not later than one year;
  - ii. Later than one year and not later than five years;
  - iii. Later than five years.
- b. Unearned finance income.
- c. The unguaranteed residual values accruing to the benefit of the lessor.
- d. The accumulated allowance for uncollectible minimum lease payments receivable.
- e. Contingent rents recognised as income in the financial period.



- f. A general description of the lessor's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

431. Lessors shall make the following disclosures for operating leases:

- a. The future minimum lease payments under non-cancellable operating leases for each of the following periods:
  - i. Not later than one year;
  - ii. Later than one year and not later than five years; and
  - iii. Later than five years.
- b. Total contingent rents recognised as income in the financial period.
- c. A general description of the lessor's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

## ***Impairment of Assets***

### Impairment of Inventories

#### *Selling price less costs to complete and sell*

432. A charity shall assess at each reporting date whether any inventories are impaired. The charity shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items - see paragraph below) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, the charity shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell. The charity shall recognise the reduction as impairment loss (i.e. as expenditure) immediately in the Statement of Financial Activities.

433. If it is impracticable to determine the selling price less costs to complete and sell for inventories item by item, the charity may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area for the purpose of assessing impairment.

#### *Reversal of impairment*

434. A charity shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the charity shall reverse the amount of the impairment (i.e. the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

## Impairment of Investment Properties

### *General principles*

435. If, and only if, the recoverable amount of an investment property is less than its carrying amount, the charity shall reduce the carrying amount of the investment property to its recoverable amount. A charity shall recognise the reduction as an impairment loss (i.e. as expenditure) immediately in the Statement of Financial Activities.

### *Indicators of impairment*

436. A charity shall assess at each reporting date whether there is any indication that an investment property may be impaired. If any such indication exists, the charity shall estimate the recoverable amount of the investment property.

437. In assessing whether there is any indication that an investment property may be impaired, a charity shall consider, as a minimum, the following indications:

- a. External sources of information
  - i. During the period, an investment property's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
  - ii. Significant changes with an adverse effect on the charity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the charity operates or in the market to which an investment property is located.
  - iii. Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an investment property's **value in use** and decrease the investment property's fair value less costs to sell.
- b. Internal sources of information
  - i. Evidence is available of physical damage of an investment property.
  - ii. Significant changes with an adverse effect on the charity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an investment property is used or is expected to be used. These changes include the investment property becoming idle, and plans to dispose of an investment property before the previously expected date.

438. If there is an indication that an investment property may be impaired, this may indicate that the charity should review the remaining useful life, the depreciation method or the residual value for the investment property and adjust it in accordance with the section of the CAS applicable to the investment property, even if no impairment loss is recognised for the investment property.

### *Measuring recoverable amount*

439. The recoverable amount of an investment property is the higher of its fair value less costs to sell and its value in use.

440. It is not always necessary to determine both an investment property's fair value less costs to sell and its value in use. If either of these amounts exceeds the investment property's carrying amount, the investment property is not impaired and it is not necessary to estimate the other amount.

441. If there is no reason to believe that an investment property's value in use materially exceeds its fair value less costs to sell, the investment property's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an investment property that is held for disposal.

### *Fair value less costs to sell*

442. Fair value less costs to sell is the amount obtainable from the sale of an investment property in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an investment property is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an investment property, fair value less costs to sell is based on the best information available to reflect the amount that a charity could obtain, at the reporting date, from the disposal of the investment property in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, a charity considers the outcome of recent transactions for similar investment property within the same industry.

### *Value in use*

443. Value in use is the present value of the future cash flows expected to be derived from an investment property. This present value calculation involves the following steps:

- a. Estimating the future cash inflows and outflows to be derived from continuing use of the investment property and from its ultimate disposal, and
- b. Applying the appropriate discount rate to those future cash flows.

444. The following elements shall be reflected in the calculation of an investment property's value in use:

- a. An estimate of the future cash flows the charity expects to derive from the investment property.
- b. Expectations about possible variations in the amount or timing of those future cash flows.
- c. The time value of money, represented by the current market risk-free rate of interest.

- d. The price for bearing the uncertainty inherent in the investment property.
- e. Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the charity expects to derive from the investment property.

445. In measuring value in use, estimates of future cash flows shall include:

- a. Projections of cash inflows from the continuing use of the investment property.
- b. Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the investment property (including cash outflows to prepare the investment property for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the investment property.
- c. Net cash flows, if any, expected to be received (or paid) for the disposal of the investment property at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

446. Estimates of future cash flows shall not include cash inflows or outflows from financing activities, or income tax receipts or payments.

447. Future cash flows shall be estimated for the investment property in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from a future restructuring to which a charity is not yet committed, or improving or enhancing the investment property's performance.

448. The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of the time value of money, and the risks specific to the investment property for which the future cash flow estimates have not been adjusted. The discount rate (rates) used to measure an investment property's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

#### *Reversal of an impairment loss*

449. A charity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the charity shall determine whether all or part of the prior impairment loss should be reversed.

450. The following requirements apply:

- a. The charity shall estimate the recoverable amount of the investment property at the current reporting date.

- b. If the estimated recoverable amount of the investment property exceeds its carrying amount, the charity shall increase the carrying amount to recoverable amount, subject to the limitation described in (c) below. That increase is a reversal of an impairment loss. The charity shall recognise the reversal immediately in the Statement of Financial Activities.
- c. The reversal of an impairment loss shall not increase the carrying amount of the investment property above the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the investment property in prior years.
- d. After a reversal of an impairment loss is recognised, the charity shall adjust the depreciation charge for the investment property in future periods to allocate the investment property's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Impairment of Investments in Subsidiaries, Jointly Controlled Entities or Associates (termed "the investment" below)

*General principles*

451. A charity shall assess at each reporting date whether the investment is impaired. The charity shall make the assessment by comparing the carrying amount of the investment with the charity's share of the net assets (i.e. total assets less total liabilities) of the investment. If the investment is impaired, the charity shall reduce the carrying amount of the investment to the charity's share of the net assets of the investments. The charity shall recognise the reduction as an impairment loss (i.e. as expenditure) immediately in the Statement of Financial Activities.

*Reversal of an impairment loss*

452. A charity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the charity shall determine whether all or part of the prior impairment loss should be reversed. However, the reversal of an impairment loss shall not increase the carrying amount of the investment above the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior periods. The charity shall recognise the reversal immediately in the Statement of Financial Activities.

Impairment of Trade and Other receivables (including Finance Lease Receivables but excluding Prepayments) and Investments Assets other than Investment Properties, Investments in Subsidiaries, Jointly Controlled Entities or Associates (termed "financial assets" below)

453. At the end of each reporting period, a charity shall assess whether there is objective evidence of impairment of its financial assets. If there is objective evidence of impairment, the charity shall recognise an impairment loss (i.e. expenditure) immediately in the Statement of Financial Activities.

454. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that come to the attention of the charity about the following loss events:

- a. Significant financial difficulty of the issuer or obligor.
- b. A breach of contract, such as a default or delinquency in interest or principal payments.
- c. The creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider.
- d. It has become probable that the debtor will enter bankruptcy or other financial reorganisation.
- e. Observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

455. Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

#### *Measurement*

456. A charity shall measure an impairment loss as follows:

- a. For an equity investment, the impairment loss is the difference between the carrying amount of the investment and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the charity would receive for the investment if it was to be sold at the reporting date.
- b. For finance lease receivables, the impairment loss is the difference between the carrying amount of the financial lease receivable and the present value of estimated cash flows discounted at the original effective interest rate of the finance lease receivable.
- c. For all other financial assets, the impairment loss is the difference between the carrying amount of the financial asset and the undiscounted future cash flows (excluding unearned interest in the case of an interest-bearing financial asset) that the charity expects to receive from the financial asset. For example, in the case of an interest-bearing loan receivable, impairment loss is the difference between the loan principal (assuming no impairment has been provided) and the amount of principal repayment (not adjusted for the time value of money) that the charity expects to receive.

### *Reversal of an impairment loss*

457. If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's financial condition), the charity shall reverse the previously recognised impairment loss. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognised. The charity shall recognise the amount of the reversal in the Statement of Financial Activities immediately.

### Disclosures

458. A charity shall disclose the following for each class of assets indicated in the paragraph below:

- a. The amount of impairment losses recognised in the Statement of Financial Activities during the period and the line item(s) in which those impairment losses are included.
- b. The amount of reversals of impairment losses recognised in the Statement of Financial Activities during the period and the line item(s) in which those impairment losses are reversed.

459. A charity shall disclose the information required by the above paragraph for each of the following classes of asset:

- a. Inventories
- b. Investment properties
- c. Investments in subsidiaries
- d. Investments in associates
- e. Investments in joint ventures
- f. Investment assets other than (b) to (e)
- g. Trade and other receivables
- h. Finance lease receivables

460. A charity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset:

- a. The events and circumstances that led to the recognition or reversal of the impairment loss.
- b. The amount of the impairment loss recognised or reversed.
- c. For an individual asset, the nature of the asset.
- d. Whether the recoverable amount of the asset is its fair value less costs to sell or its value in use.
- f. If recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).

- g. If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

## ***Foreign Currency Translation***

### Functional Currency

461. A charity shall identify its functional currency, which is the currency of the primary economic environment in which the charity operates.

462. The primary economic environment in which a charity operates is normally the one in which it primarily generates and expends cash. A charity considers the following factors in determining its functional currency:

- a. The currency:
  - i. That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
  - ii. Of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- b. The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

463. The following factors may also provide evidence of a charity's functional currency:

- a. The currency in which funds from financing activities are generated.
- b. The currency in which receipts from operating activities are usually retained.

464. A charity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

### Reporting Foreign Currency Transactions in the Functional Currency

465. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency (i.e. a currency other than the functional currency of the charity), including transactions arising when a charity:

- a. Buys or sells goods or services whose price is denominated in a foreign currency;
- b. Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
- c. Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.



466. A charity shall record a foreign currency transaction, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

467. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with the CAS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

468. At the end of each reporting period, a charity shall:

- a. Translate foreign currency **monetary items** using the closing rate; and
- b. Translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction.

469. A charity shall recognise, in net income or expenditure in its Statement of Financial Activities in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods, except as described in the paragraph 471.

#### Net Investment in a Foreign Operation

470. A charity may have a monetary item that is receivable from or payable to a **foreign operation**. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the charity's net investment in that foreign operation, and is accounted for in accordance with the following paragraph. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

471. Exchange differences arising on a monetary item that forms part of a charity's net investment in a foreign operation shall be recognised in net income or expenditure in the separate financial statements of the charity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in funds and reclassified from funds to net income or expenditure on disposal of the net investment.

## Use of a Presentation Currency other than the Functional Currency

### *Translation to the presentation currency*

472. A charity may present its financial statements in any currency (or currencies). If the **presentation currency** differs from the charity's functional currency, the charity shall translate its items of income and expenditure and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the items of income and expenditure and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

473. A charity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

- a. Assets and liabilities for each Balance Sheet presented (i.e. including comparatives) shall be translated at the closing rate at the date of that Balance Sheet.
- b. Income and expenditure for each Statement of Financial Activities (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions may be used, for example an average rate for the period, to translate income and expenditure items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
- c. All resulting exchange differences shall be recognised in funds.

474. The exchange differences referred to in the above paragraph result from:

- a. Translating income and expenditure at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate, and
- b. Translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in net income or expenditure because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of fund until disposal of the foreign operation.

475. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the Consolidated Balance Sheet.

### *Translation of a foreign operation into the charity's presentation currency*

476. Paragraphs 477 to 478, in addition to paragraphs 472 to 475, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the charity by consolidation or the equity method.

477. In incorporating the assets, liabilities, income and expenditure of a foreign operation with those of the charity, the charity shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see the section on "Subsidiaries – Consolidated Financial Statements"). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the charity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a charity continues to recognise such an exchange difference in net income or expenditure or, if it arises from the circumstances described in paragraph 471, the charity shall classify it as a component of funds.

478. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph 473.

### Disclosure

479. In paragraphs 481 and 482, references to "functional currency" apply, in the case of a group, to the functional currency of the charity.

480. A charity shall disclose the following:

- a. The amount of exchange differences recognised in net income or expenditure during the period; and
- b. The amount of exchange differences arising during the period and classified in a separate component of funds at the end of the period.

481. A charity shall disclose the currency in which its financial statements are presented. When the presentation currency is different from the functional currency, a charity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

482. When there is a change in the functional currency of either the charity or a significant foreign operation, the charity shall disclose that fact and the reason for the change in functional currency.

## ***Business Combinations and Goodwill***

### *General*

483. A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

484. All business combinations shall be accounted for by applying the purchase method. Applying the purchase method involves the following steps:

- a. Identifying an acquirer.
- b. Measuring the cost of the business combination.
- c. Allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.

### *Identifying the acquirer*

485. An acquirer shall be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entities or businesses.

486. Control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities.

### *Cost of a business combination*

487. The acquirer shall measure the cost of a business combination as the aggregate of:

- a. The fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus
- b. Any costs directly attributable to the business combination.

### *Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed*

488. The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets and liabilities and a provision for those contingent liabilities that satisfy the following recognition criteria at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets and liabilities and provisions for contingent liabilities so recognised shall be accounted for in accordance with paragraphs 491 to 495.

- a. In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.
- b. In the case of a liability other than a contingent liability, it is probable that an outflow of resources will be required to settle the obligation, and its fair value can be measured reliably.
- c. In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

489. The acquirer's Statement of Financial Activities shall incorporate the acquiree's net income and expenditure after the acquisition date by including the acquiree's income and expenditure based on the cost of the business combination to the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's Statement of Financial Activities that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, i.e. their cost to the acquirer.

490. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall recognise in its financial statements provisional amounts for the items for which the accounting is incomplete. Within twelve months after the acquisition date, the acquirer shall retrospectively adjust the provisional amounts recognised as assets and liabilities at the acquisition date (i.e. account for them as if they were made at the acquisition date) to reflect new information obtained. Beyond twelve months after the acquisition date, adjustments to the initial accounting for a business combination shall be recognised only to correct an error in accordance with paragraphs 21 to 25.

### *Goodwill*

491. The acquirer shall, at the acquisition date:

- a. Recognise goodwill acquired in a business combination as an asset, and
- b. Initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 488.

492. After initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation. Goodwill is not required to be assessed for impairment under the CAS.

493. A charity shall apply the requirements set out in paragraphs 226 to 230 for the amortisation of goodwill.

494. When a previously acquired business is disposed, the carrying amount of goodwill relating to that business at the date of disposal shall be included in determining the gain or loss on disposal, except that goodwill recognised previously as a deduction from funds as a matter of accounting policy shall not be recognised in gain or loss on disposal.

*Excess over cost of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities*

495. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities recognised in accordance with paragraph 488 exceeds the cost of the business combination (sometimes referred to as "negative goodwill"), the acquirer shall:

- a. Reassess the identification and measurement of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination, and
- b. Recognise immediately in net income or expenditure any excess remaining after that reassessment.

*Non-controlling interests*

496. For each business combination, the acquirer shall measure any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets.

*Disclosure*

497. For each business combination that was effected during the period, the acquirer shall disclose the following:

- a. The names and descriptions of the combining entities or businesses.
- b. The acquisition date.
- c. The percentage of voting equity instruments or other means of control acquired.
- d. The cost of the combination and a description of the components of that cost (such as cash and debt instruments).
- e. The amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill.
- f. The amount of any excess recognised in net income or expenditure in accordance with paragraph 495, and the line item in the Statement of Financial Activities in which the excess is recognised.

498. An acquirer shall disclose a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing separately:

- a. Changes arising from new business combinations.
- b. Disposals of previously acquired businesses.
- c. Other changes.

## **Subsidiaries**

### **Consolidated Financial Statements**

#### *General*

499. If, at the end of a financial period, a charity is a parent, the governing board members shall prepare consolidated financial statements of the group for the period, in addition to the separate financial statements of the charity for the period. Consolidated financial statements are a set of financial statements of the group presented as those of a single economic entity and are prepared in addition to those prepared for the parent itself and to those prepared for each of the subsidiaries in its own right.

500. 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.

#### *Control Test*

501. Where a charity has the power to exercise, or actually exercises, control over another entity, then that entity is a subsidiary of the charity.

502. Control is presumed to exist when the charity owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the charity owns half or less of the voting power of an entity when there is:

- a. Power to govern the financial and operating policies of the entity under a statute or an agreement;
- b. Power to give directions to the governing board members or board of directors or equivalent governing body and control of the entity is by that board or body;
- c. Power to appoint or remove the majority of the members of the governing board or board of directors or equivalent governing body and control of the entity is by that board or body;
- d. Power to appoint or remove a significant proportion of the members of the governing board or board of directors or equivalent governing body, if control of the entity is by that board or body, and the other parties who have the power to appoint or remove such board or body are widely dispersed. For example, if the charity has the power to appoint/remove 7 out of 15 members of the governing board or board of directors or equivalent governing body of an entity, and 8 other different parties have the power to appoint/remove 1 member each, the charity may have control over the entity;

- e. Power to cast the majority of votes at the meetings of the governing board or board of directors or equivalent governing body and control of the entity is by that board or body;
- f. Power to cast a significant proportion of votes at the meetings of the governing board or board of directors or equivalent governing body, if control of the entity is by that board or body, and the other parties who have the power to cast votes at such meetings are widely dispersed;
- g. Power over more than half of the voting rights by virtue of an agreement with other shareholders/investors; or
- h. Significantly more voting rights than any other shareholders/investors or organised group of shareholders/investors, and the other shareholders/investors are widely dispersed.

In assessing whether control exists, a charity shall consider all facts and circumstances in addition to the above indicators.

503. Control can also be achieved by having options or convertible instruments that are currently exercisable or convertible. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether a charity has control over another entity.

#### *Consolidation Procedures*

504. In preparing consolidated financial statements, a charity combines its financial statements and those of its subsidiaries line by line by adding together like items of assets, liabilities, funds (or equity), income and expenditure. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

- a. The carrying amount of the charity's investment in each subsidiary and the charity's portion of funds (or equity) of each subsidiary are eliminated;
- b. Non-controlling interests in the net income or expenditure of consolidated subsidiaries for the reporting period are identified; and
- c. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the charity's ownership interests in them. Non-controlling interests in the net assets consist of:
  - i. The amount of those non-controlling interests at the date of the original business combination calculated in accordance with paragraph 496; and
  - ii. The non-controlling interests' share of changes in funds (or equity) since the date of the combination.

505. The proportions of net income or expenditure and changes in funds allocated to the charity and to the non-controlling interests are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of options or convertible instruments.



### Intra-group balances and transactions

506. Intra-group balances and transactions, including income, expenditures and dividends, are eliminated in full. Profit and losses resulting from intra-group transactions that are recognised in assets, such as inventory and property, plant and equipment, are eliminated in full. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements.

507. All items of income and expenditure shall be shown gross after the elimination of intra-group transactions, and similar items are treated and presented 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.

### Uniform reporting date

508. The financial statements of the charity and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the charity is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the charity unless it is impracticable to do so.

509. When the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the charity's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the charity's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the charity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

### Uniform accounting policies

510. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

### Acquisition and disposal of subsidiaries

511. The income and expenditures of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenditures of the subsidiary shall be based on the values of the assets and liabilities recognised in the charity's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of financial activities after the acquisition date shall be based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

512. The income and expenditures of a subsidiary are included in the consolidated financial statements until the date when the charity ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in funds in accordance with the section “Foreign Currency Translation”, is recognised in net income or expenditure as the gain or loss on the disposal of the subsidiary.

513. If an entity ceases to be a subsidiary but the charity continues to hold an investment in the former subsidiary, that investment shall be recognised at its fair value at the date when control is lost.

#### *Non-controlling interest in subsidiaries*

514. A charity shall present non-controlling interest separately in the consolidated balance sheet within funds.

515. A charity shall disclose non-controlling interest in the net income or expenditure of the group separately in the consolidated statement of financial activities.

516. Net income or expenditure and each component of other recognised gains or losses (i.e. those gains or losses which are recognised directly in funds rather than in net income or expenditure) shall be attributed to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

#### *Disclosure*

517. Where consolidated financial statements are prepared, the fact that the statements are consolidated financial statements shall be disclosed. In addition, the accounting policy notes shall state the basis of consolidation.

518. The nature of the relationship between the charity and a subsidiary shall be disclosed when the charity does not own, directly or indirectly through subsidiaries, more than half of the voting power.

519. The reasons why the ownership, directly or indirectly through subsidiaries of more than half of the voting or potential voting power of an investee does not constitute control shall be disclosed.

520. The end of the reporting period of the financial statements of a subsidiary shall be disclosed when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the charity’s financial statements, including the reason for using a different date or period.

521. The nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the charity in the form of cash dividends or to repay loans or advances shall be disclosed.

522. Each charity shall choose appropriate category headings within the permissible format of the Statement of Financial Activities and suitable activity categories. The headings used shall reflect the underlying activities of the group. 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.

### **Separate Financial Statements**

523. A charity shall account for its investments in subsidiaries in its separate financial statements initially at cost and subsequently at cost less any accumulated impairment losses.

524. A charity shall apply the requirements set out in paragraphs 451 to 452 to determine whether its investments in subsidiaries are impaired.

525. Investments in subsidiaries shall be presented in a separate row in the separate balance sheet.

526. A charity shall disclose the following information in its separate financial statements:

- a. The fact that the statements are separate financial statements;
- b. A description of the method used to account for the investments in subsidiaries;
- c. The aggregate market value of investments in subsidiaries for which there are published price quotations as well as their aggregate carrying amount; and
- d. A list of significant investments in subsidiaries including the following information:
  - i. The name of the subsidiary;
  - ii. The country in which the subsidiary is incorporated, and if the subsidiary is unincorporated, its principal place of operations;
  - iii. Particulars of the charity's shareholding in or other means of control over the subsidiary such as power to appoint board members or directors; and
  - iv. How the subsidiary's activities relate to those of the charity.

### ***Branches***

527. Branches are entities or administrative bodies set up, for example, to conduct a particular aspect of the activities of the reporting charity.

528. Branches can prepare their own separate financial statements. However, 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 charity, by including them within the charity’s own financial statements.

529. Characteristics of a branch typically include the following:

- a. It uses the name of the reporting charity within its title (e.g. ABC Family Service Centre is a branch of ABC Charity);
- 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 (e.g. a programme that rides on a charity’s IPC status); and/or
- d. It receives support from the reporting charity through financial support (e.g. an entity that receives interest-free loan from the reporting charity), manpower support, etc.

530. Entities 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).

531. All branch transactions shall be accounted for at gross in the reporting charity’s own financial statements, except for those transactions which are to be eliminated, 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 period end shall be incorporated into the reporting charity’s own Balance Sheet, except for those balances which are to be eliminated, e.g. branch to branch balances or those between the branches and the head office.

532. 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.

## ***Associates and Joint Ventures***

### Investments in Associates

533. Where a charity exercises significant influence over another undertaking, then that undertaking is an associate of the charity. Significant influence is the power to participate in the financial and operating policy decisions of the undertaking but is not control or joint control over those policies. Where a charity holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of any undertaking, it is presumed that the charity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if a charity holds, directly or indirectly (e.g. through subsidiaries), less than 20% of the voting power of the undertaking, it is presumed that the charity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude a charity from having significant influence.

534. 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 governing board member 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 made in conjunction with a formal or informal arrangement to exercise significant influence through direct involvement in setting the recipient charity's operating and financial policies. Where the governing board member's appointment is simply made to provide advice or expertise to the recipient charity without the power to exercise significant influence, then an associate relationship is unlikely to be created.

535. Investments in associates shall be accounted for by a charity using the equity method.

536. Under the equity method, the investment in an associate is initially recognised at cost (i.e. transaction price including transaction costs) and the carrying amount is increased or decreased to recognise the charity's share of the results of the associate after the date of acquisition. The charity's share of the results of the associate is recognised in the charity's net income or expenditure. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the charity's proportionate interest in the associate arising from changes in the associate's other recognised gains or losses (i.e. those gains or losses which are recognised directly in funds (or equity)). Such changes include those arising from foreign exchange translation differences. The charity's share of those changes is recognised directly in funds in the Statement of Financial Activities.

537. When potential voting rights exist, the charity's share of the results of the associate and of changes in the associate's funds (or equity) is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

538. On acquisition of an investment in an associate, a charity shall account for any difference (whether positive or negative) between the cost of acquisition and the charity's share of the fair values of the net identifiable assets of the associate as follows:

Goodwill

- a. The charity shall, at the acquisition date, recognise goodwill within the carrying amount of the investment and initially measured that goodwill at cost, being the excess of the cost of acquisition over the charity's share of the fair values of the net identifiable assets of the associate.
- b. After initial recognition, the goodwill shall be measured at cost less accumulated amortisation.
- c. A charity shall apply the requirements set out in paragraphs 226 to 230 for the amortisation of goodwill.

Excess over cost of the charity's share of the fair values of the net identifiable assets of the associate

- a. If the charity's share of the fair values of the net identifiable assets of the associate exceeds the cost of acquisition, the charity shall:
  - i. Reassess the identification and measurement of the associate's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of acquisition, and
  - ii. Recognise immediately in net income or expenditure (under share of associate's results) any excess remaining after that reassessment.

539. If there is an indication that an investment in an associate may be impaired, a charity shall test the entire carrying amount of the investment for impairment in accordance with the section "Impairment of Assets – Impairment of Investments in Subsidiaries, Jointly Controlled Entities or Associates" as a single asset. Any goodwill included as part of the carrying amount of the investment in the associate is not tested separately for impairment but, rather, as part of the test for impairment of the investment as a whole.

540. Unrealised income and expenditure (or profits and losses) resulting from transactions between the charity (including its consolidated subsidiaries) and its associates shall be eliminated to the extent of the charity's interest in the associates. Unrealised losses on such transactions may provide evidence of an impairment of asset transferred.

541. In applying the equity method, the charity shall use the financial statements of the associate as of the same date as its financial statements unless it is impracticable to do so. If it is impracticable, the charity shall use the most recent available financial statements of the associate, with adjustments made for the effects of any significant transactions or events occurring between the financial period ends. In any case, the difference between the end of the reporting period of the associate and that of the charity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

542. If the associate uses accounting policies that differ from those of the charity, the charity shall adjust the associate's financial statements to reflect the charity's accounting policies for the purpose of applying the equity method.

543. If the charity's share of net expenditure (or losses) of an associate equals or exceeds its interest in the associate, the charity shall discontinue recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the charity's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the charity's investment in that associate. After the charity's interest is reduced to zero, the charity shall recognise additional losses by a provision only to the extent that the charity has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports net income (or profits), the charity shall resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

544. A charity shall cease using the equity method from the date that significant influence ceases.

- a. If the associate becomes a subsidiary or joint venture, the charity shall remeasure its previously held equity interest to fair value and recognise the resulting gain or loss, if any, in net income or expenditure.
- b. If a charity loses significant influence over an associate as a result of a full or partial disposal, it shall derecognise that associate and recognise in net income or expenditure the difference between, on the one hand, the sum of the proceeds received plus the fair value of any retained interest and, on the other hand, the carrying amount of the investment in the associate at the date significant influence is lost. Thereafter, the charity shall account for any retained interest using the requirements set out in the section "Investment Assets".
- c. If a charity loses significant influence for reasons other than a partial disposal of its investment, the investor shall regard the carrying amount of the investment at that date as a new cost basis and shall account for the investment using the requirements set out in the section "Investment Assets".

545. The Statement of Financial Activities shall show the charity's share of the results for the period in the associates as a separate row before the "net income/expenditure before tax expense" row. In the Balance Sheet, the net interest in associates shall be shown as a separate row under "non-current assets".

546. The following disclosure shall be made in respect of associates:

- a. A charity shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, income and expenditure related to its interests in associates;

- b. The reasons why the presumption that the charity does not have significant influence is overcome if the charity holds, directly or indirectly through subsidiaries, less than 20% of the voting or potential voting power of the investee but concludes that it has significant influence;
- c. The reasons why the presumption that the charity has significant influence is overcome if the charity holds, directly or indirectly through subsidiaries, 20% or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;
- d. The end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the charity, and the reason for using a different date or different period;
- e. The nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the charity in the form of cash dividends, or repayment of loans or advances;
- f. The unrecognised share of losses of an associate, both for the period and cumulatively, if the charity has discontinued recognition of its share of losses of an associate;
- g. The charity's share of the contingent liabilities of an associate incurred jointly with other investors; and
- h. Those contingent liabilities that arise because the charity is severally liable for all or part of the liabilities of the associate.
- i. The aggregate market value of investments in associates for which there are published price quotations as well as their aggregate carrying amount.

### Investments in Joint Ventures

547. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

#### *Jointly controlled entities*

548. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venture has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.



549. A charity shall account for its interests in jointly controlled entities using the equity method as described in paragraphs 536 to 545 (substituting “joint control” where the paragraph refers to “significant influence”).

#### *Jointly controlled operations*

550. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer’s employees alongside the venturer’s similar activities. The joint venture agreement usually provides a means by which the income from the sale of the joint product and any expenditure incurred in common are shared among the venturers.

551. In respect of its interests in jointly controlled operations, the charity as the venture shall recognise in its financial statements:

- a. The assets that it controls and the liabilities that it incurs; and
- b. The expenditure that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

#### *Jointly controlled assets*

552. Some joint ventures involves the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.

553. In respect of its interest in a jointly controlled asset, the charity as the venturer shall recognise in its financial statements:

- a. Its share of the jointly controlled assets, classified according to the nature of the assets;
- b. Any liabilities that it has incurred;
- c. Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- d. Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenditure incurred by the joint venture; and
- e. Any expenditure that it has incurred in respect of its interest in the joint venture.

### *Transactions between a venturer and a joint venture*

554. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

555. When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent an impairment loss.

### *Disclosure*

556. Investments in jointly controlled entities shall be presented in a separate row in the Balance Sheet.

557. The following disclosure shall be given in respect of joint ventures:

- a. A charity shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, income and expenditure related to its interests in jointly controlled entities.
- b. A charity shall disclose the end of the reporting period of the financial statements of a jointly controlled entity, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the charity, and the reason for using a different date or different period.
- c. A charity shall disclose the unrecognised share of the losses of a jointly controlled entity, both for the period and cumulatively, if the charity has discontinued recognition of its share of losses of that entity.
- d. A charity shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:
  - i. Any contingent liabilities that the charity has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
  - ii. Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
  - iii. Those contingent liabilities that arise because the charity is contingently liable for the liabilities of the other venturers of a joint venture.

- e. A charity shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:
  - i. Any capital commitments of the charity in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
  - ii. Its share of the capital commitments of the joint ventures themselves.
- f. A charity shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities.
- g. The aggregate market value of investments in jointly controlled entities for which there are published price quotations as well as their aggregate carrying amount.

### Separate Financial Statements

558. A charity shall account for its investments in associates and jointly controlled entities in its separate financial statements initially at cost and subsequently at cost less any accumulated impairment losses.

559. A charity shall apply the requirements set out in paragraphs 451 to 452 to determine whether its investments in associates and jointly controlled entities are impaired.

560. Investments in associates and jointly controlled entities shall be presented in separate rows in the separate balance sheet.

561. A charity shall disclose the following information in its separate financial statements:

- a. The fact that the statements are separate financial statements;
- b. A description of the method used to account for the investments in associates and jointly controlled entities;
- c. A list of significant investments in associates and jointly controlled entities including the following information:
  - i. The name of the undertaking;
  - ii. The country in which it is incorporated;
  - iii. If it is unincorporated, its principal place of business;
  - iv. Its principal activities; and
  - v. The proportion of ownership interest and, if different, the proportion of voting power held.

## **Transition to the CAS**

### Scope of this Section

562. This section applies to a first-time adopter of the CAS, regardless of its previous accounting framework.

563. A charity can be a first-time adopter of the CAS only once. If a charity using the CAS stops using it for one or more reporting periods and then is required, or chooses, to adopt it again later, the special exemptions, simplifications and other requirements in this section do not apply to the re-adoption.

### First-time Adoption

564. A first-time adopter of the CAS shall apply this section in its first financial statements that conform to the CAS.

565. A charity's first financial statements that conform to the CAS are the first annual financial statements in which the charity makes an explicit and unreserved statement in those financial statements of compliance with the CAS. Financial statements prepared in accordance with the CAS are a charity's first such financial statements if, for example, the charity:

- a. Did not present financial statements for previous periods; or
- b. Presented its most recent previous financial statements under a previous financial reporting framework (e.g. FRS) that is not consistent with the CAS in all respects.

566. Paragraph 1 requires a charity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. A charity may present comparative information in respect of more than one comparable prior period. Therefore, a charity's date of transition to the CAS is the beginning of the earliest period for which the charity presents full comparative information in accordance with the CAS in its first financial statements that conform with the CAS.

### Procedure for Preparing Financial Statements at the Date of Transition

567. Except as provided in paragraph 569, a charity shall, in its opening balance sheet as of its date of transition to the CAS (i.e. the beginning of the earliest period presented):

- a. Recognise all assets and liabilities whose recognition is required by the CAS;
- b. Not recognise items as assets or liabilities if the CAS does not permit such recognition;

- c. Reclassify items that it recognised under its previous financial reporting framework as one type of asset, liability or component of funds, but are a different type of asset, liability or component of funds under the CAS; and
- d. Apply the CAS in measuring all recognised assets and liabilities.

568. The accounting policies that a charity uses in its opening balance sheet under the CAS may differ from those that it used for the same date under its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to the CAS. Therefore, a charity shall recognise those adjustments directly in the relevant funds at the date of transition to the CAS.

569. A charity shall apply the following in preparing its first financial statements that conform to the CAS:

- a. **Revaluation as deemed cost.** A first-time adopter may elect to use the revaluation of an item of property, plant and equipment, an investment property, or an intangible asset determined under the previous financial reporting framework at, or before, the date of transition to the CAS as its deemed cost at the revaluation date. The revaluation reserve that was previously recognised as a separate component of funds shall be adjusted against the relevant fund of which the assets are attributed.
- b. **Cost less accumulated impairment losses as deemed cost.** A first-time adopter may elect to use the cost less any accumulated impairment losses of an item of property, plant and equipment, an intangible asset, a goodwill, or an investment in a subsidiary/associate/jointly controlled entity determined under the previous financial reporting framework at the date of transition to the CAS as its deemed cost at that date.
- c. **Amortised cost less accumulated impairment losses as deemed cost.** A first-time adopter may elect to use the amortised cost less any accumulated impairment losses of a financial asset or **financial liability** (other than finance lease receivable or payable) determined under the previous financial reporting framework at the date of transition to the CAS as its deemed cost at that date.
- d. **Fair value as deemed cost.** A first-time adopter may elect to use the fair value of an investment property, financial asset or financial liability determined under the previous financial reporting framework at the date of transition to the CAS as its deemed cost at that date.
- e. **Borrowing costs.** A first-time adopter is not required to expense any borrowing costs that had been capitalised previously under the previous financial reporting framework at the date of transition to the CAS.

- f. **Business combinations.** A first-time adopter may elect not to apply the CAS retrospectively to past business combinations that occurred before the date of transition to the CAS. However, if a first-time adopter restates any past business combinations to comply with the CAS, it shall restate all later business combinations.
- g. **Deferred income tax.** A first-time adopter is not required to recognise, at the date of transition to the CAS, deferred tax assets or deferred tax liabilities relating to differences between the tax base and the carrying amount of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.

570. If it is impracticable for a charity to restate the opening balance sheet at the date of transition for one or more of the adjustments required by paragraph 567, the charity shall apply paragraphs 567 to 569 for such adjustments in the earliest period for which it is practicable to do so, and shall identify the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform to the CAS. If it is impracticable for a charity to provide any disclosures required by the CAS for any period before the period in which it prepares its first financial statements that conform to the CAS, the omission shall be disclosed.

#### Disclosure

571. A charity shall explain how the transition from its previous financial reporting framework to the CAS affected its reported financial activities, financial position and cash flows.

572. To comply with paragraph 571, a charity's first financial statements prepared using the CAS shall include:

- a. A description of the nature of each change in accounting policy.
- b. Reconciliations of its funds determined in accordance with its previous financial reporting framework to its funds determined in accordance with the CAS for both of the following dates:
  - i. The date of transition to the CAS, and
  - ii. The end of the latest period presented in the charity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

573. If a charity becomes aware of errors made under its previous financial reporting framework, the reconciliations required by paragraph 572(b) shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

574. If a charity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to the CAS.

## APPENDIX 1 - GLOSSARY

These short definitions offer quick reference that is not meant for definitive guidance.

### A

**Activity cost category** reflects the different categories of activities that are undertaken by a charity in relation to specific or defined activity (e.g. provision of services to elderly people or counselling). The three main 'high level' activity cost categories for charities are fund generating activities, charitable activities and governance of the charity.

**Adjusting events after the end of the reporting period** are favourable and/or unfavourable events that occur between the end of the reporting period and the date when the financial statements are authorised for issue, that provide evidence of conditions that existed at the end of the reporting period.

**Amortisation** is the systematic allocation of the depreciable amount of an asset over its useful life.

**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 an entity, including an unincorporated entity such as a partnership, over which the charity has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### B

**Balance Sheet** is a financial statement that presents a snapshot of and the relationship between a charity's assets, liabilities and funds as of a specific date. It is also known as the "Statement of Financial Position".

**Borrowings** are transactions entered in connection with the borrowing of funds, such as loans, debt instruments, etc, that are classified as liabilities.

**Borrowing costs** are interest and other costs incurred by a charity in connection with the borrowing of funds.

**Business** is an integrated set of activities and assets conducted and managed for the purpose of:

- a. Furthering the charitable objects of a charity;
- b. Providing a return to investors; or
- c. Providing lower costs or other economic and social benefits directly 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 or 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.

**Business combinations** is the bringing together of separate entities or businesses into one reporting entity.

## C

**Capital (in the context of funds)** refers to resources which become available to a charity and which the governing board members are legally required to invest or retain for use. Capital may be permanent endowment, where the governing board members have no power to convert into an income fund, or expendable endowment, where the governing board members have the power of discretion, but not requirement, to convert the endowed capital into expendable income.

**Carrying amount** refers to the amount at which an asset or liability is recognised in the Balance Sheet.

**Charities Act** refers to the Charities Act (Chapter 37) in the Republic of Singapore.

**Consignment inventory** is inventory held by one party (the “dealer”) but legally owned by another (the “legal owner”) 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 presented as those of a single economic entity. A group is a parent and all its subsidiaries.

**Construction contract** is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

**Constructive obligation** is an obligation that derives from a 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 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 or non-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 outflow of resources 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 an entity)** is the power to govern the financial and operating policies of an entity so as to obtain benefits. Benefits can either be economic benefits that result in a net cash inflow to the charity, or other benefits in the form of the furtherance of the charitable objectives of the charity.

**Costs of generating voluntary income** are the costs incurred by a charity, or by an agent, in inducing others to make gifts, donations or grants to the charity that are recognised as voluntary income.

- a. Such costs 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 fundraising publicity costs but not those used in an educational manner in furtherance of the charity's objects.
- b. Such costs exclude fundraising trading costs.

**Current tax** is the amount of income tax payable (refundable) in respect of the taxable net income (net expenditure) for the period or past reporting periods.

## D

**Deductible temporary differences** are temporary differences that will result in amounts that are deductible in determining taxable net income (net expenditure) of future periods when the carrying amount of the asset is recovered or the liability is settled.

**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 reporting 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 the recognition of income until the conditions are met.

Deferred income is not recognised as income in the Statement of Financial Activities until the charity is entitled to the income and instead is recognised as a liability in the Balance Sheet.

**Deferred tax** is income tax payable (recoverable) in respect of the taxable net income (net expenditure) for future reporting periods as a result of past transactions or events.

**Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:

- a. Deductible temporary differences;
- b. The carryforward of unused tax losses; and
- c. The carryforward of unused tax credits.

**Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

**Depreciable amount** is the cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.

**Depreciated replacement cost approach** is a valuation method that is based on the current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.

**Designated fund** is an unrestricted fund that has been set aside for designated purpose(s) based on the governing board members' 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 governing board members can remove the designation at any time.

**Development (in the context of intangible assets)** is the application of research findings and other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, services, processes or systems before the commencement of commercial production or use.

**Donations** are gifts to charities that comprise **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

**Effective interest method** is a method of calculating the carrying amount of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

**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 to be retained for the benefit of the charity. Endowment funds generally comprise permanent and expendable endowment funds.

**Equity** is the residual interest in the assets of an entity after deducting all its liabilities.

**Equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Estimation techniques** are methods adopted by an entity to arrive at the estimated monetary amounts of asset or liability being measured which correspond to the measurement bases selected. The estimation techniques include but are 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 (e.g. cost), used to estimate the proportion of the economic benefits of a tangible asset consumed in a period; and
- b. Different methods used to estimate the amount of trade debts that will not be recovered, particularly where such methods consider a population as whole rather than individual balances.

**Exceptional items** are items that individually or, if of a similar type, in aggregate need to be separately 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 governing board members and not as a result of a contract or other legal obligation.

**Expenditure** is a decrease in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in funds.

## F

**Finance charge** is the amount borne by the lessee over the lease term of a finance lease, 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 entity;
- c. A contractual right:

- i. To receive cash or another financial asset from another entity; or
- ii. To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the charity.

**Financial liability** is any liability that is a contractual obligation to:

- a. Deliver cash or another financial asset to another entity; or
- b. Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the charity.

**Financial period** is a reporting period that begins on the first day after the end of the previous reporting period and ends on the date up to which a charity prepares its current financial statements.

**Financial position** is the relationship of the assets, liabilities and funds of a charity as reported in the Balance Sheet.

**Financial statements** refer to a structured representation of the financial activities, financial position and cash flows of a charity.

**Foreign operation** is an entity that is a subsidiary, associate, joint venture or branch of a charity, the activities of which are based or conducted in a country or currency other than those of the charity.

**Fundraising costs** consist of:

- a. Costs of generating voluntary income including commercial fund-raiser fees; and
- b. Fundraising trading costs.

**Fundraising trading costs** comprise costs of trading or services to raise funds including the cost of goods sold or services provided and any other costs associated with such activities.

**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 a charity that will continue in operation for the foreseeable future. A charity is a going concern unless the governing board members either intends to liquidate the charity or to cease operations, or has no realistic alternative but to do so.

**Goodwill** refers to future economic benefits arising from assets that are not capable of being individually identified and separately recognised.

**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 governing board members and costs associated with constitutional and statutory requirements (e.g. the cost of governing board meetings and preparing statutory financial statements).

**Governing board members** are the members of the governing body of a charity or trustees for a charity having the general control and management of the administration of the charity.

**Grant** is any voluntary payment (or other transfer of resources) in favour of a person or institution, from which the grant maker does not receive appropriately equal value in return. Grant payments, when made by a charity, are any such voluntary payments made in furtherance of its charitable 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 that is directed at the achievement of its charitable objects. It may be unconditional, or subject to conditions which, if not satisfied by the recipient, may lead to the grant, or asset (including property) acquired with the aid of the grant, or part of it, being reclaimed.

I

**Impracticable** refers to the inability of a charity to apply a requirement after making every reasonable effort to do so.

**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.

**Income** is an increase in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in funds of charity.

**Intangible asset** is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it:

- a. Is separable, i.e. is capable of being separated or divided from the charity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- b. Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the charity or from other rights and obligations.

**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 fair 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. Investment portfolio management;
- b. Obtaining investment advice;
- c. Administration of investments;
- d. Rent collection, property repairs and maintenance charges.

**Investment property** is a 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 or supply of goods or services or for administrative purposes; or
- b. Sale in the ordinary course of business.

## J

**Joint control** is the contractually agreed sharing of control over an economic activity. It exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

**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 jointly controlled operations, jointly controlled assets, or jointly controlled entities.

## K

**Key management personnel** are those persons having authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including governing board members and **key officers** of the charity.

**Key officers** are officers of a charity, whether or not employee of the charity, having the general control and management of the administration of the charity, and include any person, by whatever name called, who exercise such general control and management.

## L

**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.

**Liability** is a present obligation of a charity arising from past events, the settlement of which is expected to result in an outflow from the charity of resources embodying economic benefits.

**Liquidity** is the ability to convert an asset to cash quickly without a significant risk of changes in value.

## **M**

**Materiality** is the final test of whether an item of information shall be recognised, measured, presented or disclosed in a particular set of financial statements in accordance with the CAS. An item of information is material if its misstatement or omission, individually or collectively, could influence the economic decisions of users made on the basis of the financial statements.

Materiality depends on the size and nature of the misstatement or omission judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

**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 fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise 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.

**Monetary items** refer to units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

**Monuments** mean the whole or any part of, or the remains of:

- a. Any building, structure, erection, statue, sculpture or other work, whether above or below the surface of the land, and any cave or excavation,
- b. Any site comprising the remains of any such building, structure, erection, statue, sculpture or other work or of any cave or excavation, or

- c. Any site comprising, or comprising the remains of, any vehicle, vessel, aircraft or other movable structure or part thereof which neither constitutes nor forms part of any work which is a monument within paragraph (a),

and includes any machinery attached to or forming part of a monument which cannot be detached from the monument without being dismantled.

## N

**Net investment in a lease** is the gross investment in a lease discounted at the interest rate implicit in the lease.

**Net realisable value** is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

**Non-adjusting events after the end of the reporting period** are favourable and/or unfavourable events that occur between the end of the reporting period and the date when the financial statements are authorised for issue that are indicative of conditions that arose after the end of the reporting period.

**Non-controlling interest** is the equity or funds in a subsidiary not attributable, directly or indirectly, to the parent charity.

## O

**Obligation** is either a legal obligation or a constructive obligation.

**Other long-term employee benefits** are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service.

## 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 specified goods or services.

**Performance-related grant** is a grant that requires the performance of a specified service or the supply of specified goods by the grant recipient that furthers the objectives of the grant maker.

**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.

**Present value** is a current estimate of the present discounted value of the future net cash flows.



**Presentation currency** is the currency in which the financial statements are presented.

**Probable** means more likely than not.

**Property, plant and equipment** are tangible assets that:

- a. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- b. Are expected to be used during more than one period.

**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.

## R

**Recoverable amount** is the higher of an asset's fair value less costs to sell and its value in use.

**Related party transaction** is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

**Reporting date** is the end of the latest period covered by financial statements.

**Reporting period** is the period covered by financial statements.

**Research (in the context of intangible assets)** is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

**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:

- a. Restricted income funds; and
- b. Endowment funds.

**Restricted income funds** are income funds that are expendable at the discretion of the governing board members in furtherance of some particular aspect(s) of the objects of the charity in accordance with specific trusts.

## S

**Separate financial statements** are those financial statements, excluding the statement of cash flows, presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

**Short-term employee benefits** are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. Short-term employee benefits include wages, salaries, social security contributions, paid annual leave, paid sick leave, profit-sharing, bonuses and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services).

**Significant influence** is the power to participate in the financial and operating policy decisions of an investee, but it is not control or joint 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.

**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 all items of income and expenditure recognised in a period, and a reconciliation of all movements in a charity's funds for a period.

**Subsidiary** is an entity, including an unincorporated entity such as a partnership, that is controlled by a 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. Support costs also include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

## T

**Taxable net income (net expenditure)** is the net income (net expenditure) for a reporting 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 net income (net expenditure) of future periods when the carrying amount of the asset or liability is recovered or settled.

**Temporary differences** are differences between the carrying amount of an asset or liability in the Balance Sheet and its tax base. Temporary differences may be either taxable or deductible temporary difference.

**Termination benefits** are employee benefits payable as a result of either:

- a. A 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 or entities other than related parties.

**Trading** refers to trading activities that are carried out, 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, 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 a 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 similar to the sale of bought-in goods as to be indistinguishable in the actual processes involved except for the legal distinction.

For income tax and goods and services tax purposes, trading must be interpreted within the meaning of the legislation governing those taxes.

**Trust** is an arrangement in which a person administers the assets of another person for the benefit of others (i.e. beneficiaries).

**Trustees** are persons who hold the titles to assets that are held in trust.

## **U**

**Unrestricted funds** are funds that are expendable at the discretion of the governing board members in furtherance of the charity's objects. Unrestricted funds comprise:

- 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**

**Value in use** is the present value of the future cash flows expected to be derived from an asset.

**Voluntary income** comprises 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 donated for conversion into cash (which is included within income from "activities for generating funds"), but include gifts that must be spent on some particular area of work (i.e. restricted funds).

## APPENDIX 2 – LIST OF FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS OF FINANCIAL REPORTING STANDARDS EXCLUDED FROM CHARITIES ACCOUNTING STANDARD

The following is a list of the Financial Reporting Standards and Interpretations of Financial Reporting Standards extant at the date of issue of the CAS, which are generally not applicable to charities applying the 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 Financial Reporting
4.	FRS 41	Agriculture
5.	FRS 102	Share-based Payment
6.	FRS 104	Insurance Contracts
7.	FRS 106	Exploration for and Evaluation of Mineral Resources
8.	FRS 107	Financial Instruments: Disclosures
9.	FRS 108	Operating Segments
10.	INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
11.	INT FRS 106	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
12.	INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies
13.	INT FRS 110	Interim Financial Reporting and Impairment

### APPENDIX 3 – GUIDELINES FOR DEPRECIATION POLICY

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. Where there are such arrangements with the relevant authorities, charities and auditors can refer to the table below for guidance on depreciation policy, taking into account Singapore's land lease arrangement that is typically short lease.

<b>Assets</b>	<b>Recommended Depreciation Policy</b>
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