

IPSAS2 CASH FLOW STATEMENT

Asso Prof Dr Ruhaya Atan PJK. CA (M)
Accounting Research Institute, Faculty of Accountancy,
UiTM
ruhaya@salam.uitm.edu.my

INTRODUCTION

The cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date.

Objective of IPSAS2

- is to provide information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing, and financing activities.

SCOPE

An entity that prepares and presents financial statements under the accrual basis of accounting should:

- prepare a cash flow statement in accordance with the requirements of this Standard,
- should present it as an integral part of its financial statements for each period for which financial statements are presented.

Benefits of Cash flow information

Is useful in providing users of financial statements with information for both accountability and decision-making purposes.

allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used.

In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows.

Definitions

- **Cash** comprises cash on hand and demand deposits.
- **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- **Cash flows** are inflows and outflows of cash and cash equivalents.

Presentation, structure & content of the Cash Flow Statement

The cash flows are reported separately
by

- operating activities,
- investing activities, and
- financing activities

Cash Flow from Operating Activities

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

- (a) By way of taxes (directly and indirectly); or
- (b) From the recipients of goods and services provided by the entity.

Reporting Cash Flows from Operating Activities

using either:

- (a) The **direct method**, whereby major classes of gross cash receipts and gross cash payments are disclosed; *(also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities).*

or

- (b) The **indirect method**, whereby net surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

Examples

(a) Cash receipts from charges for goods and services provided by the entity

(b) Cash receipts from taxes, levies, and fines

(c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities

(d) Cash receipts from royalties, fees, commissions, and other revenue

Cash flow from Investing Activities

Mainly consist of cash payments to acquire resources that are intended to contribute to the entity's future public service delivery.

Examples

(a) Cash payments to acquire property, plant and equipment, intangibles, and other long-term assets.

(b) Cash receipts from sales of property, plant and equipment, intangibles, and other long-term assets

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes)

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures

Examples

(e) Cash advances and loans made to other parties

(f) Cash receipts from the repayment of advances and loans made to other parties

(g) Cash payments for futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities

(h) Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Cash Flows arising from Financing Activities

Present valuable information in that they show future claims by providers of capital to the entity.

ILLUSTRATIVE EXAMPLE

CASH FLOW STATEMENT

Thank you

ruhaya@salam.uitm.edu.my