RECOMMENDED ACCOUNTING PRACTICE

RAP 6

Accounting and Reporting by Charities

The Statement of Recommended Accounting Practice, RAP 6, was approved by the Council of the Institute of Singapore Chartered Accountants (formerly known as Institute of Certified Public Accountants of Singapore) in November 2005.

A charity shall apply this statement for annual periods beginning on or after 1 January 2006. Earlier application is permitted.

This RAP 6 was withdrawn on 6 June 2016.

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Foreword

This statement of Recommended Accounting Practice is based on the Statement of Recommended Practice (Revised 2005) (“SORP”) on Accounting and Reporting by Charities issued by the Charity Commission for England and Wales. The Institute acknowledges its gratitude to the Charity Commission.

This statement sets out recommendations on the way in which a charity should account for and report on the resources entrusted to it and the activities, which it undertakes. This statement is intended to be applicable to all charities in the Republic of Singapore, regardless of their constitution, size or complexity. It is recognised that some of the recommendations may be inapplicable to some charities because of the nature of the charity or the limited classes or size of the transactions or assets involved. However, the full recommendations are given, leaving discretion to the trustees/office bearers of each charity to apply them according to the character of the charity and the significance of the figures concerned. Charities with gross annual income or expenditure of $5,000,000 or less should comply with this statement while those with gross annual income or expenditure of more than $5,000,000 should additionally refer to the detailed guidance contained in Appendix 5. Charitable entities, projects, activities or events with a gross income or expenditure of $250,000 or less should, as a minimum, prepare a statement of income and expenditure, which is illustrated in Appendix 4.

The main obligation of trustees/office bearers in preparing accounts and reports is to give a true and fair view of the charity’s incoming resources and application of resources during the financial period and of its state of affairs at the end of the period. To achieve this, the trustees’/office bearers’ judgement may dictate the disclosure of more information than specifically recommended in this statement. Occasionally, trustees/office bearers may find that following a recommendation is incompatible with the obligation to give a true and fair view. Subject to concurrence with their external auditors, they may then use the alternative accounting treatment, which gives a true and fair view, and disclose any departure from the recommendations and the reasons for it. A departure from the statement is not justified simply because it gives the reader a more appealing picture of the financial position or results of the charity.

Although the provisions for this statement are not mandatory, charities falling within the scope of this statement are encouraged to comply with the recommendations set out in this statement. The provisions of this statement need not apply to items that are not material.

Introduction

Effective Date of Commencement

1. This Statement of Recommended Accounting Practice, RAP 6, is applicable to all accounting periods beginning on or after 1 January 2006. Earlier application is permitted. If a charity applies this statement for an earlier period, it shall disclose that fact. A charity need not apply the requirements in this statement to comparative information that relates to annual periods beginning before 1 January 2006 or for a prior period for which it was not required if it is impracticable to do so. In such a case, the charity shall disclose that fact.

The Objectives

2. The objectives of setting out these recommendations include improving the quality of financial reporting by charities, enhancing the relevance, comparability and understandability of information presented in accounts, providing clarification, explanation and interpretation of accounting standards and of their application in the charities sector and to sector specific transactions and assisting those who are responsible for the preparation of charities' annual reports and accounts. The intention is that these recommendations will reduce diversity in accounting practice and presentation. In all but exceptional circumstances, charities preparing accrual accounts should follow this statement in order for their accounts to give a true and fair view. Accounting polices should generally comply with the measurement principles of the Financial Reporting Standards (FRSs). Appropriate disclosure of the accounting policies should be made in the notes to the financial statements.

Scope

3. This RAP is intended to apply to all charities in Singapore that prepare accounts on the accruals basis to give a true and fair view of a charity's financial activities and financial position regardless of their size, constitution or complexity. Charities with gross annual income or expenditure of $5,000,000 or less should comply with this statement while those with gross annual income or expenditure of more than $5,000,000 should additionally refer to the detailed guidance contained in Appendix 5. Charitable entities, projects, activities or events with a gross income or expenditure of $250,000 or less should, as a minimum, prepare a statement of income and expenditure, which is illustrated in Appendix 4.

4. Each accounting recommendation should be considered in the context of what is material (Refer to Glossary) to the particular charity.

Purpose of Annual Report and Accounts

5. The purpose of preparing a Charity's Annual Report and Accounts is to discharge the charity trustees'/office bearers' duty of public accountability and stewardship. This RAP sets out recommended accounting practice for this purpose but charity trustees/office bearers should consider providing such additional information as is needed to give donors, beneficiaries and the general public a greater insight into the charity's activities and achievements. Accounts prepared on the basis of this RAP 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.

6. Charities are highly disparate in character, so any comparison of the financial information they produce should be undertaken with care, even if the charities involved seem to be similar. Essentially the accounts should include all the money and other assets entrusted to the charity for whatever purpose, and show how they have expended during the year and how the balance of each fund is deployed at the end of the accounting period.

7. 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.

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

9. Accounts focus on financial performance and in isolation do not give the reader a perspective of what has been achieved from the activities undertaken and the resources expended in their delivery. The RAP recognises these limitations and places significant weight on the Charity's Annual Report to provide a necessary link between objectives, strategies, activities and the achievements that flow from them. Without this information the value of the accounts to the reader may be significantly diminished.

10. The Charity's Annual Report and Accounts should therefore:

(a) provide timely and regular information on the charity and its funds;

(b) enable the reader to understand the charity's objectives, structure, activities and achievements; and

(c) enable the reader to gain a full and proper appreciation of the charity's financial transactions during the accounting period and of the position of its funds at the end of the period.

Statutory and Other Requirements

11. All charities in the Republic of Singapore except for "exempt charities" must comply with the requirements of the Charities Act (Cap. 37) regarding the preparation, audit and general obligations to keep accounts. Many charities are also, by virtue of their constitution, subject to other statutory requirements and may have to comply with separate financial reporting requirements [e.g. foundations registered under the Companies Act (Cap 50)]. Additionally, some charities may be conferred "Institution of Public Character" or "IPC" status. IPCs are required to comply with certain conditions stipulated by the Minster for Finance.

12. Although the recommendations contained in this statement are intended to represent best practice, there may be circumstances in which they conflict with, or omit, some of the statutory requirements imposed on the charity. This statement cannot overrule such requirements.

Accounts Structure

13. Charity accounts should comprise:

(a) a Statement of Financial Activities for the accounting period that shows all incoming resources and all resources expended by it and reconciles all changes in its funds. The statement should consist of a single set of accounting statements and be presented in columnar form if the charity operates more than one class of fund;

(b) an income and expenditure account where this is a legal requirement. This applies to charitable companies. In certain circumstances the Statement of Financial Activities will also meet the legal requirements for an Income and Expenditure Account. Where the two statements are combined this should be identified in the heading of the statement;

(c) a Balance Sheet that shows the recognised assets, the liabilities and the different categories of funds of the charities;

(d) a Cash-flow Statement, in accordance with Financial Reporting Standards; and

(e) notes explaining the accounting policies adopted and other notes, which explain or expand upon the information contained in the accounting statements referred to above or which provide further useful information. This will include notes analysing the figures in the accounts and explaining the relationships between them.

14. The corresponding figures for the previous accounting period should be provided in accounts in accordance with FRSs. The duration of the current and previous accounting periods should also be shown.

15. The Statement of Financial Activities, the income and expenditure account, balance sheet, and cash-flow statement are all considered to be "primary statements", and should therefore be given equal prominence in the accounts and should not be relegated to the notes to the accounts.

16. Where any charity is, or its trustees are, acting as custodian trustees, they should not include the funds they hold as custodian in their own balance sheet but should disclose them by way of a note to their accounts and provide the details as set out below, in their Charity's Annual Report.

Content of Annual Report

The Charity's Annual Report

17. The Annual Report and Accounts should be approved by the trustees as a body in accordance with their usual procedures and both documents should be signed on behalf of the trustees by two of their number authorised to do so as appropriate. The date of approval should be stated.

18. The Annual Report should be attached to the accounts whenever a full set of accounts is distributed. Any audit, independent examination for other statutory report on the accounts should also be attached when they are distributed or made available to users of financial information.

19. Charitable companies must also prepare a Directors' Report in order to meet the requirement of Section 201 of the Companies Act (Cap. 50). A separate Annual Report is not required provided that any statutory Directors' Report prepared also contains all the information required to be provided in the Charity's Annual Report.

20. Trustees/office bearers should include any additional information which they are required by law to report and in order for the accounts to comply with current statutory requirements, the requirements of the charity's governing document and the requirements of this RAP.

21. The Annual Report should be a coherent document that meets the requirements of law and regulation and provides a fair review of the charity's structure, aims, objectives, activities and performance. Charities may additionally use other means of providing information, *outside of the accounting and reporting framework*, about who they are and what they do. Such information is often tailored for the needs of particular audiences and presented through annual reviews, newsletters and websites. Whilst trustees/office bearers might usefully refer to these other sources of information within their Annual Report, such additional information should not be seen as a substitute for good statutory annual reporting.

22. The report should provide the following reference and administrative information about the charity, its trustees/office bearers and advisers:

    (a) The name of the charity, which in the case of a registered charity means the name by which it is registered. Any other name by which a charity makes itself known should also be provided;

    (b) The charity registration number and, if applicable, the company registration number;

    (c) The address of the principal office of the charity and in the case of a charitable company the address of its registered office;

    (d) The names of all of those who were the charity's trustees and office bearers on the date the report was approved; where the charity trustees are incorporated this should include the name of the corporate body;

    (e) The name of any other persons who served as charity trustees or custodian trustees and office bearers in the financial year in question; where the charity trustee is a company or corporate body, the names of its current directors or other persons managing it.

Structure, Governance and Management

23. The report should provide the reader with an understanding of how the charity is constituted, its organisational structure and how its trustees are appointed and trained and assist the reader to understand better how the charity's decision-making processes operate. The level of detail provided in the report is likely to be dependent on the size and complexity of the charity and be appropriate to the needs of the users of the report. In particular, the report should explain:

    (a) The nature of the governing document (e.g. trust deed; memorandum and articles of association; constitution; bye-laws; etc) and how the charity is (or its trustees are) constituted (e.g. limited; unincorporated association; trustees incorporated as a body; etc).

    (b) The methods adopted for the recruitment and appointment of new trustees, including details of any constitutional provisions relating to appointments, for example, election to post. Where any other person or body external to the charity is entitled to appoint one or more of the charity trustees this should be explained together with the name of that person or body.

Objectives and Activities

24. The report should help the reader understand the aims and objectives set by the charity, and the strategies and activities undertaken to achieve them. The report may also, where relevant, explain how the objectives set for the year relate to longer term strategies and objectives set by the charity. Where significant activities are undertaken through subsidiary undertakings, these should be explained in the report. In particular, the report should provide a summary of the objects of the charity as set out in its governing document.

Achievements And Performance

25. The report should contain information that enables the readers to understand and assess the achievements of the charity and its subsidiary undertakings in the year.

Financial Review

26. The report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. In particular, the report should explain the charity's:

    (a) Policy on reserves (Refer to Glossary) stating the level of reserves held and why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure.

    (b) Where any fund is materially in deficit, the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit.

Funds Held as Custodian Trustee on Behalf of Others

27. Where a charity is, or its trustees are, acting as custodian trustees, the following matters should be disclosed in the report:

    (a) A description of the assets, which they hold in this capacity.

    (b) The name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within their own objects.

    (c) Details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

Donated Services and Facilities

28. A charity may receive assistance in the form of donated facilities, beneficial loan arrangements and donated services. Such incoming resources should be included in the Statement of Financial Activities where the benefit to the charity is reasonably quantifiable and measurable. The value placed on these resources should be the estimated value to the charity of the service or facility received: this will be the price the charity estimates it would pay in the open market for as service or facility of equivalent utility to the charity.

29. Donated services and facilities recognised in financial statements would include those usually provided by an individual or entity as part of their trade or profession for a fee. In contrast, the contribution of volunteers should be excluded from the Statement of Financial Activities as the value of their contribution to the charity cannot be reasonably quantified in financial terms. Commercial discounts should not be recognised as incoming resource except where they clearly represent a donation.

30. Where donated services or facilities are recognised, an equivalent amount should be included as expenditure under the appropriate heading in the Statement of Financial Activities.

31. The notes to the accounts should give an analysis of donated services or facilities included in the Statement of Financial Activities distinguishing appropriately between the different major items e.g seconded staff, loaned assets etc. The accounting policy notes should also indicate the basis of valuation used. Where donated services and facilities are received but not included in the Statement of Financial Activities (e.g. volunteers) this should be disclosed in the Charity's Annual Report if this information is necessary for the reader to gain a better understanding of the charity's activities.

General Accounting Principles

Fundamental Accounting Concepts

32. Accounts intending to show a true and fair view must be prepared on the going concern assumption and the accruals concept and provide information that is relevant, reliable, comparable and understandable (see Appendix 2: Application of Financial Reporting Standards).

Accounting Standards

33. In meeting the obligation to prepare accounts showing a true and fair view (see Foreword) accounts should follow the standards and principles issued by the Council on Corporate Disclosure and Governance. This statement provides guidance and recommendations that supplement accounting standards in the light of the special factors prevailing or transactions undertaken with the charity sector, and, as with the law, does not seek to repeat all of their requirements (see Appendix 2).

34. The Singapore Financial Reporting Standards provide the financial reporting framework under which this statement has been developed. In Singapore, compliance with companies' legislation presently requires compliance with Singapore Financial Reporting Standards.

Accounting for Separate Funds

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

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

Unrestricted Income Funds (Including Designated Funds)

37. Nearly all charities have a fund, which is available to the trustees/office bearers 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 trustees are free to use it for any of the charity's purposes. Income generated from assets held in an unrestricted fund will be unrestricted income.

38. The trustees/office bearers 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 should be accounted for as part of the charity's unrestricted funds. The trustees/office bearers have the power to re-designate such funds within unrestricted funds. When a designation has been made at the balance sheet date, the amount of the designation may be adjusted subsequent to the year end if more accurate information becomes available.

Restricted Funds

39. Many charities hold funds that can only be applied for particular purposes within their objects. These are restricted funds and have to be separately accounted for. The restriction may apply to the use of income or capital or both. 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 trustees/office bearers.

Endowment Funds

40. One form of restricted fund is an "endowment", which is held on trust to be retained for the benefit of the charity as a capital fund. Where the trustees/office bearers must permanently maintain the whole of the fund it is known as permanent endowment. Such a fund may consist of investment assets and/or assets that are used for the purposes of the charity. Such a fund cannot normally be spent as if it were income.

41. In some instances the trustees/office bearers may have a power of discretion to convert endowed capital into income in which case the fund is known as expendable endowment.

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

Gains and Losses

43. Realised and unrealised gains and losses on assets held in a particular fund form part of that fund. Similarly, provisions for depreciation, or for an impairment of assets form part of the fund in which the asset is held.

Reconciliation of Funds

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

Particulars of Individual Funds and Notes to the Accounts

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

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

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

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

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

(e) Where, in relation to permanent endowment, a total return approach to investments has been adopted, the notes to the accounts should give particulars of the movements in the value of the unapplied total return for the financial year. The note should reconcile the balance held as unapplied total return at the beginning with that at the end of the financial year. (See Appendix 3)

Branches

46. Before preparing accounts, trustees/office bearers must be clear as to the legal structure of the charity. A charity may operate through "branches" to raise funds and/or carry out its charitable purposes. Branches as defined in the Glossary will be accounted for as part of the whole charity. Further details on accounting for branches are in Appendix 5.

Statement of Financial Activities

Introduction

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

Structure of the Statement

48. In the Statement of Financial Activities the charity's incoming resources and resources expended should be analysed so that the reader can see where its resources came from and what it spent its resources on during the year. As a minimum it must also distinguish between unrestricted income funds, restricted income funds and the endowment funds of the charity. All of the charity's incoming resources and resources expended can be categorised between these funds, but a charity will not necessarily have funds of all three types.

Incoming Resources

General Rules on the Recognition of Incoming Resources

49. Incoming resources - both for income and endowment funds - should be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity's assets. This will be dependent on the following three factors being met:

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

(b) certainty - when it is virtually certain that the incoming resource will be received;

(c) measurement - when the monetary value of the incoming resource can be measured with sufficient reliability.

50. All incoming resources should 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 incoming resources of the charity are the proceeds remitted to the charity by the organisers of the event, after deducting their expenses.

51. Where any incoming resources have been deferred, the notes to the accounts should explain the reasons for the deferrals and analyse the movement on the deferred account between incoming resources deferred in the current year and amounts released from previous years. Incoming resources of a similar nature can be grouped together in the notes as appropriate.

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

Analysis and Apportionment

53. Incoming resources should be analysed according to the activity that produced the resources. The analysis adopted should follow that given in Table A at Appendix 5, in particular grouping separately those resources generated by charitable activity from those activities aimed primarily at generating funds.

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

55. Where any apportionment has taken place the method of apportionment should be disclosed in the policy notes to the accounts

Voluntary Income

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

Legacies

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

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

Gifts in Kind

58. Gifts in kind should be included in the Statement of Financial Activities and the basis of any valuation should be disclosed in the accounting policies.

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

Investment Income

60. The notes to the accounts should show the gross investment income arising from each class of investment.

Incoming Resources from Charitable Activities

61. An analysis of incoming resources from charitable activities should be given in the notes to the accounts to supplement the analysis on the face of the Statement of Financial Activities. It should be sufficiently detailed so that the reader of the accounts understands the main activities carried out by the charity and the main components of the gross incoming resources receivable from each material charitable activity. As far as possible, incoming resources should be analysed using the same analysis categories as used for resources expended on charitable activities.

Expenditure and Costs

General Rules on the Recognition of Resources Expended

62. Expenditure should be recognised when and to the extent that a liability is incurred or increased without a commensurate increase in recognised assets or a reduction in liabilities. In accounts prepared on the accruals basis (see Appendix 2) liabilities are recognised as soon as there is a legal or constructive obligation committing the charity to the expenditure as described in the FRS Framework and FRS 37. A liability will arise when a charity is under an obligation to make a transfer of value to a third party as a result of past transactions or events.

Support Costs

63. The notes to the accounts should provide details of the total support costs incurred and of material items or categories of expenditure included within support costs.

64. Where support costs are material, an explanation should be provided in the notes of how these costs have been allocated to each of the activity cost categories disclosed in the Statement of Financial Activities or supporting notes to the accounts.

Allocation of Costs

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

66. Where any fundraising activity is identified as meeting the criteria of a multi-purpose activity and part of the costs of the multi-purpose activity are allocated to charitable activities then the policy for the identification of such multi-purpose costs should be explained in the accounting policy notes together with the basis on which any allocation to charitable activities is made.

Costs of Generating Funds and Voluntary Income

67. The Statement of Financial Activities provides an analysis of the resources expended by a charity based on the nature of the activities undertaken. Resources expended are 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 accounts should include an analysis of the sub-activities, services, programmes, projects or other initiatives that contribute to a particular activity category.

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

69. Exceptional costs that arise in the context of generating voluntary income should not be presented as a separate category of costs on the face of the Statement of Financial Activities but, rather, should 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, should be disclosed in the notes to the accounts 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 to give a true and fair view. An adequate description should be given to enable its nature to be understood.

Fundraising Trading: Cost of goods sold and other costs

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

Charitable Activities

71. Resources expended on charitable activities should be analysed on the face of the Statement of Financial Activities or in a prominent note to the accounts. This analysis should provide an understanding of the nature of the activities undertaken and the resources expended on their provision. This analysis may, for example, set out the activity cost of the main services provided by the charity, or set out the resources expended on material programmes or projects undertaken by the charity.

72. The note to the accounts should identify the amount of support costs allocated to charitable activities.

73. Where activities are carried out through a combination of direct service or programme activity and grant funding of third parties, the notes to the accounts should identify the amount of grant making expenditure using the note to explain the activity funded.

Grant making

74. The analysis and explanation should help the reader of the accounts understand how the grants made relate to the objects of the charity and the policy adopted by the trustees in pursuing these objects. The term grant is defined in the Glossary.

75. The notes to the accounts should identify the amount of support costs associated with grant making activities.

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

    (a) the total amount of grants analysed between grants to individuals and grants to institutions,

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

Governance Costs

77. The accounting policy notes should explain the nature of costs allocated to the governance category, and an analysis may be provided within the notes to the accounts of the main items of expenditure included within this category where it is considered to provide useful information to the users of the accounts. The term governance costs is defined in the Glossary.

Other Resources Expended

78. Other resources expended will include the payment of any resources that the charity has not been able to analyse within the main resources expended categories. This category should not be used for support costs that can be allocated to other activity costs.

Transfers

79. All transfers between the different categories of funds should be shown in the Statement of Financial Activities. The notes to the accounts should provide an explanation of the nature of each material transfer between funds.

Other Matters to be Covered in the Notes to the Accounts

Related Party Transactions

80. Trustee/officer bearer remuneration or other benefits should always be regarded as material. Material transactions with related parties should be disclosed irrespective of whether or not they are undertaken on an arm's length basis.

81. The required disclosure is as follows:

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

    (b) a description of the transaction;

    (c) the amounts involved;

    (d) outstanding balances with related parties at the balance sheet date and any provisions for doubtful debts from such persons;

    (e) any amounts written off from such balances during the accounting year; and

    (f) any other elements of the transactions, which are necessary for the understanding of the accounts.

82. The disclosure can be given in aggregate for similar transactions and type of related party, unless disclosure of an individual transaction or connected transactions:

    (a) is necessary for an understanding of the impact of the transactions on the accounts of the charity; or

    (b) is a legal requirement, for example, in relation to trustee remuneration.

Trustee/Office Bearer Remuneration and Benefits

83. Unlike in the case of the directors of commercial companies, it is not the normal practice for charity trustees/office bearers, or people connected with them, to receive remuneration, or other benefits, from the charities for which they are responsible, or from institutions connected with those charities. Detailed disclosures of remuneration and benefits are therefore required and should be made in accordance with relevant FRSs.

Trustee/Office Bearer Expenses

84. Where a charity has met individual expenses incurred by trustees/office bearers for services provided to the charity, either by reimbursement of the trustee/office bearer or by providing the trustee/office bearer with an allowance or by direct payment to a third party, the aggregate amount of those expenses should be disclosed in a note to the accounts. The note should also indicate the nature of the expenses (e.g. travel, subsistence, entertainment, etc) and the number of trustees/office bearers involved.

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

85. The notes to the accounts should disclose separately the amounts payable to the auditor, independent examiner or reporting accountant in respect of:

    (a) the costs of their respective external scrutiny; and

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

Analysis of the Net Movement in Funds

86. The net movement of funds represents the increase or decrease in resources available to a charity to deploy in undertaking future activities. Unlike profit or loss in a commercial entity, it should not necessarily be regarded as an indicator of a charity's performance. Charities also further their objectives by investing in tangible assets to provide services or by making investments of a programme or social related nature. Such applications are charitable but do not decrease the funds of a charity. Charities may also receive gifts of an endowed nature, which are identified separately in the primary accounting statements. Whilst endowments provide a source of income or service generation in future periods they are not available to finance expenditure.

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

    (a) total net movement in funds for the year;

    (b) net endowment receipts for the year (value of endowment receipts less any release of expendable endowment to income funds);

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

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

Balance Sheet

Introduction

88. The balance sheet provides a snapshot of the charity's assets and liabilities at the end of its accounting year and how assets are split between the different types of funds. The balance sheet will not always include all of the assets and liabilities of a charity, nor attach an up-to-date valuation for all assets. Some "Preservation of Monuments" assets, or contingent liabilities may be omitted. Where such assets or contingent liabilities exist and are not included in the balance sheet, details should be provided in the notes to the accounts.

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

Content of the Balance Sheet

Intangible Assets

90. Intangible assets should be included in the balance sheet in accordance with FRS 38 "Intangible Assets".

Property, Plant and Equipment

91. Property, plant and equipment should initially be included in the balance sheet using the following bases:

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

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

(c) Where functional items of property, plant and equipment have been donated, they should be included in the balance sheet at their fair value at the date of the gift and also included in the Statement of Financial Activities as an incoming resource.

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

92. Property, plant and equipment for use by the charity should be analysed in the notes to the accounts within appropriate classes.

"Preservation of Monuments" Assets

93. Information on "Preservation of Monuments" assets (whether or not they have been capitalised) should be given in the notes to the accounts. The notes should contain:

(a) an analysis or narrative that enables the user to appreciate the age, scale and nature of the “Preservation of Monuments” assets held and the use made of them;

(b) either:

(i) details of the cost (or value) of additions and disposals of “Preservation of Monuments” assets during the year; or

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

(c) accounting policy notes explaining the charity's capitalisation policy in relation to “Preservation of Monuments” assets and the measurement bases adopted for their inclusion in the accounts.

Investment Assets

94. All investment assets other than programme related investments, should be shown in the balance sheet in accordance with FRSs as appropriate.

95. The investment asset note to the accounts should disclose separately:

(a) investments held primarily to provide an investment return for the charity; and

(b) programme related investments (Refer to Glossary) that the charity makes primarily as part of its charitable activities.

96. Where values are determined other than by reference to readily available market prices (Refer to Glossary), the notes to the accounts should disclose who has made the valuation, giving:

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

(b) the basis or bases of valuation.

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

Programme Related Investments

98. Where the use of programme related investments forms a material part of the work of the charity, or the amounts form a material part of the investment assets of the charity, the notes to the accounts should show all changes in carrying values of programme related investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments.

99. The notes should also analyse programme related investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports.

Current Assets

100. Current assets other than current asset investments should normally be recognised at the lower of their cost and net realisable value.

101. Where there are debtors, which do not fit into any of the following categories, the headings may be added to or adapted as appropriate to the type of debtor and nature of the charity.

102. Debtors should be analysed in the notes to the accounts between short term and long term (after more than one year) giving amounts for the following:

(a) trade debtors;

(b) amounts due from subsidiary and associated undertakings;

(c) other debtors;

(d) prepayments and accrued income.

103. Where long term debtors are material, in the context of the total net current assets, they should be separately shown in the balance sheet.

104. Where investments are held as current assets the same disclosure is required as for Investment Assets above.

Current Liabilities and Long-term Creditors

105. Liabilities should normally be recognised at their settlement value. In the case of provisions, this will be the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time and may therefore involve discounting.

106. Where there are creditors which do not fit into any of the following categories, the headings may be added to or adapted as appropriate to the type of creditor and nature of the charity. The totals for both short-term and long-term creditors should each be separately analysed in the notes giving amounts for appropriate classes like the following:

(a) loans and overdrafts;

(b) trade creditors;

(c) amounts due to subsidiary and associated undertakings;

(d) other creditors;

(e) accruals and deferred income.

Provisions for Liabilities and Charges

107. Expenditure resulting from provisions that arise due to a legal or constructive obligation (as per FRS 37) should be accounted for in the Statement of Financial Activities. Such provisions should be appropriately analysed in the balance sheet between liabilities due within one year and those falling due after one year.

108. Particulars of all material provisions for liabilities and charges accrued in the balance sheet as liabilities should be disclosed in the notes. Similarly, particulars of all material commitments in respect of specific charitable projects should be disclosed if they have not been charged in the accounts.

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

Other Balance Sheet Matters to be Covered in the Notes to the Accounts

Guarantees

110. All material guarantees given by the charity, and the conditions under which liabilities might arise as a result of such guarantees, should be disclosed in a note to the accounts.

Contingent Assets and Liabilities

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

112. The accounts should disclose the nature of each contingency, the uncertainties that are expected to affect the outcome, and a prudent estimate of the financial effect where an amount has not been accrued. If such an estimate cannot be made, the accounts should explain why it is not practicable to make such an estimate.

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

114. Where a liability has been accrued but there is still a contingent liability arising from the same set of circumstances then the notes to the accounts should link the provision and the contingent liability.

Cash Flow Statement

115. The disclosure requirements of FRS 7 will depend upon the exact basis of preparation and content of the cash-flow statement for each charity but the following are some of the more common disclosures:

(a) major transactions not resulting in cash movements should be disclosed in the notes if necessary for an understanding of the underlying transactions. For instance the release of expendable endowment;

(b) cash (and any financing) movements should be reconciled to the appropriate opening and closing balance sheet amounts; and

(c) a reconciliation of cash flows from “operating activities” within the cash flow statement to the net incoming resources/expenditure in the Statement of Financial Activities.

Disclosure of Accounting Policies

116. Charity accounts should include notes on the accounting policies chosen. These should be the most appropriate in the particular circumstances of each charity for the purpose of giving a true and fair view. The policies should be consistent with this RAP, FRSs and relevant legislation.

117. If the accounts depart from FRSs in any material respect, with the concurrence of the external auditors this should be stated in the accounting policies giving the reason and justification for the departure and the financial impact.

APPENDICES

Appendix 1 Glossary

GL 1 Activity Classification of cost

1.1 An “activity classification of cost” is the aggregation of costs incurred in pursuit of a defined activity (e.g. provision of services to elderly people or counselling), and is achieved by adding together all the costs (salaries, rents, depreciation etc) relating to that specific activity.

1.2 The three main ‘high level’ activities that charities preparing accruals accounts will report on are generating funds, charitable activity and governance costs of the charity.

GL 2 Actuarial Gains and Losses

2.1 Changes in the actuarial deficits or surpluses that arise because the actuarial assumptions, in relation to pension or other retirement benefit schemes, have changed or events have not coincided with the actuarial assumptions made for the last valuation.

GL 3 Branches

3.1 “Branches” (which may also be known as supporters’ groups, friends’ groups, members’ groups, communities or parishes which are part of a common trust etc.) are entities or administrative bodies set up, for example, to conduct a particular aspect of the activities of the reporting charity, or to conduct the activities of the reporting charity in a particular geographical area. They may or may not be legal entities, which are separate from the reporting charity.

3.2 For the purpose of this RAP a “branch” is either:

(a) simply part of the **administrative machinery** of the reporting charity; or

(b) a fund shown in the accounts as a restricted or endowment fund which may be a separate *legal entity* which is administered by, or *on behalf o*f, the reporting charity and whose funds are held for specific purposes which are within the general purposes of the reporting charity. *“Legal entit*y” means a trust or unincorporated association or other body formed for a charitable purpose. The words *“on behalf of*” should be taken to mean that, under the constitution of the separate entity, a substantial degree of influence can be exerted by the reporting charity over the administration of its affairs; or.

3.3 Some of the characteristics of a branch are:

(a) it uses the name of the reporting charity within its title;

(b) it exclusively raises funds for the reporting charity and/or for its own local activities;

(c) it uses the reporting charity’s registration number to receive tax relief on its activities;

(d) it is perceived by the public to be the reporting charity’s local representative or its representative for a particular purpose;

(e) it receives support from the reporting charity through advice, publicity materials, etc.

3.4 If the branch exists to carry out the primary objects of the charity, typically it will receive funds from the reporting charity for its work and may be staffed by employees of the reporting charity.

3.5 If the branch is not a separate legal entity, all funds held by a branch will be the legal property of the reporting charity, whether or not the branch has a separate bank account.

Organisations which are not Branches

3.6 Some charities may be known as "branches" within a particular organisational or network structure, but if their level of administrative autonomy from the reporting charity - as determined by their constitutions – is such that legislation requires them to be treated as separate accounting entities, then they should not be regarded as "branches" for accounting purposes but should prepare separate accounts for submission to the appropriate regulatory authority. Such "branches" may also be subsidiaries.

3.7 Other examples of organisations, which are not "branches" for the purpose of these recommendations, 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).

GL 4 Capital

4.1 In the context of charity law "capital" means resources which become available to a charity and which the trustees/office bearers are legally required to invest or retain and use for its purposes. "Capital" may be permanent endowment, where the trustees/office bearers have no power to convert it into income and apply it as such, or expendable endowment, where they do have this power (see Appendix 3).

4.2 Capital is also used in its various accounting meanings, such as the capital elements of property, plant and equipment, working capital or share capital.

GL 5 Charity

5.1 A "charity" is any institution established under the Charities Act.

GL 6 Charity Trustees

6.1 "Charity trustees" has the same meaning as in Section 2(1) of the Charities Act, that is the persons having the general control and management of the administration of a charity regardless of what they are called. Custodian trustees are not within this definition.

6.2 For instance, in the case of an unincorporated association the executive or management committee are its charity trustees, and in the case of a charitable company it is the directors who are the charity trustees.

6.3 Those concerned in any way with the administration of charities should note that the status of a charity trustee is defined in terms of the function to be performed, and not by reference to the title given to any office, or membership of any committee or committees.

GL 7 Connected Charities

7.1 "Connected charities" are those, which have common, parallel or related objects and activities; and either:

(a) common control; or

(b) unity of administration (e.g. shared management).

7.2 Within this category may be charities, which come together under one umbrella organisation or are part of a federal structure. Also see related parties.

GL 8 Constructive Obligation

8.1 An obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

GL 9 Contingent Asset

9.1 A possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or non-occurrence of one or more uncertain future events not wholly within the entity's control.

GL 10 Contingent Liability

10.1 This is ***either***:

(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity'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.

GL 11 Costs of Generating Voluntary Income

11.1 *Costs of generating voluntary income* comprise the costs actually incurred by a charity, or by an agent, in inducing others to make gifts to it that are voluntary incoming resources.

(a) Such costs **will include** the costs of producing fundraising advertising, marketing and direct mail materials, as well as any remuneration payable to an agent. It will normally include publicity costs but not those used in an educational manner in furtherance of the charity's objects.

(b) Such costs **will exclude** fundraising trading costs.

GL 12 Custodian Trustee

12.1 "Custodian Trustee" includes for present purposes any other non-executive trustee in whose name property belonging to the charity is held.

GL 13 Deferred Income

13.1 Deferred income consists of resources (normally cash) received by a charity that do not meet the criteria for recognition as incoming resources in the Statement of Financial Activities as entitlement to the incoming resource does not exist at the balance sheet date. This will arise for example, in the case of resources received but not yet earned (in the case of a contract) which is deferred to match with performance under the contract or where the conditions attaching to a grant prevents its immediate recognition.

13.2 Deferred income is not recognised in the Statement of Financial Activities until the charity is entitled to the incoming resource and instead is disclosed as a liability in the balance sheet.

GL 14 Defined Benefit Pension Scheme

14.1 A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

GL 15 Defined Contribution Pension Scheme

15.1 A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligations to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. An individual member's benefits are determined by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions.

GL 16 Depreciated Replacement Cost

16.1 The objective of depreciated replacement cost is to make a realistic estimate of the current cost of constructing an asset that has the same service potential as the existing asset.

GL 17 Designated Fund

17.1 See Appendix 3 (App 3.1)

GL 18 Donated Services and Facilities

18.1 Donated services and facilities could include gifts of facilities, beneficial loan arrangements, or services from volunteers.

GL 19 Endowment Fund

19.1 See Appendix 3 (App 3.3)

GL 20 Ex gratia Payment

20.1 Ex gratia payments are payments made at the discretion of trustees/office bearers and not as a result of a contract or other legal obligation.

20.2 Ex gratia payments are of two distinct types:

(a) Those made by a charity in relation to its charitable activities (e.g. extra payments to retiring employees). These will not normally need to be disclosed.

(b) Those where a charity believes it is expedient to make in relation to an obligation which is not within its charitable objects and powers. This may be, for example, to settle a claim in respect of a legacy that would otherwise consume charitable resources in legal expenses.

GL 21 Fair Value

21.1 Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

21.2 The object of fair value measurement is to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability

GL 22 Financial Derivative

22.1 A financial derivative is a security, such as an option or futures contract, whose value depends on the performance of an underlying security. In their simplest form derivatives can be used to reduce the cost and/or risk associated with holding or acquiring assets.

GL 23 Functional Property, Plant and Equipment

23.1 "Functional property, plant and equipment" are those assets, which are used for charitable purposes (i.e. within to undertake the activities that are within the charity's objectives).

GL 24 Fundraising Costs

24.1 Fundraising costs consist of two categories:

(a) Costs of raising voluntary income – see below and

(b) Fundraising trading costs, which comprise the costs of trading to raise funds including the cost of goods sold and any other costs associated with a trading operation.

GL 25 Funds

25.1 A "fund" is a pool of resources, held and maintained separately from other pools because of the circumstances in which the resources were 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. (see also Appendix 3 for the legal position as regards the various funds of a charity.)

GL 26 Governance Costs

26.1 These are the 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 trustees/office bearers and costs associated with constitutional and statutory requirements e.g. the cost of trustee meetings and preparing statutory accounts. Included within this category are any costs associated with the strategic as opposed to day-to-day management of the charity's activities.

GL 27 Grant

27.1 A grant is any voluntary payment (or other transfer of property) in favour of a person or institution. Grant payments, when made by a charity, are any such voluntary payments made in furtherance of its objects. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the grant, or property acquired with the aid of the grant, or part of it, being reclaimed.

GL 28 Grants and/or Contract Income

28.1 A payment made to a charity for the purpose of providing goods or services may be by way of grant or contract. The main distinction is that grant payments are voluntary whereas contracts are normally legally binding between the payer and the charity. The payment is not then voluntary and is not a grant. The distinction is important because:

(a) a contractual payment will normally be unrestricted income of the charity, but a grant for the supply of specific services will normally be restricted income;

(b) the nature of the payment may be relevant to its GST treatment.

28.2 It is not always easy in practice to decide whether a particular arrangement is or is not intended by the parties to be a legally binding contract for the supply of services. If, under the arrangement, the payer, rather than the recipient charity, has taken the lead in identifying the services to be provided, or if the arrangement provides for damages to be paid in the case of a breach of its terms, rather than, say, for total or partial refund of the payment, it is more probable that there is a contract for the supply of services. If there is no such contract, the rights and obligations of the parties will depend primarily on the law of trusts and conditional gifts, rather than on the law of contract.

28.3 Certain grant arrangements may not be contractual in law but nevertheless have the characteristics of a contract, in that the conditions attaching to the grant only give entitlement to the recipient of the funding (and a liability to the grant provider) as the goods or services specified in the grant terms are provided. Such arrangements are termed performance related grants.

GL 29 Gross Income

29.1 Gross income does not include the gains from disposals of property, plant and equipment and investments asset revaluation gains or any resources being received into the endowment funds. It will however include funds released from endowments.

29.2 In relation to consolidated accounts, gross income will relate to the gross income of the group after any adjustments arising from consolidation (e.g. inter-group sales).

GL 30 Inalienable Asset

30.1 An asset which a charity is required by law to retain indefinitely for its own use/benefit and therefore cannot dispose of without external consent, whether prohibited by its governing document, the donor's wishes or in some other way. Normally the asset will belong to the charity's "permanent endowment", where it is held on trusts, which contemplate its retention and continuing use but not its disposal. However, in the case of a gift-in-kind of a "wasting asset", such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. In that case the endowment will be expended to the extent of the aggregate amount of its depreciation or amortisation properly provided for in the annual accounts (i.e. based on its currently anticipated useful life).

GL 31 Income

31.1 In the context of charity law, *income* refers to resources received that must be expended within a reasonable time of their being received. This contrasts with capital funds (see definition above).

31.2 The term *income* is also used in its more general accounting sense. It is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

GL 32 Incoming Resources

32.1 Incoming resources means all resources which become available to a charity including contributions to endowment (capital) funds but excluding gains and losses on investment assets. Gross incoming resources include all trading and investment income, legacies, donations, grants and gains from disposals of property, plant and equipment for use by the charity. Incoming resources should be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity's assets.

32.2 This term is to be distinguished from the term gross income (see above) that is used for threshold purposes.

GL 33 Institution of Public Character ("IPC")

33.1 Institution of a public character is as defined in the Income Tax Act and means an institution or fund in Singapore which is:

(a) a hospital not operated or conducted for profit;

(b) a public or benevolent institution not operated or conducted for profit;

(c) a public authority or society not operated or conducted for profit and which is engaged in research or other work connected with the causes, prevention or cure of disease in human beings, where the donation is for such activities;

(d) a university or a public fund for the establishment, maintenance, enlargement or improvement of a university;

(e) an educational institution not operated or conducted for profit, or a public fund for the establishment, maintenance, enlargement or improvement of such an educational institution;

(f) a public or private fund for the provision, establishment or endowment of a scholarship, exhibition or prize in a university, or an educational institution not operated or conducted for profit;

(g) a public fund established and maintained for the relief of distress among members of the public;

(h) a charitable institution or a body of persons or a trust established for charitable purposes only; or

(i) an organisation not operated or conducted primarily for profit which is engaged in or connected with the promotion of culture or the arts or with the promotion of sports.

GL 34 Investment Management Costs

34.1 Investment management costs include the costs o*f:*

(a) portfolio management;

(b) obtaining investment advice;

(c) administration of the investments;

(d) rent collection, property repairs and maintenance charges.

34.2 Valuation fees incurred for accounting purposes would normally be charged to the governance cost category of the relevant funds that hold the properties being valued.

34.3 Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs.

GL 35 Investment Property

35.1 An investment property is an interest in property (land or building – or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

GL 36 Liability

36.1 A liability is an obligation of an entity to transfer economic benefits which:

(a) is expected to be settled by the entity parting with assets or in some way losing an economic benefit; and

(b) results from past transactions or events;

(c) embodies a present duty or responsibility to one or more other entities that entails settlement at a specified or determinable future date, on the occurrence of a specified event, or on demand; and

(d) results from a duty or responsibility which obligates the entity either legally, or practically (a constructive obligation), because it would be financially or otherwise operationally damaging to the entity not to discharge the duty or responsibility.

A moral obligation - such as results from the making of a non-contractual promise - does not create a liability unless it meets the definition above.

GL 37 Materiality

37.1 Materiality is the final test of what information should be given in a particular set of accounts. An item of information is material to the accounts if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those accounts, including their assessments of stewardship. Immaterial information will need to be excluded to avoid clutter, which impairs the understandability of other information provided.

37.2 Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects. The principal factors to be taken into account are set out below. It will usually be a combination of these factors, rather than any one in particular, that will determine materiality.

(a) The item’s size is judged in the context both of the accounts as a whole and of the other information available to users that would affect their evaluation of the accounts. This includes, for example, considering how the item affects the evaluation of trends and similar considerations.

(b) Consideration is given to the item’s nature in relation to:

(i) the transactions or other events giving rise to it;

(ii) the legality, sensitivity, normality and potential consequences of the event or transaction;

(iii) the identity of the parties involved; and

(iv) the particular headings and disclosures that are affected.

37.3 If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.

37.4 Trustees/office bearers are responsible for deciding whether an item is or is not material. In cases of doubt an item should be treated as material.

37.5 This process may result in different materiality considerations being applied depending on the aspect of the accounts being considered. For example, the expected degree of accuracy expected in the case of certain statutory disclosures e.g. trustees’ remuneration, may make normal materiality considerations irrelevant.

GL 38 Operating and Financial Review

38.1 An operating and financial review (OFR) is a form of reporting currently adopted by many listed companies and is designed to provide a balanced and comprehensive analysis of:

(a) the development and performance of the business of the entity during the financial year;

(b) the position of the entity at the end of the year;

(c) the main trends and factors underlying the development, performance and position of the business of the entity during the financial year; and

(d) the main trends and factors which are likely to affect their future development, performance and position, prepared so as to assist investors to assess the strategies adopted by the entity and the potential for those strategies to succeed.

GL 39 Parent Undertaking and Subsidiary Undertaking

39.1 In relation to a charity, an undertaking is the parent undertaking of another undertaking, called a subsidiary undertaking, where the charity controls the subsidiary. Control requires that the parent can both *direct* and *derive benefit* from the subsidiary.

(a) Direction is achieved if the charity or its trustees/office bearers:

(i) hold or control the majority of the voting rights, or

(ii) have the right to appoint or remove a majority of the board of directors or trustees/office bearers of the subsidiary undertaking, or

(iii) have the power to exercise, or actually exercise a significant influence over the subsidiary undertaking or

(iv) manage the charity and the subsidiary on a unified basis

For a fuller definition, reference should be made to the Companies Act and FRSs.

(b) Benefit derived can either be economic benefit that results in a net cash inflow to the charity or can arise through the provision of goods or services to the benefit of the charity or its beneficiaries.

39.2 Appendix 5 explains how to account for subsidiary undertakings within the consolidated accounts of a parent undertaking. This includes the exemptions from consolidation and the particular circumstances in which a charity can be considered to be a subsidiary undertaking of another charity.

GL 40 Performance-Related Grant

40.1 The term performance-related grant is used to describe a grant that has the characteristics of a contract in that:

(a) the terms of the grant require the performance of a specified service that furthers the objectives of the grant maker and

(b) where payment of the grant receivable is conditional on a specified output being provided by the grant recipient.

GL 41 "Preservation of Monuments" Assets

41.1 "Preservation of Monuments" assets refer to "monuments" as defined in the Preservation of Monuments Act and are *assets of historical, artistic or scientific importance* that are held to advance preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education. Such assets are central to the achievement of the purposes of such charities and *include* the land, buildings, structures, collections, exhibits or artefacts that are preserved *or* conserved and are central to the educational objectives of such charities.

41.2 Examples of these assets are:

(a) Charities with preservation objectives may hold specified or historic buildings or a complex of historic or architectural importance or a site where a building has been or where its remains can be seen.

(b) Conservation charities may hold land relating to the habitat needs of species, or the environment generally, including areas of natural beauty or scientific interest.

(c) Museums and art galleries hold collections and artefacts to educate the public and to promote the arts and sciences.

GL 42 Programme Related Investments

42.1 Programme related investments (also known as social investments) are made directly in pursuit of the organisation's charitable purposes. Although they can generate some financial return, the primary motivation for making them is not financial. Such investments could include loans to individual beneficiaries (e.g. for housing deposits) or to other charities (for example, in relation to regeneration projects).

GL 43 Provision

43.1 A provision (as defined in FRS 37) is a liability of uncertain timing or amount. It is recognised when a charity has a present obligation (a legal or constructive obligation exists at the balance sheet date) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

GL 44 Public Benefit Entity

44.1 Public benefit entities are reporting entities whose primary objective is to provide goods or services for the general public or social benefit and where any risk capital has been provided with a view to supporting that primary objective rather than for a financial return to equity shareholders.

GL 45 Related Parties

45.1 Related parties include all of the following:

(a) any **charity trustee** and **custodian trustee** of the charity;

(b) any **person or body** with:

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

(ii) *or* whose **consent is required** to the exercise of any of the discretions of those trustees/office bearers,

(iii) *or* **who is entitled to give directions** to those trustees/office bearers as to the exercise of any of those discretions.

(c) any institution **connected with** the charity, and any director of such an institution. An institution **connected with** a charity if *eithe*r:

(i) it is **controlled** by the charity. "Controlled" means that the charity is able to secure that the affairs of the institution are conducted in accordance with its wishes. A charity will control another if it is trustee of that charity or has power to appoint or remove a significant proportion of its trustees/office bearers. *Or*

(ii) an **interest** in it is beneficially owned by the charity. "Interest" means that the charity:

(a) is interested in shares comprised in the equity share capital of the body of a nominal value of more than one fifth of that share capital; or

(b) is entitled to exercise or control the exercise of more than one-fifth of the voting power at any general meeting of that body.

(d) any **other charity with which it is commonly controlled.** Common control exists if:

(i) the same person, or persons have the right to appoint a majority of the charity trustees/office bearers of both or all the charities; or

(ii) the same person, or persons, hold a majority of the voting rights in the administration of both or all of the charities.

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

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

(e) any **officer, agent or employee** of the charity **having authority or responsibility** for directing or controlling the major activities or resources of the charity; and

(f) any **person connected to a person** who is related to the charity including:

(i) members of the **same family or household** of the **charity trustee** or **related person** who may be expected to influence, or be influenced by, that person in their dealings with the charity;

(ii) **the trustees/office bearers of any trus**t, not being a charity, the **beneficiaries** or potential beneficiaries **of which include a charity trustee or related person or a person referred to in (i)** as being connected with a charity trustee or to a related person, as the case may be

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

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

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

(b) the related person has, or the related person and any other related parties of the charity, taken together, have a participating interest.

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

GL 46 Reserves

46.1 The term “reserves” has a variety of technical and ordinary meanings, depending on the context in which it is used. In this RAP the term “reserves” (unless otherwise indicated) describes that part of a charity’s income funds that is freely available.

46.2 This definition of reserves therefore normally excludes:

(a) permanent endowment funds;

(b) expendable endowment funds;

(c) restricted funds;

and any part of unrestricted funds not readily available for spending, specifically:

(d) income funds, which could only be realised by disposing of property, plant and equipment, held for charity use and performance related investments.

46.3 Individual charities may have more or less reserves available to them than this simple calculation suggests for example:

(a) Expendable endowments may be readily available for spending or

(b) Unrestricted funds may be earmarked or designated for essential future spending and reduce the amount readily available.

GL 47 Resources Expended

47.1 Resources expended means all costs incurred in the course of expending or utilising the charity's funds. This includes all claims against the charity upon being recognised as liabilities by the trustees/office bearers, as well as all accruals and payments made by the trustees/office bearers of a charity, and all losses on the disposal of property, plant and equipment (other than investments), together with all provisions for impairment of tangible property, plant and equipment or programme related investments.

47.2 This is to be distinguished from total expenditure (see below).

GL 48 Restricted Fund

48.1 See Appendix 3 (App 3.2)

GL 49 Support Costs

49.1 Support costs are those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

GL 50 Total Expenditure

50.1 Total expenditure is a term used within the Charities Act to determine the thresholds that govern the requirements for accounts scrutiny, submission of reports, accounts and an annual return to the Commissioner of Charities. Total Expenditure does not include losses on the disposal of property, plant and equipment nor amounts paid for the acquisition of property, plant and equipment nor any amounts paid out of endowment funds.

GL 51 Total Return Approach to Investment

51.1 The total return approach to investment management allows trustees/office bearers to manage investments without the need to take account of whether the return is income (dividends, interest, etc.) or capital gains and losses. Normally a total return approach cannot be adopted in relation to permanent endowment funds. Further details are given in Appendix 3.

GL 52 Trading

52.1 In a strict legal sense, trading activities are those carried out under contract, whether at the point of sale or otherwise, where goods and services are provided in return for consideration for those goods or services. Normally, trading activities are carried out on a regular basis with a view to making profits, though it is possible that some one-off activities could be regarded as trading.

52.2 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 a 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 RAP recognised on the same basis as trading income. This is because the charity has an obligation to provide the specific services or goods in the same way that it would have to provide them under contract. If it fails to provide the goods or services then, if the funds are by way of grant, this will be a breach of trust, but if they are by way of contract, this will be by way of breach of contract. The legal remedies of the funding body are different depending upon the circumstances.

52.3 Similarly, the sale of donated goods is in a legal sense regarded as the realisation of a donation. However, in the context of this RAP it is regarded as trading, and recognised as an activity for generating funds, because it is so similar to the sale of bought in goods as to be indistinguishable in the actual processes involved except for the legal distinction.

52.4 For income and goods and services tax purposes trading must be interpreted within the meaning of the legislation governing those taxes.

GL 53 Trustees

53.1 Has the same meaning as charity trustees.

GL 54 Trustee for a Charity

54.1 “Trustee for a charity” means any person (other than the charity itself, or a charity trustee of the charity) who holds the title to property belonging to the charity, and so includes a custodian trustee and a nominee.

GL 55 Unrestricted Fund

55.1 See Appendix 3 (App 3.1).

GL 56 Voluntary Income

56.1 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. They will thus exclude any gifts that are quasi-contractual (in that a certain service to a certain level must be provided) but they would include gifts that must be spent on some particular area of work (i.e. restricted funds).

Appendix 2
Application of Financial Reporting Standards

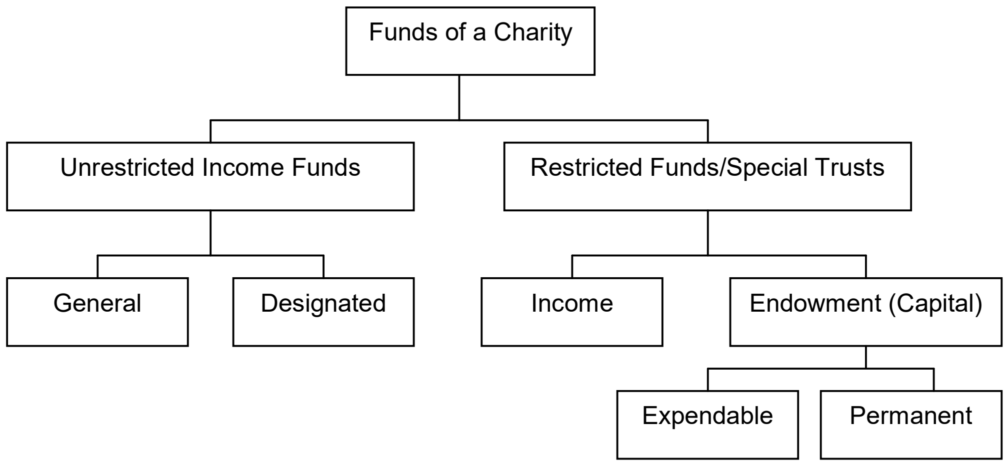
The following is a list of the Financial Reporting Standards extant at the date of issue of this RAP that are not applicable to charities following this RAP. The standards and relevant interpretations issued by the CCDG should only be applied in so far as they are relevant to activities being carried out by an individual charity.

FRS 33	Earnings Per Share
FRS 34	Interim Financial Reporting
FRS 41	Agriculture

Appendix 3
The Funds of a Charity

The purpose of this appendix is to explain the legal position as regards the various funds of a charity and the implications this has for the way in which the funds are accounted for.

Fig 1 - The types of funds of charities:



App3.1 Unrestricted Funds (including designated funds)

1(a) Unrestricted funds are expendable at the discretion of the trustees/office bearers 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 trustees/office bearers' discretion to apply the fund. Some trustees/office bearers 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 trustees'/office bearers' discretion to apply the fund will be legally restricted.

1(b) Whether or not trustees have the power to create restricted funds by declaring a trust, 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. In practice therefore unrestricted funds may be transferred to meet any overspending on a restricted fund.

1(c) A power of accumulation will allow trustees to create or augment endowment funds (restricted capital funds) from income funds (restricted or unrestricted). Without this power trustees may not create endowment from income funds. Trustees need to be aware that if they use income funds to erect, extend or improve a building on land which is an endowment asset, then those income funds will normally become permanent endowment.

App3.2 Restricted Funds

2(a) 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 trustees/office bearers 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.

2(b) Where incoming resources are for a goods or services and, upon full performance of the service, any surplus funds can be retained and used for general purposes, the incoming resources and related expenditure will most likely be unrestricted. However, if upon full performance any surplus is retrievable by the donor then the resources are most likely to be restricted.

2(c) Where funds are provided for property, plant and equipment, the treatment of the property, plant and equipment acquired with those funds will depend on the basis on which they are held. The terms on which the funds were received may require that the fixed asset, which is provided, should be held by the charity on trust for a specific purpose. Alternatively, if the charity's governing instrument allows them to do so, the trustees/office bearers may choose to settle the fixed asset on trust for a specific purpose implied by the appeal (this will be legally binding as opposed to an administrative decision taken by the trustees/office bearers to include assets in a designated fund). In either case the asset will form part of restricted funds, as will a fixed asset, which has itself been given to the charity on trust for a specific purpose. There is, however, no general rule and the treatment will depend upon the circumstances of each individual case.

App3.3 Endowment funds

Introduction

3(a) An endowment fund where there is no power to convert the capital into income is known as a permanent endowment fund, 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 does mean is that the permanent endowment fund cannot be used as if it were income (i.e. to make payments or grants to others), however certain payments must be made out of the endowment, such as the payment of investment management fees where these relate to investments held within the endowment. Where assets held in a permanent endowment fund are exchanged, their place in the fund must be taken by the assets received in exchange. "Exchange" here may simply mean a change of investment, but it may also mean, for example, the application of the proceeds of sale of freehold land and buildings in the purchase or improvement of freehold property.

3(b) Trustees/office bearers may have the power to convert endowment funds into expendable income; such funds are known as expendable endowments. (Expendable endowment is distinguishable from "income" in that there is no actual requirement to spend the capital unless, or until, the charity trustees decide to. The fund must be invested to produce income which should 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.

Expenses Related to Endowment Investments

3(c) Any expenses incurred in the administration, or protection of an endowment investments should be charged to capital. For example, the fees of someone who manages endowment investments, or the cost of improvements to land held as an endowment investment. 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.

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

3(e) Valuation fees incurred for accounting purposes would normally, in the case of endowment investments, be charged to capital and recorded in the governance category of resources expended.

3(f) All incoming resources derived from assets held as endowment investments should 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 should be appropriately identified in the restricted funds. Any income not spent at the year-end should be carried forward in the appropriate unrestricted or restricted fund.

Total Return on Investment for Permanent Endowment

3(g) The Commissioner of Charities may give the power to adopt a total return approach to investment (for definition see Glossary) to charities with permanent endowment. This power may be taken by new charities and will normally be given to existing charities by Order under section 30 of the Charities Act, which specifies required accounting and reporting disclosures. New charities with such a power are expected by the Commissioner of Charities to mirror these disclosures. The key elements of this approach are:

(i) The charity concerned must hold a permanently endowed fund, the assets of which are required to be invested to produce an investment return.

(ii) Because the return received from investment will not be "labelled" as either income or capital (as it would be under the standard rules), trustees/office bearers can allocate the return between the present and future beneficiaries in the way *they* consider best gives effect to their duty to be fair to all beneficiaries.

(iii) In any one year, total return is the whole of the investment return received by a charity, regardless of how it has arisen.

(iv) The accumulated total return, less any part of the return, which the trustees/office bearers have previously applied for the purposes of the charity, or have previously allocated to income funds, is referred to as the unapplied total return.

(v) The accounting treatment, where the total return approach to investment is adopted, is specified in the order granting the power and is summarised below.

Accounting Treatment for Total Return

3(h) Where a charity with the necessary authority adopts a total return approach to investment (See Glossary), the entire investment return initially accrues to an *unapplied total return fun*d. Any income earned on the endowment investments and any capital gains or losses will be shown in the relevant row of the Statement of Financial Activities in the endowment column.

3(i) The total return, less any part of the return, which has previously been applied for the purposes of the charity, or has previously been allocated to income funds remains in the *unapplied total return fun*d. This fund remains part of the permanent endowment until such time as a transfer is made to income funds.

3(j) Any transfer from the unapplied total return fund to either unrestricted or restricted income funds will be shown on the transfer row of the Statement of Financial Activities as appropriate.

3(k) The RAP sets out necessary note disclosures in relation to transfers between funds and movements in the *unapplied total return.*

Separate sets of statements may be produced for each major fund and linked to a total summary. The trustees/office bearers should decide on the most suitable form of presentation, bearing in mind:

(a) the complexity of the fund structure,

(b) the need for the total provided in the summary to agree to the primary statements (Statement of Financial Activities and Balance Sheet), and

(c) the need to avoid confusion between the movements on the various funds.

An example of a suitable summary is given in Table below:

Outline Summary of Fund Movements

Fund Name	Fund Balances brought forward	Incoming Resources	Outgoing Resources	Transfers	Gains and Losses	Fund Balances Carried forward
Major Fund 1						
Major Fund 2						
Major Fund 3						
Other Funds						
Total Funds						

App3.4 General Points

Asset Gains and Losses

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

Restricted Income and Expenditure

4(b) The trustees/office bearers of a charity will be in breach of trust if they expend restricted income otherwise than in furtherance of that aspect or those aspects of the objects of the charity to which expenditure is restricted. It is therefore essential that due care is taken to spend out of a particular restricted income fund only where the trusts so permit. Expenditure may be charged to a restricted fund, which is not at the time in credit, or not in sufficient credit, where there is a genuine anticipation of receipts, which can properly be credited to the fund in order to meet the expenditure (e.g. where a decision has been taken to invite donations for that fund). The fund, which is actually drawn upon to finance the expenditure, should be held upon trusts, which are wide enough to permit the expenditure (in case the expected receipts do not materialise). But if expenditure has been charged to an unrestricted fund, it should not subsequently be recharged to restricted fund receipts simply in order to increase the fund of unrestricted income.

Fund Assets and Liabilities

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

Income Application

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

Appendix 4
Illustration – Statement of Income and Expenditure

ABC Charity
Statement of Income and Expenditure for the XYZ Charity Project held from 1 June 20x1 to 30 June 20x1
(All amounts in Singapore dollars unless otherwise stated)

Income:	$
Donations – cash	xx
Donation – receivable	xx
Other items	xx
Total Collection Proceeds	xx
Expenditure and Application of Proceeds:	
Postage, Printing and Stationery	xx
Advertising	xx
Payment to Related Parties	xx
Other items	xx
Total Application of Proceeds	xx
Surplus from Appeal	xx
Represented by Balance sheet items transferred to the charity's main accounts as follows:	
Donated Assets *	xx
Cash	xx
Receivables	xx
Payables	(xx)
	xx

Signature/Date:____________________ Signature/Date: ____________________

Name: ____________________ Name: ____________________

Designation: Chairman Designation: Treasurer

* Donated assets include property, plant and equipment donated in kind.

Appendix 5
Detailed Guidance
Accounting and Reporting for Charities

Appendix 5
Contents

Appendix 5

Detailed Guidance - Accounting And Reporting for Charities With Gross Annual Income or Expenditure Of More Than $5,000,000

Application Supplement

1. This appendix is an integral part of the RAP 6 and is based on the Statement of Recommended Practice on Accounting and Reporting by Charities issued by the Charities Commission for England and Wales. The Statement of Recommended Practice "Accounting and Reporting by Charities" is Crown Copyright material.

Scope

2. This Appendix is intended to apply to charities with gross annual income or expenditure of more than $5,000,000.

3. Each recommendation should be considered in the context of what is material (Refer to Glossary) to the particular charity.

Content of Annual Report

Reference and Administrative Details of the Charity, its Trustees/Office Bearers and Advisers

4. The report should provide the following reference and administrative information about the charity, its trustees/office bearers and advisers:

   (a) The name of any Chief Executive Officer or other senior staff member(s) to whom day to day management of the charity is delegated by the charity trustees;

   (b) The names and addresses of any other relevant organisations or persons. This should include the names and addresses of those acting as bankers, solicitors, auditors and investment or other principal advisers.

Structure, Governance and Management

5. The report should provide the reader with an understanding of how the charity is constituted, its organisational structure and how its trustees are appointed and trained and assist the reader to understand better how the charity's decision-making processes operate. The level of detail provided in the report is likely to be dependent on the size and complexity of the charity and be appropriate to the needs of the users of the report. In particular, the report should explain:

   (a) The policies and procedures adopted for the induction and training of trustees/office bearers.

   (b) The organisational structure of the charity and how decisions are made. For example, which types of decisions are taken by the trustees/office bearers and which are delegated to staff.

   (c) Where the charity is part of a wider network (for example charities affiliated within an umbrella group) then the relationship involved should also be explained where this impacts on the operating policies adopted by the charity.

   (d) The relationships between the charity and related parties, including its subsidiaries, and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives.

6. A statement should be provided confirming that the major risks to which the charity is exposed, as identified by the trustees/office bearers, have been reviewed and systems or procedures have been established to manage those risks.

Objectives and Activities

7. The report should help the reader understand the aims and objectives set by the charity, and the strategies and activities undertaken to achieve them. The report may also, where relevant, explain how the objectives set for the year relate to longer term strategies and objectives set by the charity. Where significant activities are undertaken through subsidiary undertakings, these should be explained in the report. In particular, the report should provide;

   (a) An explanation of the charity's aims including the changes or differences it seeks to make through its activities.

   (b) An explanation of the charity's main objective for the year.

   (c) An explanation of the charity's strategies for achieving its stated objectives.

   (d) Details of significant activities (including significant programmes, projects, or services provided) that contribute to the achievement of the stated objectives.

8. The details of significant activities provided should focus on those activities that the charity trustees/office bearers consider to be significant in the circumstances of the charity as a whole. The details of activities, should as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying charitable activities in the Statement of Financial Activities.

9. The details of significant activities provided should focus on those activities that the charity trustees/office bearers consider to be significant in the circumstances of the charity as a whole. The details of activities, should as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying charitable activities in the Statement of Financial Activities.

10. Where the charity conducts a material part of its activities through grant making, a statement should be provided setting out its grant making policies.

11. Where social or programme related investment activities are material in the context of charitable activities undertaken, the policies adopted in selecting such investments should be explained.

12. Where a charity makes significant use of volunteers in the course of undertaking its charitable or income generating activities this should be explained. Whilst measurement issues, including attributing an economic value to such unpaid voluntary contributions, prevents the inclusion of such contributions within the Statement of Financial Activities, it is nevertheless important for readers to be provided with sufficient information to understand the role and contribution of volunteers. Such information may, for example, explain the activities that volunteers help to provide, quantify the contribution in terms of hours or staff equivalents, and may present an indicative value of this contribution.

Achievements And Performance

13. The report should contain information that enables the readers to understand and assess the achievements of the charity and its subsidiary undertakings in the year. It should provide a fair review of its performance against objectives that have been set. The report is likely to provide both qualitative and quantitative information that helps explain achievement and performance. It will often be helpful to identify any indicators, milestones and benchmarks against which the achievement of objectives is assessed by the charity. In particular, the report should contain:

   (a) A review of charitable activities undertaken that explains the performance achieved against objectives set. Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included.

(b) Where material fundraising activities are undertaken, details of the performance achieved against fundraising objectives set, commenting on any material expenditure for future income generation and explaining the effect on the current period's fundraising return and anticipated income generation in future periods.

(c) Where material investments are held, details of the investment performance achieved against the investment objectives set.

(d) Comment on those factors within and outside the charity's control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, donors and the charity's position in the wider community.

Financial Review

14. The Charity's Annual Report contains a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. In particular, the report should explain the charity's:

(a) Principal funding sources and how expenditure in the year under review has supported the key objectives of the charity.

(b) Where material investments are held, the investment policy and objectives, including the extent (if any) to which social, environmental or ethical considerations are taken into account.

Plans for Future Periods

15. The report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.

Branches

16. Before preparing accounts, trustees/office bearers must be clear as to the legal structure of the charity. A charity may operate through "branches" to raise funds and/or carry out its charitable purposes. Branches as defined in the Glossary will be accounted for as part of the whole charity. But if both reporting charity and the "branch(es)" are companies, company law requires each entity to prepare its own accounts. In such a case, one Annual Report should normally be prepared to cover both the reporting charity and its branch(es) and consolidated accounts should be prepared.

17. Separate legal entities which may be known as branches but do not fall within the definition of a branch in the Glossary should prepare their own Annual Report and Accounts and, if they are connected charities, the relationship should be explained in the Annual Report.

18. All branch transactions should be accounted for at gross in the reporting charity's own accounts excluding those transactions which net off e.g. branch to branch transactions or those between the branches and the head office. Similarly all assets and liabilities of the branch including, for example, funds raised but not remitted to the reporting charity at the year end should be incorporated into the reporting charity's own balance sheet. This provision need not apply where the transactions and balances of the branches in aggregate are not material to the charity's accounts.

19. Funds raised by a branch for the general charitable purposes of the reporting charity will be accounted for as unrestricted funds in the accounts of the reporting charity. Funds raised by a branch for specific purposes of the reporting charity will need to be accounted for as restricted funds in the accounts of the reporting charity. Funds held for the general purposes of a branch, which is a separate charity, should usually be accounted for as restricted funds in the accounts of the reporting charity.

20. Where a branch is not a separate legal entity, its accounts must form part of the accounts of the reporting charity, but it may be in the interests of local supporters and beneficiaries for additional accounts to be prepared covering only the branch.

Statement of Financial Activities

Introduction

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

    Table A below sets out the format and activity categories of the Statement of Financial Activities:

Reference	**Table A: Statement of Financial Activities**	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Funds	Prior Year Total Funds
A	Incoming resources					
A1	Incoming resources from generated funds					
A1a	Voluntary income					
A1b	Activities for generating funds					
A1c	Investment income					
A2	Incoming resources from charitable activities					
A3	Other incoming resources					
	Total incoming resources					
B	Resources expended					
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 resources expended					
	Total resources expended					
	Net incoming / outgoing resources before transfers					
	Transfers					
C	Gross transfers between funds					
	Net incoming resources before holding gains and losses					
D	Other recognised gains/losses					
D1	Gains on revaluation of property, plant and equipment for charity's own use					
D2	Gains/losses on investment assets					
	Net movement in funds					
E	Reconciliation of Funds					
	Total funds brought forward					
	Total funds carried forward					

Presentation of Information

Structure of the Statement

22. In the Statement of Financial Activities the charity's incoming resources and resources expended should be analysed so that the reader can see where its resources came from and what it spent its resources on during the year. As a minimum it must also distinguish between unrestricted income funds, restricted income funds and the endowment funds of the charity. All of the charity's incoming resources and resources expended can be categorised between these funds, but a charity will not necessarily have funds of all three types.

23. If it has more than one type of fund, the statement should show, in columns, the movements in the different types of funds as well as the total movements of all the funds. Comparative figures for the previous financial year, given on the face of the statement will normally only be given for the row totals (e.g. voluntary income, investment income etc) rather than for the analysis of each row across the various categories of funds.

Adaptation of Formats

24. Charities should expand the structure, where necessary using notes, in order to present a true and fair view and convey a proper understanding of the nature of all their activities. Charities should, where possible, have a clear link between the incoming and outgoing resources and in particular activity analysis. Two examples of this are:

    (a) a charity running a care home could use the sub-heading "Residential Care Fees" within row A2 (incoming resources from charitable activities) and "Residential Care Costs" in row B2 (resources expended on charitable activities);

    (b) a charity fundraising through a shop could use the sub-heading "shops" within row A1b (activities for generating funds) and row B1b (fundraising trading costs).

    Thus incoming resources and resources expended can be linked together by using similar or identical headings in different parts of the Statement of Financial Activities.

25. Some charities may also find it informative to their readers to insert additional subtotals. For example, after row B1c (investment management costs), an additional subtotal "net incoming resources available for charitable application" may be added.

26. Whilst the Statement of Financial Activities may be adapted to give a true and fair view, disclosure requirements must always be met and the underlying structure should not be changed. Trustees/office bearers should balance the provision of information with clarity.

27. In order to comply with Financial Reporting Standard 105, where a charity has discontinued any of its operations, the accounts should distinguish between continuing and discontinued operations. This will normally apply to the whole of a distinctive type of activity of a charity but not to the cessation of new projects within that activity.

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

Incoming Resources

General Rules on the Recognition of Incoming Resources

29. Incoming resources - both for income and endowment funds - should be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity's assets. This will be dependent on the following three factors being met:

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

(b) **certainty** - when it is virtually certain that the incoming resource will be received;

(c) **measurement** - when the monetary value of the incoming resource can be measured with sufficient reliability.

30. All incoming resources should 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 incoming resources of the charity are the proceeds remitted to the charity by the organisers of the event, after deducting their expenses.

31. Within the charity sector entitlement to incoming resources may arise from a wide variety of transactions varying from contractual (i.e. in exchange for goods or services of approximately equal value between a seller and a purchaser) to the receipt of unrestricted grants or donations (resources given to use on any of the charity's purposes).

32. This RAP seeks to provide guidance on how such differing transactions can be distinguished. However, judgement will still be required in deciding how any individual transaction fits into this framework and in identifying those factors that are likely to lead to different accounting treatments for their recognition. The recommendations provided below set out how accounting standards and principles should be applied in the context of transactions that are commonly undertaken within the charity sector. In order to understand how accounting standards apply to different funding arrangements, charity trustees need to determine for each source of funds:

- What legal arrangements (e.g. contract or trust law) govern the terms of the arrangement and how any disputes arising are to be settled.
- Whether entitlement to the funding requires a specific performance to be achieved (a contract or performance related grant).
- Whether funds can be used for any of the purposes of the charity, or whether they can only be used for a specific purpose.

Contractual Arrangements

33. Some charities earn income by providing goods and services in return for a fee as part of their charitable activities. Such contractual income (Refer to Glossary) is recognised in the Statement of Financial Activities to the extent that the charity has provided the goods and/or services. Where such incoming resources are received in advance then a charity may not have entitlement to these resources until the goods or services have been provided. In this situation incoming resources received in advance should be deferred until the charity becomes entitled to the resources.

34. 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 incoming resources derived from such performance-related grants (Refer to Glossary) may be conditional upon the delivery of the specified level of service and in such circumstances should be recognised to the extent that the charity has provided the services or goods.

35. Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should necessarily be recognised as a performance related grant. For a performance related grant entitlement to the incoming resource only arises with the performance of a specific output identified as a condition for the grant. Entitlement to the grant in such cases only arises as the performance conditions are met. This can be contrasted with a restriction that whilst limiting how a charity may expend funds to particular purposes does not require a specific and measurable output to be

delivered by the recipient charity as a condition of a charity's entitlement to the funds. Such restricted grants are recognised on the basis set out in the above paragraphs.

36. Where charities receive membership subscriptions, these may be in the nature of a gift, or they may effectively buy services or access to certain privileges. Where the substance of the subscription is that of a gift, the incoming resource should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the incoming resource 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 pro-rata basis for the period of time covered by the subscription may be an appropriate estimation technique for income recognition.

37. Charities may also, on occasions, undertake activities under a long-term contract. Owing to the length of time taken to complete such contracts, it is appropriate to take credit for ascertainable incoming resources and the cost of any resources expended while contracts are in progress in accordance with the guidance given in FRS 18.

38. FRS 18 provides specific guidance on revenue recognition under long-term contractual arrangements. A charity should recognise incoming resources 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 fair value of the goods or services provided to its reporting date as a proportion of the total fair 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 incoming resources recognised at the balance sheet date based on the proportion of costs incurred to date in comparison with total expenditure. In the case of services, it may be appropriate to use the time spent as a proportion of the total time to be spent to fulfill the contract where this provides a reasonable estimate of a charity's performance and therefore entitlement. The incurrence of costs by the charity, does not, in itself, justify the recognition of revenue.

Grants and Donations Receivable

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

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

41. 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 would not be either certain or wholly within the control of the recipient charity. The charity would not therefore have unconditional entitlement (control) of the incoming resource until these conditions were met. The incoming resource and corresponding asset should not be recognised until the conditions set have been met.

42. 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 incoming resources.

43. Incoming resources may also be subject to donor-imposed conditions that specify the time period in which the expenditure of resources can take place. Such a pre-condition for use limits the charity's ability to expend the resource until the time condition is met. For example, the receipt in advance of a grant for expenditure that must take place in a future accounting period should be

accounted for as deferred income and recognised as a liability until the accounting period in which the recipient charity is allowed by the condition to expend the resource.

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

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

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

Funds Received as Agent

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

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

Disclosure

49. Where any incoming resources have been deferred, the notes to the accounts should explain the reasons for the deferrals and analyse the movement on the deferred account between incoming resources deferred in the current year and amounts released from previous years. Incoming resources of a similar nature can be grouped together in the notes as appropriate.

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

Incoming Resources Subject to Restrictions

51. 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 resource 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 incoming resource as the charity has entitlement to (control of) the resource and is simply limited by the restriction as to the purposes to which the resource can be applied.

52. Funds received for the restricted purpose of providing property, plant and equipment should be accounted for immediately as restricted funds. The treatment of the property, plant and equipment provided with those funds will depend on the basis on which they are held. The terms on which the funds were received may either require the fixed asset 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 (see Appendix 3). Where assets are re-allocated from one fund to another this should be reflected as a transfer between the relevant funds.

A: Incoming Resources

53. Incoming resources should be analysed according to the activity that produced the resources. The analysis adopted should follow that given in Table A, in particular grouping separately those resources generated by charitable activity from those activities aimed primarily at generating funds.

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

Disclosure

55. Where any apportionment has taken place the method of apportionment should be disclosed in the policy notes to the accounts

A1 Incoming Resources from Generated Funds
A1a: Voluntary Income

56. Voluntary income includes incoming resources generated from the following sources:

(a) gifts and donations, including legacies, given by the founders, patrons, supporters, the general public and businesses;

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

(c) membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services;

(d) gifts in kind.

Disclosure

57. Where material, details of the types of activities undertaken to generate voluntary income should be provided either on the face of the Statement of Financial Activities or in the notes to the accounts. As far as possible the analysis categories provided here should match the detailed analysis provided for the costs of generating voluntary income.

Legacies

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

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

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

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

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

Disclosure

63. Where the charity has been notified of material legacies, which have not been included in the Statement of Financial Activities (because the conditions for recognition have not been met), this fact and an estimate of the amounts receivable should be disclosed in the notes to the accounts. Similarly, an indication should be provided of the nature of any material assets bequeathed to the charity but subject to a life tenancy interest held by a third party. Where material, the accounting policy notes should distinguish between the accounting treatments adopted for pecuniary and residuary legacies and legacies subject to a life interest held by another party.

Gifts in Kind

64. Incoming resources in the form of gifts in kind should be included in the Statement of Financial Activities in the following ways:

    (a) Assets given and held as stock for distribution by the charity should be recognised as incoming resources for the year within “voluntary income” only when distributed with an equivalent amount being included as resources expended under the appropriate category of the Statement of Financial Activities to reflect its distribution.

    (b) Assets given for use by the charity (e.g. property for its own occupation) should be recognised as incoming resources and within the relevant fixed asset category of the balance sheet when receivable.

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

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

Disclosure

66. The basis of any valuation should be disclosed in the accounting policies.

67. Referring to above, where there are undistributed assets at the year end, a general description of the items involved and an estimate of their value should be given by way of a note to the accounts provided such value is material.

A1b: Activities for Generating Funds

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

(a) fundraising events such as jumble sales, firework displays and concerts (which are legally considered to be trading activities);

(b) those sponsorships and social lotteries which cannot be considered as pure donations;

(c) shop income from selling donated goods and bought in goods;

(d) providing goods and services other than for the benefit of the charity's beneficiaries,

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

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

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

A1c Investment Income

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

72. Where a charity has subsidiary undertakings:

(a) all payments to the charity by its subsidiary undertakings and all dividend entitlements from them, other than amounts receivable by the charity for the provision of goods and services to subsidiaries, should be separately recognised as incoming resources and appropriately described under investment income in the parent charity's accounts.

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

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

Disclosure

73. The notes to the accounts should show the gross investment income arising from each class of investment.

A2: Incoming Resources from Charitable Activities

74. This category includes any incoming resources received, which are a payment for goods and services provided for the benefit of the charity's beneficiaries. It will include trading activities undertaken in furtherance of the charity's objects and those grants (although legally donations), which have conditions, which make them similar in economic terms to trading income, such as service level agreements with local authorities.

75. 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 should be included in the section for voluntary income.

76. Incoming resources from charitable activities should 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;

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

Disclosure

77. An analysis of incoming resources from charitable activities should be given in the notes to the accounts to supplement the analysis on the face of the Statement of Financial Activities. It should be sufficiently detailed so that the reader of the accounts understands the main activities carried out by the charity and the main components of the gross incoming resources receivable from each material charitable activity. As far as possible, incoming resources should be analysed using the same analysis categories as used for resources expended on charitable activities.

A3 Other Incoming Resources

78. Other incoming resources will include the receipt of any resources, which the charity has not been able to analyse within the main incoming resource categories. This will be a minority of incoming resources and most charities will not need to use this category. Examples of items that fall within this category include a gain on the disposal of a tangible fixed asset held for the charity's own use and a gain on the disposal of a programme related investment.

Expenditure and Costs

General Rules on the Recognition of Resources Expended

79. Expenditure should be recognised when and to the extent that a liability is incurred or increased without a commensurate *increase in recognised assets* or a reduction in liabilities. In accounts prepared on the accruals basis, liabilities are recognised as resources expended as soon as there is a legal or constructive obligation committing the charity to the expenditure as described in FRS Framework and FRS 37. A liability will arise when a charity is under an obligation to make a transfer of value to a third party as a result of past transactions or events.

80. Just as charities may receive funds under a variety of arrangements so may charities expend their funds in a variety of ways ranging from meeting contractual liabilities to the payments of grants or donations. This RAP seeks to provide guidance on how such differing transactions can be distinguished. However, judgement will still be required in deciding how any individual transaction fits into this framework. The recommendations below set out how accounting standards and principles should be applied in the context of transactions that are commonly undertaken within the charity sector.

Contractual Arrangements

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

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

83. A grant that is merely *restricted* to a particular purpose of the recipient does not create a performance-related grant unless the grant also includes specific performance terms that meet the criteria set out above. Similarly, certain restricted grants may fund a programme of work to be undertaken over a number of years by the recipient. Again, this does not mean it should 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.

84. 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 (Refer to Glossary) if the funding is 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 should be recognised as a liability where a constructive obligation arises to make the grant payment.

Grants Payable and Constructive Obligations

85. 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 (Refer to Glossary), which needs to be recognised.

86. Liabilities may arise from a constructive or a legal obligation (Refer to Glossary). A constructive obligation arises under FRS 37 where events have created a valid expectation in other parties that the charity will discharge its obligations. Evidence that a valid expectation has been created might be provided by the charity's current and past practice in discharging such obligations and the specific communication of a commitment to the recipient. A constructive obligation always involves a commitment to another party that has been communicated to those affected in a sufficiently specific manner to raise a valid expectation on the part of the recipient that the charity will discharge its obligations. Because an obligation always involves a commitment to another party, it follows that a funding decision by a charity's trustees does not give rise to a constructive obligation at the balance sheet date unless the decision has been communicated before the balance sheet date to those affected in a sufficiently specific manner to raise a valid expectation in them that the charity will discharge its responsibilities.

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

88. 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.

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

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

(a) If the multi-year grant obligation:

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

(ii) discretion is retained by the giving charity to terminate the grant;

then provided evidence exists (e.g. from past review practice) that the discretion retained by the charity has substance, this amounts to a condition and an immediate liability arises only for the first year of the funding commitment.

If the annual review process, although set out in the conditions of the grant, is not in practice used to determine whether funding is provided in the subsequent years of the commitment, then the review stipulation should not be interpreted as a condition and a liability for the full three years of the grant should be recognised.

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

91. 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 should be recognised.

General Issues

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

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

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

Support Costs

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

96. Support costs do not, in themselves, constitute an activity, instead they enable output-creating activities to be undertaken. Support costs are therefore allocated 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 accounts. There is nevertheless legitimate user interest in both the level of support costs incurred and the policies adopted for their allocation to the relevant activity cost categories that should be addressed through relevant note disclosures.

Disclosure

97. The notes to the accounts should provide details of the total support costs incurred and of main items or categories of expenditure included within support costs.

98. Where support costs are material, an explanation should be provided in the notes of how these costs have been allocated to each of the activity cost categories disclosed in the Statement of Financial Activities or supporting notes to the accounts. The explanation may include percentages

or amounts allocated, details of the methods of apportionment used or a table showing the detailed allocations such as that shown below:

Example of Support Cost Breakdown by Activity

Support Cost (Examples)	Fund-raising	Activity 1	Activity 2	Activity 3	Activity 4	Activity 5	Basis of allocation
Management	$X	$X	$X	$X	$X	$X	Text describing method
Finance	$X	$X	$X	$X	$X	$X	Text describing method
Information Technology	$X	$X	$X	$X	$X	$X	Text describing method
Human Resources	$X	$X	$X	$X	$X	$X	Text describing method
Total	$X	$X	$X	$X	$X	$X	

Allocation of Costs

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

100. In attributing costs between activity categories, the following principles should be applied:

(a) Where appropriate, expenditure should be allocated *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, should be apportioned on a reasonable, justifiable and consistent basis.

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

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

101. 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.

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

102. The bases for apportionment adopted by a charity should be appropriate to the cost concerned and to the charity’s particular circumstances and selected to enable its accounts to give a true and fair view. The bases adopted for apportionment will normally be consistent between accounting periods.

103. 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 should be draw 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 objectiv*es* (charitable expenditure).

104. 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; and

(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 should be regarded as targeted at potential donors and therefore relating wholly to the fundraising activity.

105. For example, a health education charity that targeted high-risk beneficiary groups or the medical profession supplying information as to health risks or symptom recognition and advising on steps that should be taken. Such information would fall within charitable expenditure in that it is targeted at beneficiaries, advises on steps that can be taken and is likely to link to the charity's activities or objectives in health education. Therefore when such information is provided in the context of a fundraising activity, a joint cost would arise with costs apportioned between the fundraising and charitable activities.

Disclosure

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

107. Where any fundraising activity is identified as meeting the criteria of a multi-purpose activity and part of the costs of the multi-purpose activity are allocated to charitable activities then the policy for the identification of such multi-purpose costs should be explained in the accounting policy notes together with the basis on which any allocation to charitable activities is made.

B: Resources Expended

108. The Statement of Financial Activities provides an analysis of the resources expended by a charity based on the nature of the activities undertaken. Resources expended are 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 accounts should 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

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

(a) costs of generating voluntary income (Refer to Glossary);

(b) costs of fundraising trading, including cost of goods sold and other associated costs; and

(c) costs of managing investments for both income generation and capital maintenance.

110. Costs of generating funds should **not** include:

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

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

B1a: Costs of Generating Voluntary Income

111. Costs of generating voluntary income are defined in the Glossary. All such fundraising costs, including agents' costs where fundraising agents are used, should be included within this category. In the case of consolidated accounts any such costs incurred by any subsidiary companies or other entities should be consolidated on a line-by-line basis.

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

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

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

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

Disclosure

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

115. Exceptional costs that arise in the context of generating voluntary income should not be presented as a separate category of costs on the face of the Statement of Financial Activities but, rather, should 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, should be disclosed in the notes to the accounts 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 to give a true and fair view. An adequate description should be given to enable its nature to be understood.

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

116. This category should 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 allocated support costs; and

   (c) costs related to the licensing of a charity logo.

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

Disclosure

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

B1c: Investment Management Costs

118. Investment management costs are defined in the Glossary. Where investment management fees are deducted from investment income by investment managers, the charity should show as investment income the gross investment income before fees and report the fees within this cost category. As explained in Appendix 3, investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the Statement of Financial Activities.

B2: Charitable Activities

119. Resources expended on charitable activities comprise 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. Charitable activities are all the resources expended by the charity in the delivery of goods and services, including its programme and project work that is directed at the achievement of its charitable aims and objectives. Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken.

120. 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.

121. Where incoming resources 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 accounts to demonstrate the link between the incoming resource and the charitable activity that it funds.

Disclosure

122. Resources expended on charitable activities should be analysed on the face of the Statement of Financial Activities or in a prominent note to the accounts. This analysis should provide an understanding of the nature of the activities undertaken and the resources expended on their provision. This analysis may, for example, set out the activity cost of the main services provided by

the charity, or set out the resources expended on material programmes or projects undertaken by the charity.

123. The note to the accounts should identify the amount of support costs allocated to charitable activities.

124. Where activities are carried out through a combination of direct service or programme activity and grant funding of third parties, the notes to the accounts should identify the amount of grant making expenditure using the note to explain the activity funded.

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

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

Grant making

126. Costs associated with grant making activity include the grants actually made and the support costs associated with the activity. The term grant is defined in the Glossary and associated support costs are explained further.

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

128. 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, should be provided.

129. The further information provided in relation to grant making should provide the reader with a reasonable understanding of the nature of the activities or projects that are being funded and whether the financial support is provided directly to individuals or to assist an institution undertake its activities or projects. In the case of institutional grants, information as to the recipient(s) of the funding should be provided so that the reader can appreciate the type and range of institutions supported.

130. An individual grant is one that is made for the direct benefit of the individual who receives it, for example, to relieve financial hardship or for an educational bursary. All other grants should be regarded as institutional. For example, a grant, which is made to an individual to carry out a research project, should be regarded as a grant to the institution with which the individual is connected rather than as a grant to the individual.

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

(a) grants are made to individuals – in which case details of the recipient are not required;

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

(c) total grants to a particular institution are not material in the context of institutional grants – in which case the name of the recipient institution need not be disclosed;

(d) disclosure of a particular institutional grant would seriously prejudice either the grant maker or the recipient.

Disclosure

132. The analysis and explanation should help the reader of the accounts understand how the grants made relate to the objects of the charity and the policy adopted by the trustees in pursuing these objects.

133. The notes to the accounts should identify the amount of support costs associated with grant making activities.

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

(a) the total amount of grants analysed between grants to individuals and grants to institutions,

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

This statement may, for example, be structured as follows:

Analysis of grants

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

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

136. The trustees/office bearers may give further analysis and explanation of the purposes for which grants were made as part of the Charity's Annual Report or by means of a separate publication. Such further analysis does not excuse the trustees from providing sufficient detail in the notes to the accounts as is needed to provide a true and fair view.

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

138. The disclosure of institutional grants should give the name of the institution and the number and total value of grants made to that institution in the accounting year. Where grants have been made to a particular institution to undertake different activities or projects, the total value of the grants

made for each activity or purpose should be disclosed. For example, a charity may have made grants to different officers or departments of a particular university for different projects. Such grants should be treated as having been made to the same institution.

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

140. Where the circumstances amount to serious prejudice, a charity may withhold details of the recipient of any institutional grant concerned but should in such circumstances:

(a) disclose in the notes to the accounts the total number, value and general purpose of those grants the details of which have not been disclosed;

(b) give in writing to the charity's regulatory body:

(i) the full details of any grants not disclosed, and

(ii) a full explanation of the reasons why those details have not been disclosed in the accounts;

(c) state in the notes to the accounts whether or not those details have been given to the charity's regulatory body.

It is unlikely in practice that all the material institutional grants of a charity would fall within this exception.

B3: Governance Costs

141. Governance costs (defined in the Glossary) 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.

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

Disclosure

143. The accounting policy notes should explain the nature of costs allocated to the governance category, and an analysis may be provided within the notes to the accounts of the main items of expenditure included within this category where it is considered to provide useful information to the users of the accounts.

B4: Other Resources Expended

144. Other resources expended will include the payment of any resources that the charity has not been able to analyse within the main resources expended categories. This category should not be used for support costs that can be allocated to other activity costs.

C: Transfers

145. All transfers between the different categories of funds should 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 a charity has authority to adopt a total return approach to investment (see Appendix 3) to record the release of funds to income from the unapplied total return fund held within the permanent endowment fund;

(c) where restricted assets have been released and reallocated to unrestricted income fund;

(d) to transfer assets from unrestricted income funds to finance a deficit on a restricted fund; and

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

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

Disclosure

147. The notes to the accounts should provide an explanation of the nature of each material transfer between funds.

D Other Recognised Gains and Losses

D1: Gains and Losses on Property, Plant and Equipment

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

149. Such gains and losses should be recognised as follows:

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

(b) gains on the disposal of property, plant and equipment for the charity's own use should be included under the heading "other incoming resources". Losses on disposal should be treated as additional depreciation and included appropriately in the resources expended section of the Statement of Financial Activities; and

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

D2: Gains and Losses on Investment Assets

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

Other Matters to be Covered in Notes to the Accounts

Related Party Transactions

151. Subject to the paragraphs below, disclosure in a note to the accounts is required of any transactions, which the reporting charity or any institution connected with it (Refer to Glossary) has entered into with a related party. Such transactions might inhibit the charity from pursuing its own separate interests.

152. Related parties are defined in the Glossary.

153. Any decision by a charity to enter into a transaction ought to be influenced only by the consideration of the charity's own interests. This requirement is reinforced by legal rules, which, in certain circumstances, can invalidate transactions where the charity trustees/office bearers have a conflict of interest. This does not necessarily mean that all transactions with related persons are influenced by the consideration of interests other than the charity's nor that they are liable to invalidation.

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

155. Related party transactions potentially include (some exceptions are listed below):

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

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

(c) any other payments and other benefits, which are made to trustees under, express provisions of the governing document of a charity or in fulfilment of its charitable objectives.

Required Disclosure

156. Material transactions with related parties should be disclosed irrespective of whether or not they are undertaken on an arm's length basis.

157. The required disclosure is as follows:

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

(b) a description of the transaction;

(c) the amounts involved;

(d) outstanding balances with related parties at the balance sheet date and any provisions for doubtful debts from such persons;

(e) any amounts written off from such balances during the accounting year; and

(f) any other elements of the transactions, which are necessary for the understanding of the accounts.

158. The disclosure can be given in aggregate for similar transactions and type of related party, unless disclosure of an individual transaction or connected transactions

(a) is necessary for an understanding of the impact of the transactions on the accounts of the charity; or

(b) is a legal requirement, for example, in relation to trustee remuneration.

Disclosures not Required

159. Some related party transactions are such that they are unlikely to influence the pursuance of the separate independent interests of the charity. These need not be disclosed unless there is evidence to the contrary. Examples are:

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

(b) minor or routine unremunerated services provided to a charity by people related to it;

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

(d) contributions by a charity to a pension fund for the benefit of employees;

(e) the purchase from a charity by a related party of minor articles which are offered for sale to the general public on the same terms as are offered to the general public;

(f) the provision of services to a related party (including a charity trustee or person connected with a charity trustee), where the related party receives the services as part of a wider beneficiary class, and on the same terms as other members of the class (for example, the use of a village hall by members of its committee of management, as inhabitants of the area of benefit); and

(g) the payment or reimbursement of out-of-pocket expenses to a related party (including a charity trustee or person connected with a charity trustee - see paragraphs 161 to 163).

Trustee/Office Bearer Remuneration and Benefits

160. Unlike in the case of the directors of commercial companies, it is not the normal practice for charity trustees/office bearers, or people connected with them, to receive remuneration, or other benefits, from the charities for which they are responsible, or from institutions connected with those charities. Detailed disclosures of remuneration and benefits are therefore required where the related party is a charity trustee, or a person connected with a charity trustee. The following points should be borne in mind when reporting on transactions, where the related party is a charity trustee or a person connected with a trustee/office bearer.

(a) Unless one of the exceptions in the above paragraph applies, the transaction should always be regarded as material, and should therefore be disclosed regardless of its size.

(b) Each type of related party transaction must be separately disclosed. This means, for example, that particulars of remuneration paid to each charity trustee / office bearer or person connected with a charity trustee / office bearer, should be given individually in the notes. Where the charity has made any pension arrangements for charity trustees/office bearers or persons connected with them, the amount of contributions paid and the benefits accruing must be disclosed in the notes for each related party.

(c) Where remuneration has been paid to a charity trustee / office bearer or a person connected with a charity trustee / office bearer, 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) should also be given, as should the reason for such remuneration.

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

Trustees'/Office Bearers' Expenses

161. Where a charity has met individual expenses incurred by trustees/office bearers for services provided to the charity, either by reimbursement of the trustee /office bearer or by providing the trustee / office bearer with an allowance or by direct payment to a third party, the aggregate amount of those expenses should be disclosed in a note to the accounts. The note should also indicate the nature of the expenses (e.g. travel, subsistence, entertainment etc) and the number of trustees/office bearers involved.

162. Sometimes trustees/office bearers act as agents for the charity and make purchases on its behalf and are reimbursed for this expenditure, e.g. payment for stationery or office equipment. Such expenditure is not related to the services provided by a trustee/ office bearer and there is no need to disclose it. Likewise there is no need to disclose routine expenditure, which is attributable collectively to the services provided to the trustees/office bearers, such as the hire of a room for meetings or providing reasonable refreshment at the meeting.

163. Where the trustees/office bearers have received no such expenses, this fact should be stated.

Staff Costs and Emoluments

164. It is important that the accounts disclose the costs of employing staff who work for the charity whether or not the charity itself has incurred those costs. This includes seconded and agency staff and staff employed by connected or independent companies. For instance, staff working for a charity may have contracts with and be paid by a connected company. Payments may also be made to independent third parties for the provision of staff. Where such arrangements are in place and the costs involved are material (in relation to the charity's own expenditure) there should be disclosure by way of note which outlines the arrangement in place, the reasons for them and the amounts involved.

165. The total staff costs should be shown in the notes to the accounts giving the split between gross wages and salaries, employer's national insurance costs and pension costs (those pension costs included within resources expended excluding pension finance costs) for the year. The average number of staff during the year should be provided and where material to the disclosure, e.g. due to the number of part-time staff, an estimate of the average number of full time equivalent employees for the year may be provided in the notes to the accounts providing sub-categories according to the manner in which the charity's activities are organised.

166. Where a charity is subject to a statutory audit then the notes should also show the number of employees whose emoluments for the year (including taxable benefits in kind but not employer pension costs) fell within each band of $50,000 from $100,000 upwards. Bands in which no employee's emoluments fell should not be listed.

167. If there are no employees with emoluments above $100,000 this fact should be stated.

Ex-Gratia Payments

168. The total amount or value of any:

(a) payment; or

(b) non-monetary benefit; or

(c) other expenditure of any kind; or

(d) waiver of rights to property to which a charity is entitled,

which is made not as an application of funds or property for charitable purposes but in fulfilment of a compelling moral obligation should be disclosed in the notes to the accounts. Where trustees/office bearers require and obtain the authority of the Court, the Attorney General or the Commissioner of Charities, the nature and date of the authority for each such payment should also be disclosed.

169. Payments which the trustees/office bearers reasonably consider to be in the interests of the charity (more than a moral obligation) should not be treated as ex-gratia, even though there is no legal obligation to make them. For example, the trustees may think that it will motivate retained staff and hence benefit the charity if they make redundancy payments over and above the minimum legally required.

Analysis of the Net Movement in Funds

170. The net movement of funds represents the increase or decrease in resources available to a charity to deploy in undertaking future activities. Unlike profit or loss in a commercial entity, it should not necessarily be regarded as an indicator of a charity's performance. Charities also further their objectives by investing in tangible assets to provide services or by making investments of a programme or social related nature. Such applications are charitable but do not decrease the funds of a charity. Charities may also receive gifts of an endowed nature which are identified separately in the primary accounting statements. Whilst endowments provide a source of income or service generation in future periods they are not available to finance expenditure.

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

(a) total net movement in funds for the year;

(b) net endowment receipts for the year (value of endowment receipts less any release of expendable endowment to income funds);

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

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

Balance Sheet

Introduction

172. The balance sheet provides a snapshot of the charity's assets and liabilities at the end of its accounting year and how assets are split between the different types of funds. The balance sheet will not always include all of the assets and liabilities of a charity, nor attach an up-to-date valuation for all assets. Some "Preservation of Monuments" assets , or contingent liabilities may be omitted. Where such assets or contingent liabilities exist and are not included in the balance sheet, details should be provided in the notes to the accounts.

173. The objective of the balance sheet is to show the resources available to the charity and whether these are freely available or have to be used for specific purposes because of legal restrictions on their use. It may also show which of the resources the trustees have designated for specific future use. It will normally be necessary to read the reserves policy and plans for the future in the Charity's Annual Report to gain a fuller understanding of the availability and planned use of the charity's funds.

Table B below sets out the format and the asset, liability and fund categories of the balance sheet:

Reference	Table B: Balance Sheet	Total Funds	Prior Year Funds
A	Fixed assets:		
A1	Intangible assets		
A2	Property, plant and equipment		
A3	"Preservation of Monuments" assets		
A4	Investments:		
A4a	Investments		
A4b	Programme related investments		
	Total fixed assets		
B	Current assets:		
B1	Stocks and work-in-progress		
B2	Debtors		
B3	Investments		
B4	Cash at bank and in hand		
	Total current assets		
C	Liabilities:		
C1	Creditors: Amounts falling due within one year		
	Net current assets or liabilities		
	Total assets less current liabilities		
C2	Creditors: Amounts falling due after more than one year		
C3	Provisions for liabilities and charges		
	Net assets or liabilities		
D	The funds of the charity:		
D1	Endowment funds		
D2	Restricted income funds		
D3	Unrestricted income funds		
D3a	Share capital		
D3b	Unrestricted income funds		
D3c	Revaluation reserve		
	Total unrestricted funds		
	Total charity funds		

Presentation

Structure of the Balance Sheet

174. The assets and liabilities are analysed within the balance sheet according to the category of the asset or liability as set out in Table B. The balance sheet should also distinguish, as a minimum, between, the total funds held as unrestricted income funds, restricted income funds and as 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.

175. Charities may choose to adopt a columnar presentation of its assets, liabilities and funds in the balance sheet. Such presentation shows the asset and liability categories analysed in columns between each fund group in a similar way to the Statement of Financial Activities showing incoming resources and resources expended by type of fund. This presentation is not mandatory, but using it ensures charities present the required analysis of assets and liabilities by category of fund. Where a charity does not have funds of a particular category, the column related to that category of fund is omitted. If this columnar presentation is not adopted then the assets and liabilities (e.g. investments, fixed assets, net current assets) representing each category of fund should be summarised and analysed between those funds in the notes to the accounts.

176. Further details of the assets and liabilities should be given in the balance sheet or the notes to the accounts. This analysis should enable the reader to gain a proper appreciation of their spread and character. For example, long-term debtors should, where the total is material, be separately stated in the balance sheet - otherwise the total amounts of the category should be analysed in the notes to the accounts.

177. If for any category of assets (row in Table B - the balance sheet) there are no amounts for the current and prior year then no entries need to be made on the balance sheet and the headings can be omitted.

178. As explained in Appendix 3, expenditure may be incurred in anticipation of the receipt of restricted income, possibly leading to a negative balance on a specific fund. Where such balances are material they should be shown separately as negative balances and not simply be netted off against positive balances on the fund category in the balance sheet. Therefore the balance sheet may show both positive and negative balances on restricted funds.

Content of the Balance Sheet

A1: Intangible Assets

179. Intangible assets should be included in the balance sheet in accordance with FRS 38 "Intangible Assets".

A2: Property, Plant and Equipment (other than Investments)

180. FRS 16 requires that:

(a) all property, plant and equipment should be capitalised on initial acquisition and included in the balance sheet at cost or valuation;

(b) property, plant and equipment may be periodically revalued;

(c) subsequent expenditure which enhances (rather than maintains) the performance of property, plant and equipment should be capitalised.

181. Within charities, property, plant and equipment (other than investments) fall into two categories, those held for charity use (including those used for the running and administration of the charity) and those classed as “Preservation of Monuments” assets (Refer to Glossary). The following paragraphs describe the general rules for inclusion of property, plant and equipment in the balance sheet. In principle “Preservation of Monuments” assets meet the definition of an asset and should be recognised and included within a charity's balance sheet. However, particular considerations arise where the cost or valuation of “Preservation of Monuments” assets can only be obtained at significant cost or where such information lacks sufficient reliability. Specific recommendations for the accounting treatment of “Preservation of Monuments” assets are set out in the paragraphs below.

General Rules for Property, Plant and Equipment

182. Property, plant and equipment should initially be included in the balance sheet using the following bases:

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

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

(c) Where functional items of property, plant and equipment have been donated, they should be included in the balance sheet at their fair value at the date of the gift and also included in the Statement of Financial Activities as an incoming resource.

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

183. Where the net book value of an item of property, plant and equipment is higher than its recoverable amount, it will be impaired and should be written down to its recoverable amount.

Rules for Mixed use of Property, Plant and Equipment (Functional and Investment)

184. 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 should 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 should be adopted:

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

(b) Land and buildings held primarily for investment purposes (Refer to Glossary) where the asset is wholly or mainly used for investment purposes should be included within the fixed asset investment category of the balance sheet.

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

Depreciation of Property, Plant and Equipment (other than Investments)

185. Most items of property, plant and equipment depreciate; that is they wear out, are consumed or otherwise suffer a reduction in their useful life through use, the passing of time or obsolescence. Their value is thus gradually expended over their useful economic life. This expenditure should be recognised by means of an annual depreciation charge in the Statement of Financial Activities and shown in the balance sheet as accumulated depreciation deducted from the value of the relevant items of property, plant and equipment.

186. Property, plant and equipment held for use by the charity which are included in the balance sheet should be depreciated at rates appropriate to their useful economic life and tested for impairment in accordance with FRS 16 and FRS 36.

187. The useful economic lives and residual values of items of property, plant and equipment should be reviewed at the end of the accounting period and, where there is a material change, the value of the asset should be depreciated over its remaining useful life.

188. Where an item of property, plant and equipment for charity use comprises two or more major components with substantially different useful lives, each component should be accounted for as a separate asset and depreciated over its individual useful life.

Revaluation of Property, Plant and Equipment (other than Investments)

189. In accordance with FRS 16, property, plant and equipment (other than investment assets) do not need to be revalued unless the charity adopts a policy of revaluation. Where such a policy is adopted, whilst it need not be applied to all items of property, plant and equipment it must be applied to entire classes of property, plant and equipment. Therefore if an individual item of property, plant and equipment is revalued, all other assets in that class must also be revalued. Classes of assets can be narrowly defined, within reason, according to the operations of the charity.

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

191. Similarly, where a charity was holding assets at a revalued amount at the date the RAP 6 Accounting by Charities first applied FRS 16 requirements, this will not be regarded as a revaluation and no requirement exists for such assets to be revalued periodically unless the trustees office bearers so choose.

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

193. In the case of assets other than properties, such as motor vehicles, there may be an active second-hand market for the asset, or appropriate indices may exist allowing a valuation to be made with reasonable certainty by an appropriate person (but not necessarily a qualified valuer) either internal or external to the charity. Where this method of valuation is used the assets' values must be updated annually. As an alternative to market value such assets can be recorded at depreciated replacement cost.

Impairment of Property, Plant and Equipment for Use by the Charity

194. On rare occasions a functional item of property, plant and equipment may become impaired. This occurs if its carrying value (net book value, at cost or valuation) is higher than its recoverable amount. In such a case FRS 36 would require it to be written down to its recoverable amount. The recoverable amount is the higher of the net realisable value and the value in use.

195. Value in use is normally the present value of the future cash flows obtainable as a result of an asset's continued use. However many charities have items of property, plant and equipment that are not held for the main purpose of generating cash flows either by themselves or in conjunction with other assets. In these cases it is not appropriate to measure the value in use of the asset at an amount based on expected future cash flows. Instead an alternative measure of its service potential may well be more relevant, such as the intrinsic worth of the service delivery or the replacement cost of the asset. Each charity can determine its own measure of service delivery but this must be reasonable, justifiable and consistently operated.

196. Impairment reviews should only be carried out where there is some indication that the recoverable amount of a functional item of property, plant and equipment is below its net book value. Such a review should, as far as possible, be carried out on individual assets or where this is not possible then categories of assets can be grouped (see FRSs 16 and 36). Events or changes which may indicate an impairment include:

(a) physical deterioration, change or obsolescence of the fixed asset;

(b) social, demographic or environmental changes resulting in a reduction of beneficiaries for a charity;

(c) changes in the law, other regulations or standards which adversely affect the activities of a charity;

(d) management commitments to undertake a significant reorganisation;

(e) a major loss of key employees associated with particular activities of a charity;

(f) operating losses on activities using property, plant and equipment primarily to generate incoming resources.

197. Where an impairment review is required, the charity should first determine the net realisable value of the asset. If this is lower than the net book value, the value in use will need to be considered. If the value in use is considered to be above the net book value, the asset should be valued at the net book value. If a decision is made to sell the asset, it should be valued at its expected net realisable value.

198. Value in use calculations should not be used to manipulate the write down of property, plant and equipment. For instance when a new specialised asset is purchased, although it may have a low net realisable value, it is unlikely that it will suffer an impairment in service delivery within the first years after acquisition.

199. Where there is an impairment loss that needs to be recognised, charities should determine this in accordance with the requirements of FRS 36 (whilst being able to use alternative valuation methods for some assets). The loss should be treated as additional depreciation and included in the Statement of Financial Activities. The revised carrying amount of the asset should be depreciated over its remaining useful economic life.

Disclosure

200. Property, plant and equipment for use by the charity should be analysed in the notes to the accounts within appropriate classes.

201. The notes should summarise all material changes in the values of each class of property, plant and equipment and reconcile the opening and closing balances. This may be achieved by using a table

such as that below, omitting any rows and columns that are not needed for a charity's particular circumstances:

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

202. The methods of depreciation used and useful economic lives or depreciation rates should be disclosed in the accounting policy notes.

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

204. Where any class of property, plant and equipment of a charity has been revalued, the notes to the accounts should give:

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

(b) the basis or bases of valuation;

(c) where records are available, the historical cost less depreciation;

(d) date of the previous full valuation;

(e) if the value has not been updated in the reporting period, a statement by the trustees that they are not aware of any material changes since the last valuation.

205. The methods used in the impairment review to determine net realisable value and value in use should be disclosed in the notes to the accounts.

A3: "Preservation of Monuments" Assets

206. FRS 16 requires that all tangible assets should be capitalised in the balance sheet. In principle this includes tangible assets which are of historical, artistic or scientific importance that are held to advance preservation and conservation objectives of a charity.

207. However, charities will not necessarily need to capitalise such "Preservation of Monuments" assets (Refer to Glossary) that were acquired in past accounting periods and omitted from previous balance sheets when the circumstances in the paragraph below apply.

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

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

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

    (a) reliable cost information is not available and conventional valuation approaches lack sufficient reliability; or

    (b) significant costs are involved in the reconstruction or analysis of past accounting records or in valuation which are onerous compared with the additional benefit derived by users of the accounts in assessing the trustees'/office bearers' stewardship of the assets.

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

212. FRS 16 provides details of appropriate valuation bases. However, certain "Preservation of Monuments" buildings, structures or sites may present particular valuation issues. Whilst most specialised buildings can be valued using Depreciated Replacement Cost (DRC), 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.

213. 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;

    (b) archaeological sites, burial mounds, ruins, monuments and statues.

214. It may also be difficult or costly to attribute a cost or valuation to "Preservation of Monuments" assets which are donated where such assets are rarely sold on the open market. Where assets are purchased by a party who then shortly afterwards donates the asset to the charity, the purchase price should be considered as reliable cost information and could be used as a reference point for the fair value of donations of similar assets. Where an asset is partly purchased by the charity and

partly donated, a reasonable estimate of the cost or value to the charity should be able to be made. Gifts on death or lifetime transfers of significant value may also carry valuations for inheritance tax purposes that may provide sufficient reliability.

215. “Preservation of Monuments” assets should be included in a separate row in the balance sheet and can be further analysed, in the notes to the accounts, into classes appropriate to each charity e.g. collections, artefacts, and historic houses. An appropriate depreciation policy should be applied. Certain “Preservation of Monuments” assets may have an indefinite useful life and a high residual value resulting in any depreciation charge being immaterial.

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

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

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

(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).

217. Charities may be required by trust law to retain an asset indefinitely for its own use/benefit and are effectively prohibited from its disposal without external consent. Such assets are termed inalienable, of itself, does not preclude capitalisation of an asset.

218. Inalienable assets that do not fall within the definition of “Preservation of Monuments” assets, should be capitalised and disclosed in the relevant categories of balance sheet and in related notes. For example:

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

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

(c) Tangible assets other than properties are included at cost or valued at open market value.

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

220. Abbeys, Monasteries, Cathedrals, historic Churches 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 medieval Cathedral but such a structure would not recreate the uniqueness of the original in terms of the religious and historical significance. In such cases a valuation of previously non-capitalised assets may be impractical and the notes should contain a statement to that effect explaining why conventional valuation techniques cannot be applied. Similar issues may arise in the context of artifacts contained within and associated with such structures e.g. religious artifacts contained within a cathedral or historic church.

Disclosure

221. Information on “Preservation of Monuments” assets (whether or not they have been capitalised) should be given in the notes to the accounts. The notes should contain:

(a) an analysis or narrative that enables the user to appreciate the age, scale and nature of the “Preservation of Monuments” assets held and the use made of them;

(b) either:

(i) details of the cost (or value) of additions and disposals of “Preservation of Monuments” assets during the year; or

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

(c) accounting policy notes explaining the charity's capitalisation policy in relation to “Preservation of Monuments” assets and the measurement bases adopted for their inclusion in the accounts.

A4: Investment Assets

222. Investment assets (including investments and investment properties (Refer to Glossary) and cash held for investment purposes) should be classified as a separate category within property plant and equipment except where the intention is to realise the asset without reinvestment of the sale proceeds. In such a case, it should be reclassified as a current asset. The reason for this is that investment assets are generally held with the overall intention of retaining them long-term (i.e. as property, plant and equipment) for the continuing benefit of the charity in the form of income and capital appreciation.

Valuation of Investment Assets

223. All investment assets other than programme related investments should be shown in the balance sheet in accordance with FRS 25 or FRS 39 as appropriate.

Disclosure

224. The investment asset note to the accounts should disclose separately:

(a) investments held primarily to provide an investment return for the charity; and

(b) programme related investments (Refer to Glossary) that the charity makes primarily as part of its charitable activities.

225. Where values are determined other than by reference to readily available market prices (Refer to Glossary), the notes to the accounts should disclose who has made the valuation, giving:

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

(b) the basis or bases of valuation.

226. In the rare case where the size or nature of a holding of securities is such that the market is thought by the trustees/office bearers not to be capable of absorbing the sale of the shareholding without a material effect on the quoted price, the trustees/office bearers should summarise the position in the notes to the accounts. If they are able to do so, the trustees/office bearers should

give an opinion in the notes to the accounts on how much the market price should be adjusted to take this fact into consideration.

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

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

228. The notes should also show the total value of investment assets at the end of the financial year divided between distinct classes of investment. This normally include:

(a) investment properties;

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

(c) investments in subsidiary or associated undertakings or in companies which are connected persons (Refer to Glossary);

(d) other unlisted securities;

(e) cash and settlements pending, held as part of the investment portfolio;

(f) any other investments.

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

(a) investment assets in Singapore;

(b) investment assets outside Singapore.

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

231. Further details should be given in the notes to the accounts of any particular investment that is considered material in the context of the investment portfolio.

232. The notes to the accounts should indicate the value of investments held in each category of fund. This may be included in the overall analysis of assets held in the different category of funds.

A4b Programme Related Investments

233. Programme related investments are defined in the Glossary and should be disclosed separately within the investment asset category from those investments intended primarily to generate a return for the charity.

234. Programme related investments should generally be included in the balance sheet at the amount invested less any impairments (in the case of equity or loans) and any amounts repaid (in the case of loans). Impairments should be charged to resources expended on charitable activities. Similarly a loan subsequently converted to a grant would be charged to charitable activities.

235. Where a gain is made on the disposal of a programme related investment, then the gain should either be set off against any prior impairment loss or included as a gain on disposal of property, plant and equipment for the charity's own use and recorded under "other incoming resources".

Disclosure

236. Where the use of programme related investments forms a material part of the work of the charity, or the amounts form a material part of the investment assets of the charity, the notes to the accounts should show all changes in carrying values of programme related investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments.

237. The notes should also analyse programme related investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports.

B: Current Assets

238. Current assets other than current asset investments should normally be recognised at the lower of their cost and net realisable value.

Disclosure

239. Where there are debtors which do not fit into any of the following categories, the headings may be added to or adapted as appropriate to the type of debtor and nature of the charity.

240. Debtors should be analysed in the notes to the accounts between short term and long term (after more than one year) giving amounts for the following:

(a) trade debtors;

(b) amounts due from subsidiary and associated undertakings;

(c) other debtors;

(d) prepayments and accrued income.

241. Where long term debtors are material, in the context of the total net current assets, they should separately shown in the balance sheet.

242. Where investments are held as current assets the same disclosure is required as for fixed asset investments.

C: Current Liabilities and Long-term Creditors

243. Liabilities should normally be recognised at their settlement value. In the case of provisions, this will be the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time and may therefore involve discounting.

Disclosure

244. Where there are creditors which do not fit into any of the following categories, the headings may be added or to adapted as appropriate to the type of creditor and nature of the charity. The totals for both short-term and long-term creditors should each be separately analysed in the notes giving amounts for appropriate classes.

245. Where a charity is acting as an intermediary agent (as opposed to a custodian trustee) for another organisation, then any assets held and the associated liabilities should be separately identified in the notes to the accounts but not included in the balance sheet. The notes to the accounts should

provide sufficient detail so that the reader of the accounts understands the relationship and nature of the transactions between the charity, the funding organisation and the recipient of the funds.

246. The details should also be provided when the charity is acting as an intermediary but is the principal. However, in this case the assets and liabilities will be included in the balance sheet.

C3 Provisions for Liabilities and Charges

247. Expenditure resulting from provisions that arise due to a legal or constructive obligation (as per FRS 37) should be accounted for in the Statement of Financial Activities. Such provisions should be appropriately analysed in the balance sheet between liabilities due within one year and those falling due after one year.

248. The amount recognised as a liability should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to a third party at that time. When calculating this amount consideration should be given to:

(a) the timing of the cash flows;

(b) future events and uncertainties which may affect the amount required to settle the obligation.

249. Where provisions are accrued in the current financial year but are to be paid over several years then future payments may have a reduced value in today’s terms (fair value). Where the effect is material, the outflow of resources required to settle the obligation at the balance sheet date should be discounted to their present value. The discount rate used should reflect the current assessments of the time value of money and the risks specific to the provision. The interest rate either for the cost of borrowing or investment could be an appropriate discount rate.

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

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

Disclosure

252. Particulars of all material provisions for liabilities and charges accrued in the balance sheet as liabilities should be disclosed in the notes. Similarly, particulars of all material commitments in respect of specific charitable projects should be disclosed if they have not been charged in the accounts.

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

254. The notes should distinguish between those commitments included in the balance sheet as liabilities and those that are intentions to spend and are not included, but in both cases should detail:

(a) the reason for the commitments, giving separate disclosure for material projects;

(b) the total amount of the commitments, including amounts already charged in the accounts;

(c) the amount of commitments outstanding at the start of the year;

(d) any amounts charged in the Statement of Financial Activities for the year;

(e) any amounts released during the year due to a change in the value in the commitments;

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

255. Any designated funds relating to intentions to spend not included as liabilities should be separately disclosed as part of the unrestricted funds of the charity and appropriately described in the notes. The purpose of the disclosure is to identify that portion of the unrestricted funds that has been set aside to meet the commitments. Activities that are to be wholly financed from future income would not form part of such designation.

D3a: Share Capital

256. A number of charities, e.g. Industrial and Provident Societies, are constituted with a share capital. A small number of charities incorporated as companies under the Companies Act may also have share capital. Usually this is a nominal amount (such as $10) and although this is legally "owners equity", the prohibition on owners benefiting from this share ownership effectively means that money contributed for share capital forms part of the unrestricted funds of the charity. Nevertheless, company law requires share capital to be shown separately in the balance sheet.

D3b: Revaluation Reserve

257. Charities that are companies are required to report, in respect of their unrestricted funds, the difference between the historic cost of property, plant and equipment and their revalued amount as a revaluation reserve.

Other Balance Sheet Matters to be Covered in the Notes to the Accounts

Guarantees

258. All material guarantees given by the charity, and the conditions under which liabilities might arise as a result of such guarantees, should be disclosed in a note to the accounts.

Financial Derivative Disclosure

259. There are occasions where charities make use of financial derivative products to ameliorate the risk associated with normal operations (e.g. currency forward contracts), holding investments or borrowing (e.g. interest rate hedging). Such derivatives as are used will be in response to a charity's risk management and an explanation of the reasons for their use should be provided as part of the discussion of risk in the Charity's Annual Report.

260. It is not normally appropriate for charities to hold derivatives for any other reason than to ameliorate risk as this would involve establishing a non-charitable trade. As a result, it would not normally be necessary to value the derivative products separately from the underlying investment or debt.

Disclosure

261. The notes to the accounts should indicate what derivative products are in use by the charity and indicate their impact on the risks of the underlying asset or liability to which they relate. The description of the products held should be in sufficient detail so that the reader of the accounts can understand what the charity's position would have been with, and without the derivatives, and should give an indication of the costs and benefits of the derivative products.

Contingent Assets and Liabilities

262. A charity may have contingent assets and liabilities as defined in FRS 37 (Refer to Glossary).

263. A charity should not recognise incoming or outgoing resources or gains and losses arising respectively from contingent assets or contingent liabilities in the Statement of Financial Activities or the balance sheet.

264. Contingent assets are not recognised because it could result in the recognition of incoming resources that may never be realised. However, when the realisation of the incoming resources is virtually certain, then the asset is not a contingent asset and the resource/gain arising should be included in the Statement of Financial Activities as an incoming resource and in the balance sheet as a debtor.

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

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

Disclosure

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

268. The accounts should disclose the nature of each contingency, the uncertainties that are expected to affect the outcome, and a prudent estimate of the financial effect where an amount has not been accrued. If such an estimate cannot be made, the accounts should explain why it is not practicable to make such an estimate.

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

270. Where a liability has been accrued but there is still a contingent liability arising from the same set of circumstances then the notes to the accounts should link the provision and the contingent liability.

Loan Liabilities

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

(a) particulars of the assets which are subject to the mortgage or charge;

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

272. The amounts and interest and repayment terms of all inter-fund loans (including any loans from permanent endowment and summarised, if necessary) should be disclosed in the notes to the accounts. Loans made to trading subsidiaries, the security provided, the interest payable and the repayment terms should be disclosed as a separate item in the notes to the accounts.

Cash Flow Statement

Application

273. The preparation of a cash flow statement is a requirement of FRS 1 for all charities. The object of the cash flow statement is to show the cash received and used by the charity in the accounting period.

274. Wherever a cash flow statement is prepared it should comply with the requirements of FRS 7 subject to the following paragraphs.

275. The analysis of the cash movements should accord with the charity's operations as reported in its Statement of Financial Activities, and be given in appropriate detail. The starting point will normally be "net incoming/outgoing resources before holding gains and losses" in Table A.

276. Movements in endowments should not be included in cash flows from "operating activities" but should be treated as increases or decreases in the financing section. This is achieved as follows:

    (a) cash donations to endowment should be treated as additions to endowment in the "financing" section;

    (b) the receipts and payments from the acquisition and disposal of investments should be shown gross in the "capital expenditure and financial investment" section of the cash-flow statement. A single row should then be included in this section showing the net movement in cash flows attributable to endowment investments. A corresponding row should be included in the "financing" section for the same amount. The row in the "financing" section should reflect the cash into/(cash out of) the endowment fund whereas it will be the opposite direction in the "capital expenditure and financial investment" section;

    (c) on the rare occasion when payments are made out of permanent endowment this should be shown as a decrease in the "financing" section;

    (d) transactions which do not result in cash flows should not be reported in the cash flow statement (e.g. depreciation, revaluations, accruals,) but may need to be disclosed.

Disclosure

277. The disclosure requirements of FRS 7 will depend upon the exact basis of preparation and content of the cash-flow statement for each charity but the following are some of the more common disclosures:

    (a) major transactions not resulting in cash movements should be disclosed in the notes if necessary for an understanding of the underlying transactions. For instance the release of expendable endowment;

    (b) cash (and any financing) movements should be reconciled to the appropriate opening and closing balance sheet amounts; and

    (c) a reconciliation of cash flows from "operating activities" within the cash flow statement to the net incoming resources/expenditure row of the Statement of Financial Activities.

Disclosure of Accounting Policies

The Basis of the Preparation of Accounts

278. Charity accounts should include notes on the accounting policies chosen. These should be the most appropriate in the particular circumstances of each charity for the purpose of giving a true and fair view. The policies should be consistent with this RAP, FRS and relevant legislations.

279. Accounting policies are the principles, bases, conventions and rules by which transactions are recognised, measured and presented in the accounts. They are supplemented by estimation techniques where judgement is required in recording the value of incoming and outgoing resources and of assets and liabilities. It is essential that the accounts are accompanied by an explanation of the basis and estimation techniques on which they have been prepared. Accounts are normally prepared on the basis that the charity is a going concern and must include relevant, reliable, comparable and understandable information.

280. The notes regarding the basis of preparation of the accounts should state that the accounts have been prepared in accordance with:

(a) this RAP and FRSs;

(b) the Charities Act or the Companies Act or other legislative requirement; and

(c) the historic cost basis of accounting except for investments (and if applicable, property, plant and equipment) which have been included at revalued amounts.

281. If the accounts depart from FRS in any material respect, this should be stated in the accounting policies giving the reason and justification for the departure and the financial impact. Similarly the following details should be given for any material departure from this RAP:

(a) a brief description of how the treatment adopted departs from this RAP;

(b) the reasons why the trustees/office bearers judge that the treatment adopted is more appropriate to the charity's particular circumstances; and

(c) an estimate of the financial effect on the accounts where this is needed for the accounts to give a true and fair view.

282. If any branches (Refer to Glossary) have been omitted from the accounts, the reason for omission should be given although the individual branches do not need to be named. Reference should also be made to any related organisations (such as supporters associations or subsidiaries not consolidated) explaining the accounting treatment adopted.

Specific Policies

283. Trustees/office bearers should explain in the notes to the accounts the accounting policies they have adopted to deal with material items. Explanations need only be brief but they should be clear, fair and accurate. Changes to any of the policies that result in a material adjustment to prior periods should be disclosed in detail. The following are some examples of matters for which the accounting policies should be explained where the amounts involved are material. Trustees should only include those notes which are relevant to their charity.

Incoming Resources Policy Notes

284. The policy for including each type of material incoming resource should be given. This will normally be on a receivable basis but may need further details in some cases, for instance:

(a) a description of when a legacy is regarded as receivable;

(b) the basis of recognition of gifts in kind and donated services and facilities, specifically covering when such items are not included in the Statement of Financial Activities and the methods of valuation;

(c) the basis of recognition of all grants receivable, including those for property, plant and equipment, and how the grants are analysed between the different types of incoming resources;

(d) whether any incoming resources are deferred and the basis for any deferrals;

(e) the basis for including subscriptions for life membership;

(f) whether the incoming resources from endowment funds are unrestricted or restricted;

(g) whether any incoming resources have been included in the Statement of Financial Activities net of expenditure and the reason for this.

Resources Expended Policy Notes

285. These policy notes may include:

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

(b) The policy for including items within the relevant activity categories of resources expended should be given. In particular the policy for including items within:

(i) costs of generating funds;

(ii) charitable activities;

(iii) governance costs;

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

Assets Policy Notes

286. The policy for capitalisation of property, plant and equipment for charity use should be stated including:

(a) whether each class of asset is included at cost, valuation or revaluation and the method of valuation where applicable;

(b) the value below which property, plant and equipment are not capitalised;

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

(d) the rates of depreciation applying to each class of fixed asset; and

(e) the policy with respect to impairment reviews of property, plant and equipment.

287. The policy for including investments in the accounts should be given. This should be at market value but may need to be modified for the valuation of:

(a) investments not listed on a recognised stock exchange;

(b) investment properties; and

(c) investments in subsidiary undertakings.

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

289. The basis for inclusion of stocks and work in progress (where relevant the amount of unsold or unused goods and materials should be given).

Funds Structure Policy Notes

290. A brief description should be given of the different types of fund held by the charity, including the policy for any transfers between funds and allocations to or from designated funds. Transfers may arise, for example, where there is a release of restricted or endowed funds to unrestricted funds or charges are made from the unrestricted to other funds.

291. The policy for determining each designated fund should be stated.

Other Policy Notes

292. These could include policies for the recognition of the following:

(a) pension costs and any pension asset or liability;

(b) foreign exchange gains and losses;

(c) treatment of exceptional items;

(d) treatment of finance and operating leases;

(e) treatment of irrecoverable GST.

Summary Financial Information

293. Any other summary financial information, in whatever form, should be accompanied by a statement signed on behalf of the trustees/office bearers as to:

(a) the purpose of the information;

(b) whether or not it is from the full annual accounts;

(c) whether or not these accounts have been audited, independently examined or subject to a reporting accountant's report;

(d) details of how the full annual accounts, charity's report and external scrutiny report (as appropriate) can be obtained.

Special Sections

294. The main text of the RAP deals with the recommended accounting practice for those charities producing full accruals accounts. Some charities will have to meet additional requirements and the following sections have therefore been provided to explain the additional recommendations applicable to particular arrangements or structures that charities may adopt.

(a) Consolidation of Subsidiary Undertakings –.

(b) Accounting for Associates, Joint Ventures and Joint Arrangements and

(c) Charitable Companies

Consolidation of Subsidiary Undertakings

Purpose and Scope

295. The purpose of consolidated accounts is to present a true and fair view of the state of financial affairs of all the group interests of the reporting charity including its subsidiary undertakings. The principles and methods of consolidation are covered by FRS 27. These principles should be applied irrespective of whether the parent charity and its subsidiaries are companies or otherwise constituted.

296. Consolidated accounts are a set of accounts prepared in addition to those prepared for the parent itself and to those prepared for each of the subsidiary undertakings in its own right.

297. A parent charity (Refer to Glossary) should prepare consolidated accounts including all its subsidiary undertakings (Refer to Glossary) except where FRS 27 provides for the exclusion of certain subsidiary undertakings from consolidation.

298. FRS 27 allows subsidiaries to be excluded from consolidation in certain limited circumstances (control of subsidiary is intended to be temporary and management is actively seeking a buyer so that the consolidation will not give a true and fair view). It is unlikely that these exclusions will generally apply to a charitable group.

299. Charities utilise subsidiary undertakings 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 of itself to justify non-consolidation. However, where a subsidiary undertaking is a registered company which is insolvent and is being wound up then the subsidiary undertaking can be excluded from consolidation.

Charitable Subsidiaries

300. Most non-company charitable subsidiaries will be included in the aggregated accounts of the controlling charity, as they will either be restricted funds or endowment funds of the charity . However, on occasions, a charity may control another charitable entity that does not meet the definition of a special trust, for example, because the objects of the subsidiary are wider than those of the parent charity. Where the tests for control (the parent’s ability to direct and benefit) are met, the charitable subsidiary should be consolidated. Benefit to a parent charity may arise where the services and benefits provided by the charitable subsidiary to its own beneficiaries also contribute indirectly to the objectives of the parent charity or in terms of cash flow to the parent charity. Where (unusually) a subsidiary charity's objects are substantially different from the parent charity, the benefit test of control will not be met and so no consolidation should take place.

301. A subsidiary that is a charity with objects narrower than its parent, will need to be accounted for by the use of one or more restricted fund columns in the consolidated accounts.

Determining whether a Subsidiary undertaking meets the Control test

302. Subsidiary undertakings can be identified by the measure of control (Refer to Glossary) exercised by the parent charity. FRS 27 outlines how such control can be determined in the context of:

    (a) voting rights (mainly stemming from share ownership) and/or

    (b) control over the board or activities of the subsidiary.

    This embodies the requirements of the Companies Act which should be followed by those undertakings registered under this Act.

303. A similar relationship to that of a parent and subsidiary undertaking may arise where the parent charity transacts with another undertaking in such a way that all the risks and rewards of the transactions remain with the parent undertaking. An example is when the ownership of the assets is transferred to another entity whilst retaining exclusive use of those assets and meeting the costs of maintaining them.

304. A charity, however constituted, should be regarded as a subsidiary undertaking where the parent charity has the power to exercise, or actually exercises, control over the subsidiary or the parent and subsidiary are managed on a unified basis. Control can arise in any of the following situations:

    (a) the charity trustees and/or members and or employees of the parent charity are, or have the right to appoint or remove, a majority of the charity trustees of the subsidiary charity; or

    (b) the governing document of the subsidiary charity reserves to the parent charity's trustees and/or members the right to direct, or to give consent to, the exercise of significant discretion by the trustees/office bearers of the subsidiary charity.

305. The basis for treating a non-company charity as a subsidiary is that the connection between it and some other charity is such that the operating and financial policies of the former are likely to be set in accordance with the wishes of the latter. This is likely to be the case where one of the relationships described in the previous paragraph exists, but trustees/office bearers may, in a particular case, be able to produce evidence to the contrary.

306. Where the objects of a charity are substantially or exclusively confined to the benefit of another charity, the issue of control requires particular consideration. For example, friends' groups, on occasions, form separate charities to give support to an established charity whilst retaining legal discretion as to the nature and timing of its support. In such cases the formal powers may not exist but where the benefiting charity has a participating interest (Refer to Glossary) in the fund providing charity then dominant influence may arise less formally. For example, the benefiting charity may set out in outline the nature or timing of the support it wants to achieve. Alternatively the parent charity may intervene on a critical matter. Where evidence exists of such dominant influence being exercised the criteria for consolidation should be regarded as being met.

Method of Consolidation

307. The normal rules will apply regarding the method of consolidation, which should be carried out on a line-by-line basis as set out in Financial Reporting Standard 27.

308. All items of incoming resources and resources expended should be shown gross after the removal of intra-group transactions. Clearly it is desirable that similar items are treated in the same way. For instance, incoming resources from activities to generate funds in the charity should be combined with similar activities in the subsidiary, and charitable activities within the charity should be combined with similar activities in the subsidiary. Similarly, costs of generating funds and/or governance costs in the subsidiary should be aggregated with those of the charity.

309. Each charity should choose appropriate category headings within the permissible format of the Statement of Financial Activities and suitable amalgamations of activities. The headings used should reflect the underlying activities of the group. If it is not possible to exactly match items

between the subsidiary undertaking and the parent charity, segmental information should be provided so that the results of the parent charity and each subsidiary undertaking are transparent.

Filing of Accounts with Commissioner of Charities

310. Although consolidated accounts must be prepared under FRS, the Charities Act requires the individual charity's accounts to be filed with the Commissioner of Charities. To meet these requirements, where the group and parent charity's accounts are included in the same set of consolidated accounts, the accounts of the individual charities should also be provided (one for the group and one for the parent).

Disclosure

311. There should be a separate comment in the Charity's Annual Report concerning the activities and performance of each of the charity's material subsidiary undertakings.

312. Where consolidated accounts are prepared, the policy notes should state the method of consolidation and which subsidiaries or associated entities are included and excluded from the consolidation.

313. The notes to the consolidated accounts should give the position of the group as well as the parent undertaking.

314. The notes to the accounts should state the aggregate amount of the total investment of the charity in its subsidiary undertakings and, unless the subsidiary is not material, in relation to each one:

(a) its name;

(b) particulars of the parent charity's shareholding or other means of control;

(c) how its activities relate to those of the charity;

(d) the aggregate amount of its assets, liabilities and funds;

(e) a summary of its turnover and expenditure and its profit or loss for the year (or equivalent categories for charitable subsidiary undertakings).

315. If there are any minority interests external to the group, similar details to those in the above paragraph should be provided relating to the minority interest held in the subsidiary undertakings including any restrictions that may be placed on the group's activities.

316. If a charity has a large number of subsidiary undertakings such that the disclosure would result in information of excessive length being given, the information need only be given in respect of those undertakings whose results or financial position materially affected the figures shown in the charity's annual accounts. The full disclosure should be made available (in the same way as the accounts) to any member of the public upon request.

317. In addition, if, subsidiary undertakings are excluded or consolidated accounts are not prepared then the trustees/office bearers should explain the reasons in a note to the charity's accounts with reference to each excluded subsidiary undertaking.

318. Segmental information may need to be provided where the aggregation and adjustments required to consolidate financial information may obscure information about the different undertakings and the activities included in the consolidated accounts. It is important that the presentation adopted and disclosure in the notes is sufficiently detailed to distinguish the key results of the charity from those of its subsidiary undertakings. Examples of those items that should be separately disclosed include the costs of generating funds, the costs of charitable activities and governance costs.

319. In consolidated accounts, funds or reserves retained by subsidiary undertakings other than funds available to be used in carrying out the charity's objects should be included under an appropriate separate fund heading in the balance sheet (e.g. funds retained within a non-charitable subsidiary.

Associates, Joint Ventures and Joint Arrangements

Introduction

320. This section explains the additional accounting requirements in consolidated accounts where a charity has associates, joint ventures or joint arrangements.

Identification

321. FRSs 28 and 31 cover the accounting for associates, joint ventures and joint arrangements and provides detailed guidance on how to determine the relationship between the entities involved. Where these exist, consolidated accounts should be prepared subject to the exemptions above.

322. Where a charity exercises significant influence over the operating and financial policy of another undertaking then this is likely to be an associate undertaking. Where a charity beneficially holds 20% or more of the voting rights in any undertaking, it will be presumed to have significant influence over its operating and financial policy, unless the contrary is shown.

323. 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 trustee/office bearer with particular skills or expertise. Where the recipient charity operates with a small trustee body, this might be construed as creating an associate. An associate will be created if the nomination or appointment is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the recipient charity's operating and financial policies. Where the trustee/officer bearer appointment is simply used to provide advice or expertise to the recipient charity whilst allowing the charity to adopt its own policies and strategies then an associate relationship is unlikely to be created.

324. In a joint venture situation, a separate entity is jointly controlled by two or more undertakings, all of which have a say in the operations of the joint venture, so that no single investing undertaking controls the joint venture but all together can do so. It is possible for a charity to beneficially hold 20% or more of the voting rights in an undertaking but for the management arrangements to be such that control is clearly shared with the other partners and hence the undertaking is a joint venture as opposed to an associate.

325. Often charities also undertake joint arrangements where they may carry out activities in partnership with other bodies but without establishing a separate legal entity.

Methods of Accounting for Associates, Joint Ventures and Joint Arrangements

326. **Associates** should be included in the accounts based on the net equity method. The consolidated Statement of Financial Activities should show the net interest in the results for the year in the associates as a separate row after the "net incoming resources/(resources expended) before transfers" row. In the balance sheet, the net interest in associates should be shown as a separate row within fixed asset investments. Where the charity's rights to the associate's assets are severely limited (e.g. because the majority prohibit any dividend distribution) then this should be reflected in the valuation.

327. **Joint ventures** should be accounted for on a gross equity method. This method requires the reporting entity to present its share of the gross incoming resources of joint ventures on the face of the consolidated profit and loss account (Statement of Financial Activities in charities). However, this does not form part of the group incoming resources and must be clearly distinguished. For charities this can be achieved by including gross incoming resources from joint ventures in the Statement of Financial Activities on a line-by-line basis with an additional row showing the total share of gross incoming resources from joint ventures as a reduction in total incoming resources. In addition a row showing the net interest in the results for the year in the joint ventures as a separate row after the "net incoming resources/(resources expended)" row must be included (this

may be combined with that of the associates). In the balance sheet the share of the gross assets and the gross liabilities should be shown in a linked presentation within property, plant and equipment investments.

328. Where there are gains and losses on investments and unrealised gains on other property, plant and equipment, the net share relating to associates should be shown on a separate row, with the gross share relating to joint ventures being shown either on a separate row or combined with the appropriate lines on the Statement of Financial Activities.

329. Where there is a **joint arrangement**, the charity's gross share of the incoming resources and resources expended and the assets and liabilities should be included in the accounts in the same way as for a branch. If under the arrangement the charity is jointly and severally liable for an obligation, it should accrue the part of the obligation for which it is responsible and treat the part of the obligation which is expected to be met by the other parties as a contingent liability.

Disclosure

330. The following disclosure should be given in respect of each associate and joint venture and this will normally be compliant with FRSs 28 and 31:

(a) its name;

(b) the charity's shareholding and other interests in it;

(c) the nature of the activities of the associate or joint venture;

(d) the charity's interest in the results showing separately its share in:

(i) gross incoming resources by type;

(ii) costs of generating funds;

(iii) expenditure on charitable activities;

(iv) expenditure on governance;
(these first four items may need to be adapted in the case of associates or joint ventures that are not charities)

(v) the net results (where tax is payable, the share of the results pre and post tax and the share in the tax should be shown);

(vi) gains or losses on investments and the share in unrealised gains on other property, plant and equipment;

(vii) property, plant and equipment;

(viii) current assets;

(ix) liabilities under one year;

(x) liabilities over one year;

(xi) the different funds of the charity;

(xii) contingent liabilities and other commitments;

(e) particulars of any qualifications contained in any audit or other statutory report on its accounts, and any note or reservation in those accounts to call attention to a matter which, apart from the note or reservation, would properly have been referred to in such a qualification.

331. For joint arrangements, the notes to the accounts should provide appropriate details of the charity's commitments in the arrangement.

The RAP in relation to Charitable Companies

Introduction

332. This section explains the position of this RAP with respect to charitable companies. In following this RAP, charitable companies will normally meet most of the reporting requirements under the Companies Act. However, the RAP does not reproduce these requirements in full and a charity should have regard to its own circumstances when considering the application of the Companies Act. In addition to following the main section of this RAP and the other special sections as applicable, there are certain further requirements which must be met by charitable companies. Ways of meeting the most common of these requirements are suggested below, but these too should be considered in the light of the company's individual circumstances.

Accounts and Reports

333. Charitable companies must comply with the Companies Act with respect to the form and content of their accounts. This Act also stipulates the contents of the annual (directors') report. Strictly, the directors of charitable companies have to prepare both that report, and the annual (charity's) report under Section 16 of the Charities Act. Charitable companies (unlike non company charities) do not have an exemption to leave out the names of the directors from the annual (directors') report.

334. The Companies Act requires a company to prepare annual financial statements which give a true and fair view of its state of affairs at the end of the year and of its profit and loss for that year.

335. The requirement to show a true and fair view and to adapt the accounts for the special nature of charity means that there is a strong presumption that charitable companies will, in all but exceptional circumstances, have to comply with this RAP in order to meet the requirements of company law. Particulars of any material departures from this RAP are required to be disclosed.

The Statement of Financial Activities and the Summary Income and Expenditure Account

336. All charitable companies registered under the Companies Act must include an income and expenditure account in their financial statements. The Statement of Financial Activities is designed to include all the gains and losses of a charity which would be found in both the income and expenditure account and the statement of total recognised gains and losses as required by FRS 1. A separate income and expenditure account is therefore not necessarily required. Circumstances where it will probably be required may arise where the income and expenditure account cannot be separately identified within the Statement of Financial Activities and there are items which may be open to challenge if they are included in an Income and Expenditure Account, such as:

(a) movement on endowment (capital) funds during the year; and

(b) unrealised gains and losses arising during the year.

Whilst unrealised gains and losses are not allowed in the income and expenditure account, most of these are included in the Statement of Financial Activities below the point at which a conventional income and expenditure account would end. Furthermore – where charities adopt a policy of continuous revaluation of investments (as explained in above paragraph) there may be no realised gains to report and all the revaluation movements will be classified as unrealised gains.

337. Where the Statement of Financial Activities of a charitable company does not include any of the items in the above paragraph, it may not need to produce a separate summary income and expenditure account but the headings in the Statement of Financial Activities should be changed so that:

(a) the title clearly indicates that it includes an income and expenditure account and statement of total recognised gains and losses (if required); and

(b) there is a prominent sub total entitled "net income/(expenditure) for the year" which replaces or is in addition to the heading of "net incoming/(outgoing) resources for the year".

Care should also be taken to ensure that all realised gains and losses are included in the Statement of Financial Activities in such a way that they fall within the bounds of the headings for (a) and (b) within the income and expenditure account. Particular attention may need to be given to impairment losses and reversals which, in accordance with the guidance in FRS 36, are realised in some circumstances and unrealised in others.

338. Where a summary income and expenditure account is required, it should be derived from and cross-referenced to the corresponding figures in the Statement of Financial Activities. It need not distinguish between unrestricted and restricted income funds but the accounting basis on which items are included must be the same as in the Statement of Financial Activities. It should show separately in respect of continuing operations, acquisitions and discontinued operations:

(a) gross income from all sources;

(b) net gains/losses from disposals of all property, plant and equipment belonging to the charity's income funds;

(c) transfers from endowment funds of amounts previously received as capital resources and now converted into income funds for expending;

(d) total income (this will be the total of all incoming resources - other than revaluation gains - of all the income funds but not for any endowment funds);

(e) total expenditure out of the charity's income funds;

(f) net income or expenditure for the year. In practice, the format may need to be modified to comply with specific statutory requirements or those of the charity's own governing document.

339. Charities companies which require a summary income and expenditure account and which prepare consolidated accounts should prepare a summary income and expenditure account for the group.

Revaluation Reserve

340. Where property, plant and equipment are revalued upwards, a revaluation reserve will arise being the difference between the original depreciated cost or valuation of the asset and the revalued amount. Separate reporting of the reserve is not significant for charities as they do not distribute profits, but a revaluation reserve will, nevertheless, arise. This will form part of the funds in which the revalued assets are held. In certain circumstances (as described in FRS 36), impairment losses or other downward revaluations can be offset against the revaluation reserve.

341. To comply with the Companies Act, charitable companies must separately disclose the revaluation reserve in respect of their restricted funds within the relevant funds section on the face of the balance sheet but may change the heading as appropriate. This may be best effected by use of a prominent inset.

Summary Financial Information

342. Charitable companies should follow the recommendations above but their summary financial information should also include a statement indicating whether or not the statutory accounts for the relevant year(s) have been delivered to the Accounting and Corporate Regulatory Authority Singapore.