



CHARITIES ACCOUNTING STANDARD

SCOPE

On 24 June 2011, the Accounting Standards Council issued the Charities Accounting Standard (“CAS”).

Prior to the issuance of CAS:

- Charities that are companies limited by guarantee (“CLGs”) or large Institutions of a Public Character (“IPCs”), as defined under Rule 20(6) of the Charities (Institutions of a Public Character) regulation, are required to apply Financial Reporting Standards (“FRSs”) in their financial statements.
- No financial reporting framework was prescribed for the “other charities” in Singapore.
- In practice, charities that are not CLGs or large IPCs may adopt either FRS or the Statement of Recommended Accounting Practice 6 Accounting and Reporting by Charities (“RAP 6”), issued by the ICPAS, as their financial reporting framework.

CAS was developed with the objective of providing charities with an alternative financial reporting framework to FRS that is simpler and more relevant to the charity sector. This alternative is for all registered charities and institutions of a public character that are registered under the Charities Act, except for CLGs and large IPCs that hold significant non-charity subsidiaries, associates or joint ventures. Such charities shall adopt FRSs as their financial reporting framework.

The CAS does not apply to charities that are Statutory Bodies as listed in the Schedule of the Accounting Standards Act (Cap. 2B) and educational institutions as listed in the Third Schedule of the Charities (Accounts and Annual Report) Regulations 2011.

The applicable financial reporting framework¹ is summarised below:

Type of Charity	Applicable Financial Reporting Framework
CLGs and large IPCs with significant non-charity subsidiaries, associates or joint ventures	FRS
All other charities (including CLGs and large IPCs without significant non-charity subsidiaries, associates or joint ventures)	CAS or FRS

¹ This is based on the Statement of Applicability issued by the Office of the Commissioner of Charities (“OCOC”).

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SCOPE (cont'd)

Principal Impact

Both the Statement of Applicability and the CAS do not define “significant” non-charity subsidiaries, associates or joint ventures. This may create interpretation issues and diversity in practice for charities that have investments in non-charity subsidiaries, associates or joint ventures that are other than insignificant.

EFFECTIVE DATES

As highlighted in the above table, charities in the “all other charities” category have a choice of preparing their financial statements using either the CAS or FRSs. To facilitate the transition, the OCOC has adopted a phased approach as follows:

Type of other charities	Effective Dates (financial periods beginning on or after)
CLGs or large IPCs without significant non-charity subsidiaries, associates or JV	1 July 2011
Other charities with significant non-charity subsidiaries, associates or JV	1 January 2015
Other charities without significant non-charity subsidiaries, associates or JV	1 January 2015

The CAS requires retrospective application. RAP 6 will cease to be available for use by charities once they have adopted their applicable financial reporting framework. Charities are permitted and encouraged to adopt either the FRS or the CAS earlier than their respective above implementation dates.

KEY DIFFERENCES BETWEEN CAS AND FRS

The CAS was developed based on the requirements of FRS, taking into account the context and circumstances relevant to the charity sector. The following are the key differences between CAS and FRSs:

Presentation

- i) The statement of comprehensive income and statement of changes in equity under FRS are replaced by the statement of financial activities (“SOFA”) under CAS**

The CAS requires all charities to present income and expenditure by major types of funds (e.g. restricted income funds, unrestricted income funds and endowment funds). Income and expenditure are analysed by type of activity category and a clear link between income, expenditure and the type of activity category is required. Transfers between funds are also presented within the SOFA.

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KEY DIFFERENCES BETWEEN CAS AND FRS (cont'd)

Presentation (cont'd)

i) The statement of comprehensive income and statement of changes in equity under FRS are replaced by the statement of financial activities (“SOFA”) under CAS (cont'd)

FRS 1 however requires the statement of comprehensive income and statement of changes in equity to be presented. In the statement of comprehensive income, income may be categorised by nature whilst expenditure may be analysed by nature or function, whichever provides information that is more reliable. Transfers between funds are presented within the statement of changes in equity.

The present accounting system of the charities should be evaluated to determine whether or not it is able to support the categorisation and apportionment of income and expenditure into the various activity categories as required by the CAS.

ii) The statement of comprehensive income and statement of changes in equity under FRS are replaced by the statement of financial activities (“SOFA”) under CAS

The CAS requires all charities to present income and expenditure by major types of funds (e.g. restricted income funds, unrestricted income funds and endowment funds). Income and expenditure are analysed by type of activity category and a clear link between income, expenditure and the type of activity category is required. Transfers between funds are also presented within the SOFA.

FRS 1 however requires the statement of comprehensive income and statement of changes in equity to be presented. In the statement of comprehensive income, income may be categorised by nature whilst expenditure may be analysed by nature or function, whichever provides information that is more reliable. Transfers between funds are presented within the statement of changes in equity.

The present accounting system of the charities should be evaluated to determine whether or not it is able to support the categorisation and apportionment of income and expenditure into the various activity categories as required by the CAS.

iii) The third balance sheet is not required

The CAS does not require a third balance sheet to be presented for the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement, as defined in FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when the entity reclassifies items in the financial statements whilst FRS 1 requires the presentation of a third balance sheet in these circumstances.

iv) Statement of cash flows – Indirect method

The CAS requires cash flows from operating activities to be presented using the indirect method whilst FRS 7 prescribes the use of either the direct or indirect method.

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KEY DIFFERENCES BETWEEN CAS AND FRS (cont'd)

Recognition

i) Donation and grant income is recognised in SOFA when entitlement is established

Donations and grants received are recognised in the SOFA when entitlement is established under the CAS. It is probable that income will be received and the amount of income can be measured with sufficient reliability.

Under FRS, donations and grants are recognised when there is a reasonable assurance that conditions will be met and amounts will be received. They are then typically recognised in the profit or loss on a systematic basis over the period in which the underlying expenditure is expensed.

Under both CAS and FRS frameworks, charities generally recognise donations and grants to beneficiaries as expenditure only when a constructive obligation exists, i.e. when a specific commitment has been communicated directly to the beneficiary and any conditions which fall outside the control of the giving charity.

Measurement

i) Revaluation of property, plant and equipment, investment properties and intangible assets

Under the CAS,

- property, plant and equipment, investment properties and intangible assets are measured using the cost model. Revaluation of these assets is prohibited under the CAS.
- charities however are required to disclose the market value of properties where there is a significant difference between the carrying amount and market value of properties (i.e. land and buildings) 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, proper disclosure of the fact is required to be disclosed.

FRS permits property, plant and equipment and intangible assets to be measured using the revaluation model. FRS 40 requires investment properties to be either measured at fair value, with changes in fair value recognised in the profit or loss. Entities are encouraged, but are not required to disclose the fair value of property, plant and equipment measured using the cost model when it is significantly different from the carrying amount.

FRS 40 requires investment properties measured at cost to disclose the fair value of the investment properties.

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KEY DIFFERENCES BETWEEN CAS AND FRS (cont'd)

Measurement (cont'd)

ii) Impairment assessment for property, plant and equipment and intangible assets

The CAS does not require a charity to undertake impairment assessment for property, plant and equipment and intangible assets, including goodwill, which are usually used in the furtherance of the charities' objects and are held for use by the charity.

In contrast, FRS requires an impairment loss to be recognised when an asset's carrying amount exceeds its recoverable amount for each cash-generating unit.

iii) Intangible assets including goodwill are amortised over their useful lives of not more than 10 years

The CAS requires all intangible assets, including goodwill, to be amortised over their useful lives capped at not more than ten years.

FRS 38 requires intangible assets to be amortised over their expected useful lives, and prohibits amortisation of goodwill and intangible assets with an indefinite useful lives. FRS requires impairment testing to be performed at least annually or when an indication of impairment exists, on these assets.

iv) Capitalisation of R&D and borrowing costs

Under CAS, all R&D and borrowing costs are required to be recognised as expenditure when they are incurred.

Whilst under FRS, costs incurred on internally generated intangible assets during the development phase are capitalised if certain conditions are met. FRS 23 sets out a framework of capitalising borrowing costs associated with the production of qualifying assets.

v) Fair value concept in measurement of financial instruments

The CAS requires the following:

- On initial recognition, all financial instruments except for finance lease receivables and payables are measured at cost, excluding transaction costs.
- On subsequent recognition, these financial instruments are measured at cost less accumulated impairment losses.
- Transaction costs are recognised as expenditure when they are incurred.
- Fair value re-measurement is prohibited.
- Impairment of non-equity financial instruments is determined based on undiscounted (i.e. not adjusted for the time value of money) projected future cash flows (excluding unearned interest income in the case of an interest-bearing financial asset) that the charity expects to receive from the financial assets.
- Interest is recognised in the SOFA based on contractual rates.

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KEY DIFFERENCES BETWEEN CAS AND FRS (cont'd)

Measurement (cont'd)

v) Fair value concept in measurement of financial instruments (cont'd)

Whilst FRS 39 requires:

- On initial recognition, all financial instruments are to be measured at fair value.
- On subsequent recognition, they are measured at fair value or amortised cost, depending on their classification.
- Transaction costs are generally included in the carrying amount of financial instruments and the calculation of effective interest rate, the basis upon which interest is recognised.
- Impairment of non-equity financial assets is determined based on projected future cash flows discounted using the original effective interest rate.
- Embedded derivatives are also required to be separately accounted for unless conditions are met and recognised at fair value through profit or loss.

vi) The following are key differences in the accounting for “other charities” with investments in subsidiaries, associates or joint ventured that choose to adopt the CAS:

- Mandatory presentation of separate financial statements of the holding/parent entity except for statement of cash flows, under CAS. FRS 27 *Consolidated and Separate Financial Statements* does not require separate financial statements of holding company.
- Under CAS, no exemption from consolidation of subsidiary or equity accounting for associates and JV's. There are certain exemptions per FRS 27 *Consolidated and Separate Financial Statements*.
- Impairment of investments in subsidiaries, associates and joint ventures is based on the excess of the carrying amount over the charity's share of the net assets of the investments, under CAS. Under FRS, impairment is based on the higher of fair value less cost to sell and value in use.

ADDITIONAL DISCLOSURES UNDER CAS

The following additional disclosures are required under CAS:

- Details of loans extended to other parties (e.g. legal or non-legal entities, persons or the charity's staff) and the loan recipient's relationship with the charity and/ or governing board members. This disclosure is also required even for charities that have adopted FRS as their applicable financial reporting framework.
- Analysis of grant expenditure by the type of programmes and recipients, including name of institutional recipient and grant amount.
- Details of material commitments, including the amount of outstanding commitments and their movements therein.

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ADDITIONAL DISCLOSURES UNDER CAS (cont'd)

- Details of remuneration and benefits to each governing board member and their close family members. A negative statement is required.
- Details of advances, credits and guarantees to each governing board member and their close family members.
- Segmental information to distinguish key results of the charity from those of its subsidiaries.

TRANSITION TO CAS

The CAS provides special exemptions and simplified transitions for first-time adopters. These special exemptions and simplified transitions are only applicable for first-time adopters.

In the first set of financial statements that conform with CAS, charities are to:

- Explicitly state that the financial statements comply with CAS
- Prepare full comparative information, including narrative and descriptive information for all monetary amounts for the previous period².
- Recognise adjustments to the relevant funds, arising from the changes in accounting policies due to adoption of CAS in the opening balance sheet at the date of transition
- Apply the following transition requirements:
 - Property, plant and equipment or intangible asset
 - i) Revaluation as deemed cost
 - ii) Cost less accumulated impairment losses as deemed cost
 - Goodwill, or an investment in a subsidiary/associate/jointly controlled entity
 - Cost less accumulated impairment losses as deemed cost
 - Financial asset or financial liability
 - Fair value as deemed cost
 - Amortised cost less accumulated impairment losses as deemed cost (other than finance lease receivable or payable)
 - Investment property
 - Fair value as deemed cost
 - Borrowing costs
 - Not required to expense any borrowing costs that had been capitalised previously under the previous financial reporting framework

² 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 the fact.

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TRANSITION TO CAS (cont'd)

- Business combinations
 - Not required to apply the CAS retrospectively to past business combinations that occurred before the date of transition to the CAS
 - If a first-time adopter restates any past business combinations to comply with the CAS, all later business combinations should be restated
- Deferred income tax
 - Not required to recognise 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

Charities are not required to apply the requirements in the CAS to comparative information that relates to financial periods beginning before the effective dates if it is impracticable to do so. This fact should be disclosed when this exemption is applied.

Charities are strongly discouraged from changing from CAS to FRS or vice-versa once they have adopted their applicable financial reporting framework. This is to ensure the comparability of the charity's financial statements across periods.

CHARITIES ACCOUNTING STANDARD

This publication is not a substitute for professional advice. Partners and professional staff of Moore Stephens LLP Singapore are more than happy to advise you on specific situations and circumstances.

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