Why Charities Accounting Standard...

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SSA CONSULTING GROUP
Singapore Accounting Standards

• **Financial Reporting Standard (FRS)** - the financial reporting framework of larger commercial organisations in Singapore. It comprises about 40 different FRSs.

• **FRS for Small Entities** – issued in Nov 2010 - meant for smaller commercial organisations. Not applicable to charities or non-profit organisations.

• **Charity Accounting Standard (CAS)** – issued in June 2011 - was developed to cater to the financial reporting needs of charities in Singapore. Charities are given the option to use CAS or continue with FRS.
Accounting for Separate Funds

• Charities shall account for the proper administration of individual funds according to their respective terms of trust.
• Where there are more than one fund, the accounts should provide the income and expenditure activities of the main funds:
  - Unrestricted income funds,
  - Restricted income funds, and
  - Endowment funds.
Financial Statements

- Statement of Financial Activities
- Balance Sheet
- Statement of Cash Flows
- Notes explaining the accounting policies adopted and other information; and
- The comparative figures for the previous financial period provided in accordance with the CAS.
Statement of Financial Activities

• To 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, if any.
• The statement shall show in columns, the movements in each type of funds.
• Stakeholders, especially donors, will have better understanding on how their monies have been spent.
Example of Extracts from SOFA

### 1 April 2011 to 31 March 2012

<table>
<thead>
<tr>
<th>Group</th>
<th>Note</th>
<th>Unrestricted Funds S$</th>
<th>Restricted Funds S$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from generated funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voluntary income</td>
<td>4</td>
<td>4,224,303</td>
<td>1,051,131</td>
</tr>
<tr>
<td>Activities for generating funds</td>
<td>5</td>
<td>1,393,327</td>
<td>-</td>
</tr>
<tr>
<td>Investment income</td>
<td>6</td>
<td>301,711</td>
<td>2,510</td>
</tr>
<tr>
<td>Income from charitable activities</td>
<td>7</td>
<td>21,100,304</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>8</td>
<td>375,846</td>
<td>3,898</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td></td>
<td>27,395,491</td>
<td>1,057,539</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of generating funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voluntary income</td>
<td>9</td>
<td>76,180</td>
<td>-</td>
</tr>
<tr>
<td>Fundraising activities</td>
<td>9</td>
<td>145,437</td>
<td>-</td>
</tr>
<tr>
<td>Charitable activities</td>
<td>10</td>
<td>24,966,876</td>
<td>557,673</td>
</tr>
<tr>
<td>Governance costs</td>
<td>11</td>
<td>659,198</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td></td>
<td>25,847,691</td>
<td>557,673</td>
</tr>
<tr>
<td><strong>Net income before tax</strong></td>
<td>12</td>
<td>1,547,800</td>
<td>499,866</td>
</tr>
</tbody>
</table>
The Choice Between FRS & CAS

Valuation of Assets in balance sheet gets simpler in CAS.

• **PPE** - Measured at cost, not revalued, and not required to be assessed for impairment.

• **Investment Property** - measured at cost, not to be revalued or measured at fair value.

• **Investment in Financial Assets** - Measured at cost less impairment loss; not to be measured at fair value; disclose market value for quoted investments

• Balance sheet reflects lower asset value in CAS compared to FRS in times of inflation.
Asset Valuation - Illustration

- Investment property purchased at $400K in 2002.
- Now valued at $1.5 million.
- Rental income = $5K/month, or $60K/year
- Estimated ROI = 60/400 = 15% p.a

- Under **FRS**, property will be revalued to $1.5m. Revaluation reserve goes up by $1.1m. Balance sheet looks richer. ROI now becomes 4% p.a

- Under **CAS**, no revaluation is needed.
The Choice Between FRS and CAS

Business vs Charity Perspective

- **FRS caters mostly for business**
  - Intended users - investors, lenders and creditors
  - Balance sheet needs to look strong
    - investors (for stock price appreciation)
    - lenders (for securing of loans and other credit facilities)
    - creditors (for securing of credit facilities).

- **CAS specially customised for charities**
  - Intended users - donors, grant makers, authorities
  - Strength of balance sheet not critical; could even be a liability; better for charities to look poor
Should You Adopt CAS?

• CAS - Simpler financial reporting framework and more relevant to charities.
• FRS of about 40 standards vs CAS of only 1 standard.
• Frequent changes in FRS vs no change in CAS since its introduction in 2011.
• Less onerous for governing board members who are collectively responsible for its compliance.
• Teething issues can be overcome as evidenced in the adoption of RAP6 by some charities in 2006.
• Future benefits of adopting CAS will far outweigh teething issues.
Moving Forward

• Lack of knowledge and understanding of CAS
  - Relevant finance staff can attend CAS workshops.

• Difficulty in conversion to CAS
  - Can apply for NCSS VCF consultancy subsidy for a consultant to assist in the conversion process.
Consultants
Finance, Productivity, HR & Governance

WDA-Accredited CET Centre
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Workplace Skills (WPS)
International Computer Driving Licence (ICDL)
Executive Development & Growth for Excellence (EDGE)
Generic Manufacturing Skills (GMS)

Websites
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