

# Preparing the cash flow statement





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***





# Importance of CFS

- Informs users about actual cash received and spending of funds
- Valuable in predicting future cash requirements
- Assess ability to generate future cash flows
- Allows for comparison with budget when prepared on cash basis of accounting
- Informs decisions on changes in future funding impact nature and scope of activities





# Common mistakes

## Common mistakes in preparing CFS:

- Adjusting for non-cash flow items
- Presenting cash flow items at net amounts
- Classification of bank borrowings and investments as cash and cash equivalents
- Reconciliation of net cash flows from operating activities to surplus/(deficit)





# Adjusting non-cash flow items

Software programs often do not adjust all non-cash flow items

- Goods and/or services in kind
  - Goods: tangible assets that are measured at fair value
  - Services: measured at fair value when significant and value can be determined
- Straight-lining of operating lease expenses
  - GRAP 13 requires operating lease expenses to be expensed on straight line bases over lease term – not cash payment





# Cash flow items at net amounts

Can only be presented on net basis for cash receipts and payments:

- on behalf of 3<sup>rd</sup> parties – GRAP 109
- where turnover is quick, amounts large and maturities short – purchase and sale of investments

Separate presentation on face of CFS for:

- interest received vs finance cost
- dividends received vs dividends paid





# Cash and cash equivalents

- ‘Cash and cash equivalents’ – items held to meet short term commitments
- Management’s intention for having or holding investment should be considered
- Bank borrowings comprise ‘cash and cash equivalents’ if:
  - repayable on demand
  - integral part of entity’s cash management activities





# Cash and cash equivalents

- Investments comprise ‘cash and cash equivalents’
  - short term and highly liquid
  - readily convertible to known amounts of cash
  - insignificant risk of changes in values
  
- Frequently Asked Question developed by Secretariat







# Reconciliation

- Reconciliation of net cash flows from operating activities to surplus/(deficit) - show how net income from income statement translated into net cash generated
- Common mistake is to not adjust for items shown separately on face of cash flow statement
  - interest received deducted to surplus/(deficit)
  - finance costs added to surplus/(deficit)





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