

To the Point

FASB – final guidance

FASB addresses the presentation of restricted cash in the statement of cash flows

The guidance will reduce diversity in how entities present changes in restricted cash and restricted cash equivalents in the statement of cash flows.

What you need to know

- ▶ The FASB issued final guidance to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows.
- ▶ The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows.
- ▶ As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows.
- ▶ The guidance will be applied retrospectively and is effective for public business entities for fiscal years beginning after 15 December 2017, and interim periods within those years. For all other entities, it is effective for fiscal years beginning after 15 December 2018, and interim periods within fiscal years beginning after 15 December 2019. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB) issued final guidance¹ that will require entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows.

The final guidance, which is based on a consensus of the Emerging Issues Task Force (EITF), addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows. It amends the guidance in Accounting Standards Codification

(ASC) 230,² which is principles based and often requires judgment to determine the appropriate classification of cash flows as operating, investing or financing activities. The prior standard also did not address the classification of activity related to restricted cash and restricted cash equivalents in the statement of cash flows. That has resulted in diversity in how transfers to or from restricted cash and restricted cash equivalents are classified.

In a related project, the FASB previously issued final guidance³ to clarify how entities should classify certain cash receipts and cash payments in the statement of cash flows. That guidance is also based on an EITF consensus.⁴

Disclosure requirements

When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements.

Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances, which is similar to what is required today for Securities and Exchange Commission registrants.⁵

Effective date and transition

For public business entities, the guidance is effective for fiscal years beginning after 15 December 2017, and interim periods within those years. For all other entities, it is effective for fiscal years beginning after 15 December 2018, and interim periods within fiscal years beginning after 15 December 2019. Early adoption is permitted. Early adoption in an interim period is permitted, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period.

Entities will be required to apply the guidance retrospectively when adopted and provide the relevant disclosures in ASC 250, in the first interim and annual periods in which they adopt the guidance.

Endnotes:

¹ Accounting Standards Update (ASU) 2016-18, *Restricted Cash*.

² ASC 230, *Statement of Cash Flows*.

³ ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*.

⁴ Refer to our To the Point publication, [FASB clarifies the classification of certain cash receipts and cash payments](#), for further details.

⁵ Regulation S-X, 5-02.1.

While the new guidance clarifies how restricted cash and restricted cash equivalents are presented in the statement of cash flows, it does not define restricted cash and restricted cash equivalents.

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