

## 14. Statement of cash flows

### Introduction

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- 14.1. Charities preparing their accounts under FRS 102 must provide a statement of cash flows except where the disclosure exemptions permitted by this SORP have been taken. Charities should refer to section 7 of FRS 102.
- 14.2. The statement of cash flows provides information about the ways in which a charity uses the cash generated by its activities and about changes in cash and cash equivalents held by a charity. It also provides information that is helpful in assessing a charity's liquidity and underlying solvency. 'Liquidity' refers to the ability of a charity to meet its immediate and short-term obligations as they fall due. 'Solvency' refers to the capability of the charity to meet its longer-term obligations as they fall due.
- 14.3. The statement identifies a charity's cash flows and the net increase or decrease in cash and cash equivalents in the reporting period. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Highly liquid investments normally have a maturity of three months or less from the date of acquisition.
- 14.4. Bank overdrafts which are repayable on demand and form an integral part of day-to-day cash management can be included as a component of cash and cash equivalents and may be included as part of cash and cash equivalents. However, other forms of overdraft or loan always count as part of borrowings and are shown as financing activities.
- 14.5. This module sets out:
- structure of the statement of cash flows;
  - what cash flows are included as operating activities?;
  - what cash flows are included as investing activities?;
  - what cash flows are included as financing activities?;
  - the methods of compiling the statement of cash flows;
  - template for a statement of cash flows; and
  - disclosures in the notes to the accounts.

### Structure of the statement of cash flows

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- 14.6. The format of the statement of cash flows must follow the requirements of section 7 of FRS 102. The statement of cash flows must analyse cash flows using three standard headings: operating activities, investing activities and financing activities. The statement of cash flows includes the movement in cash balances of unrestricted funds and restricted funds including endowment funds.

14.7. A template for the statement of cash flows is provided in Table 8, which should be adapted as necessary for the reporting purposes of the charity. For example, a columnar presentation may be adopted to distinguish between cash flows relating to restricted funds and cash flows relating to unrestricted funds. When a charity is preparing consolidated accounts, a statement of cash flows must be prepared on a consolidated basis.

### What cash flows are included as operating activities?

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14.8. Operating activities are the principal income producing activities of a charity that are recognised as income and expenditure in the charity's statement of financial activities (SoFA). The cash flow from operating activities indicates the extent to which operating activities have generated or consumed cash.

14.9. Examples of cash flows arising from operating activities include:

- cash receipts from donations and grants;
- cash receipts from Gift Aid claims or repayments of tax;
- cash receipts from contracts for the supply of goods and services;
- cash receipts from fees, rents (excluding rent from investment properties) and royalties;
- cash receipts from the repayment of loans made to further the charity's purposes;
- cash payments of grants made;
- cash payments to suppliers of goods and services;
- cash payments to and on behalf of staff (for example, staff salaries and pension contributions);
- cash payments of interest on borrowing related to operational activities;
- cash advances made to other parties as social investments; and
- cash payments of taxes on income (for example, tax paid on profit retained by a wholly owned subsidiary).

### What cash flows are included as investing activities?

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14.10. Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets but excludes those highly liquid investments which are classed as cash equivalents in the accounts. It also includes the acquisition of, or disposal of, tangible fixed assets including property, plant and equipment.

14.11. Examples of cash flows arising from investing activities include:

- cash receipts from interest and dividends received;
- cash receipts from rent on investment properties;
- cash receipts from the repayment of loans by a non-charitable trading subsidiary (charity entity accounts only);

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- cash receipts from the sale of plant, property and equipment and other long-term assets;
- cash receipts from the sale of investment properties and other long-term investments (including the sale of endowment investments);
- cash payments to acquire investments (including conversion of endowment from cash to another form of investment); and
- cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including conversion of endowment from cash to another form of fixed asset).

### What cash flows are included as financing activities?

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14.12. Financing activities relate to borrowing and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be 'capital' in charity law as they must be invested or retained.

14.13. Examples of cash flows arising from financing activities include:

- cash receipts from donations of endowment or the accumulation of cash under a power to create expendable endowment;
- cash receipts from new borrowing by way of loan or mortgage and other long- or short-term borrowings;
- cash receipts from the use of a bank overdraft facility (if not treated as a component of cash equivalents);
- cash repayments of borrowing including mortgages, loans and other borrowing; and
- cash payments by a lessee which reduces the outstanding liability relating to a finance lease.

### The methods of compiling the statement of cash flows

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14.14. FRS 102 permits charities to use either the direct or indirect method when presenting the cash flow from operating activities and section 7 of FRS 102 provides guidance on these methods. The indirect method is the method most commonly used and is the method illustrated in Table 8.

14.15. The charity must choose to present the statement of cash flows using either:

- the indirect method, which involves deriving the cash flows from operating activities. The net movement of funds shown in the statement of financial activities (SoFA) is adjusted for:
- non-cash movements in the SoFA,
- any deferrals or accruals arising from cash receipts or payments, and
- items of income or expenditure related to investing or financing cash flows; or
- the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

14.16. A charity using hedge accounting for a transaction must show the cash flow of the hedging instrument as an item within the same heading as that of the linked transaction. For more information on hedge accounting, refer to section 12 of FRS 102.

### Template for a statement of cash flows

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14.17. A template for a statement of cash flows using the indirect method is given in Table 8. Charities using this format must provide a reconciliation to show how the net income/ (expenditure) presented in the SoFA has been adjusted to arrive at the cash flows from operating activities presented in the statement of cash flows. An example of how this reconciliation may be set out is given in Table 9 below. A reconciliation of cash and cash equivalents must also be provided and an example is given in Table 10.

14.18. Table 8 includes an adjustment for the change in cash and cash equivalents due to exchange rate movements. Accounting standards require foreign currency denominated financial assets and financial liabilities to be recalculated at the reporting date. This item is necessary if the statement of cash flows is to reconcile to the balance sheet. Refer to section 30 of FRS 102 for more information on foreign currency translation.

14.19. The template for a statement of cash flows set out in Table 8 must be adapted as necessary for any additional items that apply. An example would be cash flows arising from the payment of taxes. Similarly, any headings that do not apply must be omitted.

### Disclosures in the notes to the accounts

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14.20. When significant cash or cash equivalents are held which are not available for use to further charitable activities, for example cash and cash equivalents held in endowment funds, the charity must disclose:

- the amount unavailable; and
- explain why it is unavailable for use.

14.21. Examples of financing transactions include the conversion of expendable endowment into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowment enabling it to be spent in the future.

14.22. If the components of cash and cash equivalents presented in the statement of cash flows are different to the equivalent items in the charity's balance sheet, a reconciliation must be provided.

Table 8: Statement of cash flows

	Total funds	Prior year funds	Note
	£	£	
<b>Cash flows from operating activities:</b>			
<b>Net cash provided by (used in) operating activities</b>	X	(X)	(Table 9)
<b>Cash flows from investing activities:</b>			
Dividends, interest and rents from investments	X	X	
Proceeds from the sale of property, plant and equipment	X	X	
Purchase of property, plant and equipment	(X)	(X)	
Proceeds from sale of investments	X	-	
Purchase of investments	-	(X)	
<b>Net cash provided by (used in) investing activities</b>	X	X	
<b>Cash flows from financing activities:</b>			
Repayments of borrowing	(X)	(X)	
Cash inflows from new borrowing	X	-	
Receipt of endowment	X	X	
<b>Net cash provided by (used in) financing activities</b>	X	X	
<b>Change in cash and cash equivalents in the reporting period</b>	X	X	
<b>Cash and cash equivalents at the beginning of the reporting period</b>	X	X	(Table 10)
<b>Change in cash and cash equivalents due to exchange rate movements</b>	X	(X)	
<b>Cash and cash equivalents at the end of the reporting period</b>	X	X	(Table 10)

Table 9: Reconciliation of net income/(expenditure) to net cash flow from operating activities

	Current Year	Prior Year
	£	£
<b>Net income/(expenditure) for the reporting period (as per the statement of financial activities)</b>	X	(X)
<b>Adjustments for:</b>		
Depreciation charges	X	X
(Gains)/losses on investments	X	(X)
Dividends, interest and rents from investments	(X)	(X)
Loss/(profit) on the sale of fixed assets	X	(X)
(Increase)/decrease in stocks	(X)	X
(Increase)/decrease in debtors	(X)	X
Increase/(decrease) in creditors	X	(X)
<b>Net cash provided by (used in) operating activities</b>	X	(X)

**Table 10: Analysis of cash and cash equivalents**

	<b>Current year</b>	<b>Prior year</b>
	<b>£</b>	<b>£</b>
Cash in hand	X	X
Notice deposits (less than 3 months)	X	X
Overdraft facility repayable on demand	(X)	(X)
<b>Total cash and cash equivalents</b>	<b>X</b>	<b>X</b>