



# Why Charities Accounting Standard...

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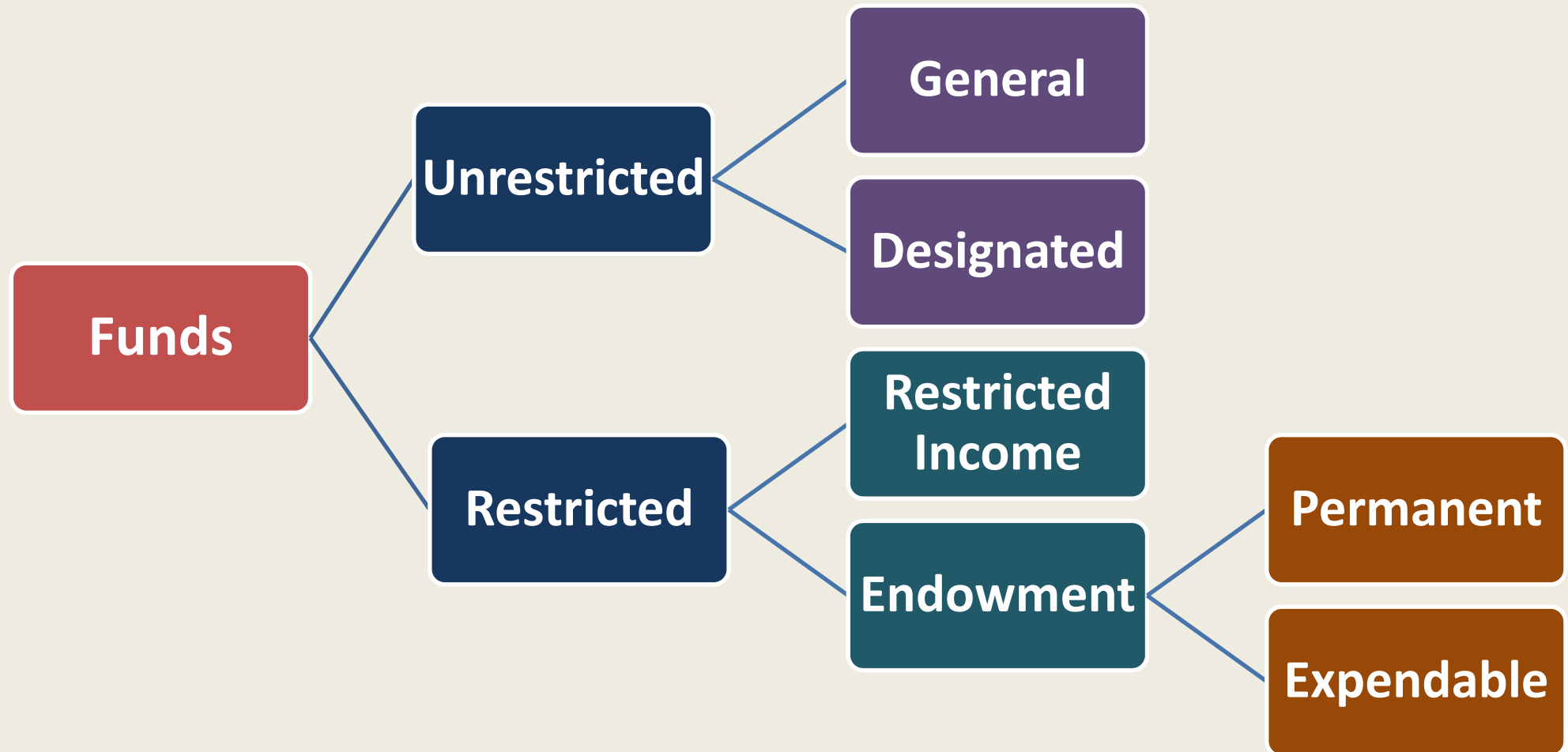
# Singapore Accounting Standards

- **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.**

# 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

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



# 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.





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