IAS 1 and IAS 7: Classification of Restricted Cash

Extract, IFRS Discussion Group Report on Meeting – June 13, 2013

The Group is asked to consider whether cash or a cash equivalent that has an external restriction placed upon it should be:

- presented as current or non-current on the statement of financial position; and
- considered a cash equivalent for statement of cash flow purposes.

Paragraph 66 of IAS 1 Presentation of Financial Statements states:

> "An entity shall classify an asset as current when:
>
> (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
>
> (b) it holds the asset primarily for the purpose of trading;
>
> (c) it expects to realise the asset within twelve months after the reporting period; or
>
> (d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
>
> An entity shall classify all other assets as non-current."

Paragraph 6 of IAS 7 Statement of Cash Flows defines cash and cash equivalents as follows:

> "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."

Fact Pattern

- A company operates a mine in a jurisdiction that requires a set amount of cash or cash equivalents to be held in a special account to be used only for the remediation of the mine site at the end of the life of the mine.
- The cash equivalents are demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.
- The company's mine has an estimated remaining life of 10 years.

The Group considered whether the restricted amounts should be presented as current or non-current on the statement of financial position and whether these restricted amounts should be considered cash equivalents for statement of cash flow purposes.

The Group's Discussion

Group members observed that in this fact pattern, the criterion in paragraph 66(d) of IAS 1 is not met because the amounts are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. The amounts held in the special account should be presented as a non-current asset in the statement of financial position.

To clarify the fact pattern, Group members assumed the statement of financial position presents as a current asset, cash and cash equivalents of $10 million, and as a non-current asset, restricted amounts held in the special account of $3 million. Group members considered whether the statement of cash flows should reconcile to $10 million (View A) or $13 million (View B)?

Many Group members supported the view that the restricted amounts should not be presented in the statement of cash flows as part of cash equivalents (View A) because these funds are not available to meet short-term cash commitments. Group members observed that paragraph 7 of IAS 7 states, in part, that "cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes."

However, Group members questioned whether the critical fact providing clarity in this fact pattern is the length of the restriction rather than the nature of the restriction. Group members observed that determining the appropriate presentation in the statement of cash flows becomes more difficult for other scenarios (for example, a restriction that a special account must be used for a specific purpose, such as building a mine, but the expenditures will be made three to six months after the reporting period). In this scenario, the amounts in the special account are not freely available for use but are expected to be used within the next year. Group members noted that it is less clear whether the statement of cash flows should be reconciled to cash and cash equivalents that include these restricted amounts.

Some Group members held the view that the restricted amounts should not be presented in the statement of cash flows as part of cash equivalents. Other Group members observed that both approaches can be seen in practice and it may be difficult to preclude the alternative view in certain scenarios.

Group members observed that the facts and circumstances, including the nature of the restriction, must be considered when determining the appropriate presentation in the statement of cash flows.

The Group decided not to recommend further action to the AcSB regarding this issue.