

# 14. Statement of cash flows

## Introduction

- 14.1. The reporting tiers applied for module 14 are as specified in the table below. Refer to Section 7 of FRS 102 for more information about how to prepare a statement of cash flows.

**Table 14.1A: Tiered reporting requirements for module 14**

Tier 1 and tier 2	Charities within tier 1 and tier 2 are not required to provide a statement of cash flows where they meet the definition of a small entity, in accordance with paragraph 7.1B of FRS 102, however, they may choose to do so.
Tier 3	Charities within tier 3 must provide a statement of cash flows. Note, the exemption in paragraph 7.1B of FRS 102 is not available to tier 3 charities even in those cases where they meet the definition of a small entity in 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 showing separately changes from operating activities, investing activities and financing activities.
- 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. An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, 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 loans always count as part of borrowings and related cash flows are shown as financing activities.
- 14.5. This module sets out:
- [The 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](#)
- [Disclosures in the notes to the accounts](#)

## The structure of the statement of cash flows

- 14.6. The format of the statement of cash flows must follow the requirements of Section 7 of FRS102. The statement of cash flows includes the movement in cash balances of unrestricted funds and restricted funds including endowment funds. The statement of cash flows must analyse cash flows using three standard headings:
- operating activities
  - investing activities
  - financing activities
- 14.7. A template for the statement of cash flows is provided in Table 11, 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?

- 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 payments of interest made by a lessee for the interest portion of a lease liability measured in accordance with Section 20 Leases of FRS 102
  - cash advances made to other parties as social investments

- cash payments of taxes on income (for example, tax paid on profit retained by a wholly owned subsidiary)
- cash payments for short-term leases, leases of low value assets and variable lease payments not included in the measurement of the lease liability as required by Section 20 Leases of FRS 102

Paragraph 7.4 of FRS 102 provides further information on operating activities.

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

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

Paragraph 7.5 of FRS 102 provides further information on investing activities.

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

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
- cash payments by a lessee for the principal portion of the lease liability

Paragraph 7.6 of FRS 102 provides further information on financing activities.

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

14.14. FRS 102 permits charities to use either the direct or indirect method when presenting the cash flow from operating activities. Paragraphs 7.7 to 7.9 of FRS 102 provide guidance on these methods. The indirect method is the method most commonly used, and is the method illustrated in Table 11.

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 SoFA is adjusted for:
  - non-cash movements in the SoFA
  - any deferrals or accruals arising from cash receipts or payments
  - items of income or expenditure related to investing or financing cash flows
- 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**

14.17. A template for a statement of cash flows using the indirect method is given in Table 11. Charities using this format must provide a reconciliation to show how the net income/ (expense) 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 the 'Cash flows from operating activities' section of Table 11 below. A reconciliation presenting the components of cash and cash equivalents must also be provided, and an example is given in Table 12.

14.18. A reconciliation of net debt must also be provided. Net debt consists of the borrowings of a charity, any related derivatives, and obligations under leases, less any cash and cash equivalents. When several balances (or parts thereof) from the balance sheet have been combined to form the components of opening and

closing net debt, sufficient detail must be shown to ensure users can identify these balances. Section 7 of FRS 102 does not require the analysis to be presented for prior periods.

- 14.19. An example of how this reconciliation may be set out is given in Table 13, which should be adapted as necessary for the reporting purposes of the charity. For example, a layout may be adopted which distinguishes between debt used to finance property plant and equipment, and debt used to finance operational costs. A layout may also be adopted which distinguishes between the timing of the cash flows associated with debt financing and the purpose for which those cash flows were applied.
- 14.20. This SORP requires that charities include an adjustment for the change in cash and cash equivalents due to exchange rate movements, see Table 11. 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. The template for a statement of cash flows set out in Table 11 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.

## **Supplier finance arrangements**

- 14.21. Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts a charity owes its suppliers and the charity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the charity with extended payment terms, or the charity's suppliers with early payment terms, compared to the related invoice payment due date. These arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.
- 14.22. Arrangements that are solely credit enhancements for the entity (e.g. financial guarantee contracts) or instruments used to settle directly with a supplier the amounts owed (e.g. credit cards) are not supplier finance arrangements.
- 14.23. A charity which enters into a supplier finance arrangement must disclose the necessary information as set out in paragraph 7.20C of FRS 102.
- 14.24. Section 1.42 of FRS 102 explains how charities should first apply the changes introduced by FRS 102 in relation to supplier finance arrangements.

## **Disclosures in the notes to the accounts**

- 14.25. Tables 11, 12 and 13 provide examples of disclosures required for cash flows. Refer to Section 7 of FRS 102 for more information.
- 14.26. Cash and cash equivalents held by a charity may not be available for use to further charitable activities because of, among other reasons, foreign exchange controls, legal restrictions or due to being held in endowment fund. When

significant cash or cash equivalents are held that are not available for use, the charity must disclose:

- the amount unavailable
- explain why it is unavailable for use

- 14.27. An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities. Examples include the conversion of expendable endowments into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowments, enabling them to be spent in the future.
- 14.28. 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 11: Statement of cash flows**

	<b>Total funds</b>	<b>Prior year funds</b>	<b>Note</b>
	<b>£</b>	<b>£</b>	
<b>Cash flows from operating activities:</b>			
<b><i>Net income/(expenses) for the reporting period (as per the statement of financial activities)</i></b>	<b>X</b>	<b>(X)</b>	
<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><i>Net cash provided by (used in) operating activities</i></b>	<b>X</b>	<b>(X)</b>	
<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><i>Net cash provided by (used in) investing activities</i></b>	<b>X</b>	<b>X</b>	
<b>Cash flows from financing activities:</b>			
Repayments of borrowing	(X)	(X)	
Cash inflows from new borrowing	X	-	
Receipt of endowment	X	X	
<b><i>Net cash provided by (used in) financing activities</i></b>	<b>X</b>	<b>X</b>	
<b><i>Change in cash and cash equivalents in the reporting period</i></b>	<b>X</b>	<b>X</b>	
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>X</b>	<b>X</b>	(Table 12)
<b>Change in cash and cash equivalents due to exchange rate movements</b>	<b>X</b>	<b>(X)</b>	
<b><i>Cash and cash equivalents at the end of the reporting period</i></b>	<b>X</b>	<b>X</b>	(Table 12)

**Table 12: 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>



**Table 13: Analysis of changes in net debt**

	At start of year	Cashflows	Acquisition/disposal of subsidiaries	New leases	Fair value movements	Foreign exchange movements	Other non-cash changes	At end of year
	£	£						
<b>Cash</b>	x	(x)	-	-	-	-	-	<b>x</b>
<b>Cash equivalents</b>	x	(x)	-	-	-	x	-	<b>x</b>
<b>Overdraft facility repayable on demand</b>	(x)	(x)	-	-	-	-	-	<b>(x)</b>
		<b>(x)</b>						
<b>Loans falling due within one year</b>	(x)	(x)	(x)	-	-	-	x	<b>(x)</b>
<b>Loans falling due after more than one year</b>	(x)	(x)	(x)	-	-	-	(x)	<b>(x)</b>
<b>Lease obligations</b>	(x)	x	(x)	(x)	-	-	-	<b>(x)</b>
<b>TOTAL</b>	<b>(x)</b>	<b>(x)</b>	<b>(x)</b>	<b>(x)</b>	<b>x</b>	<b>x</b>	<b>-</b>	<b>(x)</b>