



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting Manual for Departments

Cash Flow Statement

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1 Overview

The purpose of this Chapter is to provide guidance on the identification and disclosure of information about the historical changes in cash and cash equivalents of a department by means of a cash flow statement, which classifies cash flows during the period from operating, investing and financing activities.

The Office of the Accountant-General has compiled a Modified Cash Standard (MCS) and this manual serves as an application guide to the MCS which should be used by departments in the preparation of their financial statements.

Any reference to a "Chapter" in this document refers to the relevant chapter in the MCS and / or the corresponding chapter of the Accounting Manual.

Explanation of images used in the manual:

	Definition
	Take note
	Management process and decision making
	Example


2 Key Learning Objectives


- Preparation of the cash flow statement in terms of the MCS


3 Presentation of a Cash Flow Statement

The cash flows during the period reported in the cash flow statement should be classified as cash flows from operating, investing and financing activities.

3.1 Operating activities


	<p>Operating activities are the activities of the department that are not investing or financing activities.</p>
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	<p>Example: Cash flows from operating activities</p> <p>Cash flows from operating activities are primarily derived from the appropriations received. Other examples of cash flows from operating activities include:</p> <ul style="list-style-type: none"> • cash receipts from taxes, levies and fines; • cash receipts from charges for goods and services provided by the department; • cash receipts from local and foreign donors; • cash receipts from royalties, fees, commissions and other revenue; • cash transfers to other entities to finance their operations (not including loans); • cash payments to suppliers for goods and services; • cash payments to and on behalf of employees; • cash payments of rates and taxes; • cash receipts or payments from transfers of functions / discontinuance of functions; and • cash receipts or payments in relation to litigation settlements.
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	<p>Some transactions, such as the sale of a capital asset, may give rise to revenue that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets for rental to others and subsequently sold are cash flows from operating activities. The cash received from rents and subsequent sales of such assets are also cash flows from operating activities.</p> <p>The Revenue Fund may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made through the Revenue Fund are usually classified as operating activities since they relate to the main cash-generating activity of that entity.</p>
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The department discloses a reconciliation between the surplus / deficit and the cash flow from operating activities. This reconciliation is included in the notes to the financial statements.


3.2 Investing activities

	<p>Investing activities are the acquisition and disposal of capital assets and other investments not included in cash equivalents.</p>
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	<p>Example: Cash flows from investing activities</p> <p>Examples of cash flows arising from investing activities:</p> <ul style="list-style-type: none"> • cash payments to acquire tangible and / or intangible capital assets. These payments include those relating to capitalised development costs and self-constructed tangible and / or intangible assets; • cash receipts from sales of tangible and / or intangible capital assets; • cash payments to acquire equity or debt instruments of other entities; • cash receipts from sales of equity of other entities; • cash advances and loans made to other parties; • cash receipts from the repayment of advances and loans made to other parties;
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3.3 Financing activities

	<p>Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the department.</p>
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	<p>Example: Cash flows from financing activities</p> <p>Examples of cash flows arising from financing activities:</p> <ul style="list-style-type: none"> • cash proceeds from issuing loans, notes, bonds and other short- or long-term borrowings; • cash repayments of amounts borrowed; and
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3.4 Cash and cash equivalents

	<p>Cash comprises cash on hand and demand deposits.</p> <p>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.</p>
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Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes, thus the intention of management should be considered when determining what qualifies as cash equivalents.


Cash and cash equivalents include:

- ✓ bank account balances (both domestic and foreign);
- ✓ cash awaiting banking;
- ✓ petty cash/imprest floats;
- ✓ short-term deposits; deposits at call; and
- ✓ other highly liquid investments that are readily convertible to cash on hand at the entity's option.

	<p>Accounting for cash in transit</p> <p>There are instances where a department transfers cash to another department just before or on reporting date.</p> <p>Similar to payments to third parties such as suppliers, the transferring department would account for the outflow of funds on the date of transfer and the receiving department would only account for the inflow of funds once received in their bank account (which is normally two days later). Therefore, similar to other third party payments, the amount transferred will appear as an outstanding payment on the bank reconciliation.</p> <p>The receiving department will not account for the cash as they would not have received it by reporting date. The cash will also not be on the receiving department's bank statement. Therefore it will not be a reconciling item.</p> <p>Departments should consider making year end payments at least two working days before year end so that the receiving department receives the money before year end and is able to account for it in the same year as that the transferring department accounted for it.</p>
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For an investment to qualify as a cash equivalent it must be readily convertible into cash, it must have a short maturity date, and there must be a small risk that the value of the investment would change. There is no guideline as to what is considered a short investment period, however the MCS mentions a period of three months or less as an example.

The PFMA has some restrictions on borrowings. Bank borrowings are generally excluded from cash and cash equivalents in the cash flow statement as they are considered a financing activity. However a bank overdraft forms an integral part of cash management and forms part of cash and cash equivalents in the cash flow statement. In the statement of financial position, bank overdraft is reported as a separate line item under current liabilities.

	<p>Departments are advised to ensure that there are sufficient funds available in the budget as well as the bank before approving payments. Departments are reminded of the requirements of Treasury Regulations relating to cash management.</p>
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Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of a department rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Departments should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the cash and cash equivalents in the statement of financial position. A department should also disclose the amount of significant cash and cash equivalent balances that are not available for use by the department.

In view of the variety of cash management practices and banking arrangements and in order to comply with the **Chapter on Financial Statement Presentation**, a department discloses the policy which it adopts in determining the composition of cash and cash equivalents.

Some additional information may be relevant to the users of the financial statements in order to understand the financial position of the department. Disclosure of this information, together with commentary by management, is encouraged and may be included. For example:

- the amount of undrawn borrowing facilities that may be available to the revenue fund for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
- the amount and nature of restricted cash balances.

	<p>Accounting for cash held for another party</p> <p>When a department holds cash for another party and it is in the bank account of the department at year end, it forms part of cash and cash equivalents. The department should disclose in the financial statements that it cannot use the funds (i.e. there is a restriction on use of the funds).</p>
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4 Guidance on Other Cash Flow Items

4.1 Interest and dividends or similar distributions

Interest and dividends or similar distributions received and paid should be disclosed separately.

The total amount of interest paid during a period is disclosed in the cash flow statement.


Interest paid and interest and dividends (or similar distributions) received may be classified as either operating, investing or financing activities. The classification of interest paid and interest and dividends (or similar distributions) received should be driven by the source.

Guidance for classification:

- Interest paid and interest and dividends received from working capital (e.g. bank, receivables and payables) should be classified as operating cash flows;
- Interest and dividends (or similar distributions) received may be classified as investing cash flow if they are returns on investments; and

- Interest or similar distributions paid on borrowings may also be classified as financing cash flow because they are a cost of obtaining finance.

This classification should be consistent from period to period.

	<p>Departments mostly incur interest on payables (i.e. payments made after 30 + days). Therefore all interest is classified as an operating activity. A department should notify the National Treasury if, based on the above guidance, such classification is inappropriate.</p>
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4.2 Foreign currency cash flows

Cash flows arising from transactions in a foreign currency shall be recorded in a department's functional currency by applying to the foreign currency amount at the spot exchange rate between the functional currency and the foreign currency at the date of the cash flow.

Example: Converting foreign currency at cash flow date

The department purchased equipment for 100 US dollars on 3 February 20x1; payment was made on the 28th of February 20x1. The department's functional currency is South African Rands. The spot exchange rate on 3 February 20x1 was R10 for 1 US dollar and on payment date the spot exchange rate was R10.50 for 1 US dollar.

Extract from <i>Cash flow statement</i>	Note	20x1	20x0
		R	R
...			
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for capital assets (100US\$ @ R10.5)	x	1,050	xx
...			

	<p>The MCS states the following:</p> <p>Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of the exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.</p>
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**Example: Converting foreign currency at cash flow date**

The department's functional currency is South African Rands. In 20x1 the department has an opening cash and cash equivalent balance of R10 000 (\$1 000) which was based on a spot rate of \$1 = R10 in the Cash Flow Statement. Closing bank balance in the POS in 20x1 is R2600 (\$200) and is based on a spot rate of \$1 = R13.

Cash	\$	Exchange rate	R
Opening balance	1 000	10	10 000
Movement (average exchange rate for illustration purposes)	(800)	12	(9 600)
Closing balance	200		400
Closing balance at spot rate	200	13	2 600
Forex difference (loss)			(2 200)

The exchange loss is the adjustment required to bring the closing bank balance to the amount calculated using the year end spot rate. Unrealised exchange differences in respect of cash and cash equivalents are not classified as operating, investing or financing activities. Instead, those unrealised exchange differences are presented as a separate, reconciling item, between the opening and closing balances of cash and cash equivalents in the statement of cash flows as follows:

Extract from <i>Cash flow statement</i>	Note	20x1	20x0
		R	R
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		10,000	XX
UNREALISED GAINS AND LOSSES WITHIN CASH AND CASH EQUIVALENTS		2,200	XX
CASH AND CASH EQUIVALENTS AT END OF PERIOD	X	2,600	10,000

4.3 Non cash transactions

Investing and financing transactions that do not require the use of cash or cash equivalents must be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Many investing and financing activities do not have a direct impact on current cash flows although they do affect the asset structure of a department. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- the acquisition of assets through the exchange of assets;
- the conversion of debt to equity; and
- write-off of debt.

5 Summary of Key Principles

This chapter provides guidance on the preparation of a cash flow statement. Each department presents its cash flow from operating, investing and financing activities in a manner which is most appropriate to its activities.

5.1 Preparing and presenting a cash flow statement

All cash flow items should be classified into one of **three main categories**:

1. Operating activities
2. Investing activities
3. Financing activities

A department should include a **reconciliation of the surplus or deficit** presented in the statement of financial performance with the net cash flow from **operating activities** reflected in the cash flow statement.

Components of cash and cash equivalents and amount of cash and cash equivalents not available for use by the department should be disclosed.

Cash and cash equivalents are part of the cash management of the department and thus the movement in cash and cash equivalents are excluded from cash flow.

Interest paid and interest and dividends or similar distributions received should be classified into the different activities based on the source.

All non-cash transactions should be excluded from the cash flow statement.

Cash flows from transactions in a foreign currency should be converted to the department's functional currency at the date of the cash flow.

Legislation may require additional disclosure with regards to cash and cash equivalents.

ANNEXURE 1: Illustrative Example of Preparing a Cash Flow Statement

Department ABC is busy preparing its cash flow statement for the 20x1 financial year.

The following is an extract from its statement of financial performance [only current year shown]:

Statement of financial performance	20x1 R'000	20x0 R'000
REVENUE		
Annual appropriation	178 969	
Statutory appropriation	-	
Departmental revenue	1 045	
NRF Receipts	-	
Aid assistance	-	
TOTAL REVENUE	180 014	
EXPENDITURE		
Current expenditure		
Compensation of employees	13 521	
Goods and services	44 121	
Interest and rent on land	-	
Aid assistance	-	
Unauthorised expenditure approved without funding	-	
Total current expenditure	57 642	
Transfers and subsidies	110 048	
Aid assistance	-	
Unauthorised expenditure approved without funding	-	
Total transfers and subsidies	110 048	
Expenditure for capital assets		
Tangible capital assets	287	
Intangible assets	111	
Unauthorised expenditure approved without funding	-	
Total expenditure for capital assets	398	
Payments for financial assets	498	
TOTAL EXPENDITURE	168 586	
SURPLUS/(DEFICIT) FOR THE YEAR	11 428	

The following is an extract from its statement of financial position:

Statement of financial position	20x1	20x0
	R'000	R'000
ASSETS		
Current Assets	8 342	3 539
Unauthorised expenditure	3	3
Cash and cash equivalents	2	-
Other financial assets	-	-
Prepayments and advances	5 417	3 360
Receivables	2 920	176
Loans	-	-
Aid assistance prepayments	-	-
Aid assistance receivable	-	-
Non-Current Assets	100 861	100 861
Investments	100 861	100 861
Loans	-	-
Other financial assets	-	-
TOTAL ASSETS	109 203	104 400
LIABILITIES		
Current Liabilities	8 294	3 514
Voted funds to be surrendered to the Revenue Fund	7 584	102
Departmental revenue and NRF Receipts to be surrendered to the Revenue Fund	1	12
Bank overdraft	706	3 396
Payables	3	4
Aid assistance repayable	-	-
Aid assistance unutilised	-	-
Non-Current Liabilities		
Payables	-	-
TOTAL LIABILITIES	8 294	3 514
NET ASSETS	100 909	100 886
Represented by:		
Capitalisation reserve	100 861	100 861
Recoverable revenue	48	25
Retained funds	-	-
Revaluation reserves	-	-
TOTAL	100 909	100 886

The following additional information is disclosed in the notes to the financial statements:

The department's actual funds received amounted to R176 million and the funds not requested / not received amounted to R2,8 million.

A net amount of R1,1 million was surrendered to the relevant Revenue Fund during the year for voted funds, departmental revenue and NRF receipts.

No unauthorised expenditure was incurred during the year.

The department received R42,000 in proceeds for capital assets disposed of.

The cash flow statement will look as follows [only current year shown]:

Extract from Cash flow statement	Note	20x1 R'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		177,172
Annual appropriated funds received (<i>actual funds received</i>)	x	176,169
Statutory appropriated funds received	x	-
Departmental revenue received (<i>departmental revenue received, less proceeds from sale of capital assets, less distribution/dividend received</i>) (R1,045 - R42 - R0)	x	1,003
NRF Receipts	x	-
Aid assistance received	x	-
Net (increase)/decrease in working capital (<i>movement in unauthorised expenditure, prepayments and advances, receivables and payments - current</i>) (R3 - R3) + (R3,360 - R5,417) + (R176 - R2,920) + (R3 - R4) (<i>see take note box further below for explanation of this calculation</i>)		(4,802)
Surrendered to Revenue Fund (<i>amount shown as "paid during the year" in the notes</i>)		(1,157)
Surrendered to RDP Fund/Donor		-
Current payments (<i>current payments per st. of performance less unauthorised expenditure discovered during the year</i>)		(57,642)
Payments for financial assets		(498)
Transfers and subsidies paid		(110,048)
Net cash flow available from operating activities (<i>must reconcile to note - see further below</i>)	x	3,025
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for capital assets	x	(398)
Proceeds from sale of capital assets	x	42
(Increase)/decrease in loans (<i>movement in loans, both current and non-current</i>)		-
(Increase)/decrease in investments (<i>movement in investments</i>) (R100,861 - R100,861)		-
(Increase)/decrease in other financial assets (<i>movement in other financial liabilities, both current and non-current</i>)		-
Net cash flows from investing activities		(356)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution/dividend received		-
Increase/(decrease) in net assets (<i>movement in net assets, except for retained funds</i>) (R100,861 - R100,861) + (R48 - R25)		23

Extract from Cash flow statement	Note	20x1
Increase/(decrease) in non-current payables (<i>movement in payables - non-current only</i>)		-
Net cash flows from financing activities		23
Net increase/(decrease) in cash and cash equivalents (R3,025 - R356 + R23)		2,692
Cash and cash equivalents at beginning of period (<i>must agree to opening balance of prior year in position: R0 - R3,396</i>)		(3,396)
Unrealised gains and losses within cash and cash equivalents		-
Cash and cash equivalents at end of period (R2,692 - R3,396) (<i>must agree to closing balance of current year in position: R2 - R706</i>)	x	(704)

The net cash flow available from operating activities note will look as follows [only current year shown]:

Extract from Notes to the financial statements	Note	20x1
Net cash flow available from operating activities		R'000
Net surplus/(deficit) as per Statement of Financial Performance (<i>must agree to the surplus/(deficit) as per performance</i>)		11,428
Add back non cash/cash movements not deemed operating activities		(8,403)
(Increase)/decrease in receivables – current (<i>movement in receivables</i>) (R176 - R2,920) (<i>see take note box further below for explanation of this calculation</i>)		(2,744)
(Increase)/decrease in prepayments and advances (<i>movement in prepayments and advances</i>) (R3,360 - R5,417)		(2,057)
(Increase)/decrease in other current assets (<i>movement in unauthorised expenditure, less unauthorised expenditure discovered during the year</i>) (R3 - R3 - R0)		-
Increase/(decrease) in payables – current (<i>movement in payables - current only</i>) (R3 - R4) (<i>see take note box further below for explanation of this calculation</i>)		(1)
Proceeds from sale of capital assets		(42)
Proceeds from sale of investments		-
(Increase)/decrease in other financial assets (<i>movement in other financial liabilities, current only</i>)		-
Expenditure on capital assets		398
Surrenders to Revenue Fund		(1,157)
Surrenders to RDP Fund/Donor		-
Voted funds not requested/not received		(2,800)
Own revenue included in appropriation		-
Other non-cash items		-
Net cash flow generated by operating activities (<i>must agree to the amount as per cash flow statement</i>)		3,025



Calculation of movements in working capital

Working capital assets are the current assets and current liabilities as per the statement of financial position, except for the following, for which the movement is shown elsewhere in the cash flow statement:

- Cash and cash equivalents and bank overdraft (is the sum of the cash flow statement, therefore excluded)
- Loans - current portion (included as part of movement in loans under investing activities)
- Other financial assets - current portion (included as part of movement in other financial assets under investing activities)

Impact of movements in assets and liabilities on the cash flow:

- An increase in assets means effectively a decrease in cash, therefore it should be shown as a negative.
- A decrease in assets means effectively an increase in cash, therefore it should be shown as a positive.

The opposite is true for liabilities (and net assets).

- An increase in liabilities means effectively an increase in cash, therefore it should be shown as a positive.
- A decrease in liabilities means effectively a decrease in cash, therefore it should be shown as a negative.

Consequently when calculating the movements in working capital (as well as for other non-current assets, -liabilities and net assets), the following formula should be used:

- Assets: prior year balance less current year balance OR -(current year balance less prior year balance).
- Liabilities and net assets: current year balance less prior year balance.

As can be seen, the calculation of the movement in liabilities and net assets should never be the same as the calculation of the movement in assets, otherwise the effect of the movement on the cash flow will be incorrect.

ANNEXURE 2: Reporting on cash in transit

What cash in transit details should the transferring department and receiving department report on to assist with providing accurate amounts for consolidation purposes?

Guidance on Cash in transit AFS is provided on page 6 of this chapter. The following template requirement has been added to assist when consolidations are prepared for national departments and for each province's departments:

Transferring department

Two columns of "Payment date up to six (6) working days before year end" and "Amount" respectively have been added to Annexure 5: Inter-government payables. National departments must only reflect payments to other national departments. Provincial departments must only reflect payments to departments within their province.

Receiving department

Two columns of "Receipt date up to six (6) working days after year end" and "Amount" respectively have been added to Annexure 4: Claims Recoverable. National departments must only reflect receipts from national departments. Provincial departments must only reflect receipts from departments within their province.

If the departments furnish the required details, it will be clear to preparers of consolidations which amounts were still in transit at year end by comparing Annexure 5 of the Transferring department to Annexure 4 of the Receiving department.

Example: Cash in transit

Department A conducted research work on behalf of Department B and Department C in terms of a Service Level Agreement. Department A (Receiving Department) sent out claims to Department B (Transferring Department), Department C (Transferring Department) and Department D (Transferring Department) pertaining to research work done on 27 March 20X5.

	Scenario	Annexure 5	Annexure 4
Scenario 1	Department B received the claim of R52,000 on 28 March 20X5 and made payment on 30 March 20X5. Payment was received by Department A on 30 March 20X5.	Department B will show payment date of 30 March 20X5 and amount of R52,000 in the relevant columns.	Department A will clear Department B under claims recoverable before 31 March, 20X5. Thus Department B balance will not be recorded in Annexure 4.
Scenario 2	Department C received the claim of R48,000 on 28 March 20X5 and made payment on 3 April 20X5. Payment was received by Department A on 3 April 20X5.	Department C should have raised a payable/an accrual for this amount in the notes to the AFS and the amount should be included under "Confirmed balance outstanding" column of Annexure 5.	Department A should have raised claims recoverable for this amount in the POS and the amount should be included under "Confirmed balance outstanding" column or "Unconfirmed balance outstanding" column of Annexure 4. Department A will show receipt date of 3 April 20X5 and amount of R48,000 in the relevant columns of Annexure 4.
Scenario 3	Department D received the claim of R44,000 on 2 April 20X5 and made payment on 4 April 20X5. Payment was received by Department A on 4 April 20X5.	Department D might have raised a provision or this amount in the notes to the AFS. However there will be no reporting of this amount in Annexure 5.	Department A should have raised claims recoverable for this amount in the POS and the amount should be included under "Confirmed balance outstanding" column or "Unconfirmed balance outstanding" column of Annexure 4. Department A will show receipt date of 3 April 20X5 and amount of R44,000 in the relevant columns of Annexure 4.

ANNEXURE 5: INTER-GOVERNMENT PAYABLES (In the books of Transferring department B, C and D)

GOVERNMENT ENTITY	Confirmed balance outstanding		Unconfirmed balance outstanding		Total	
	31/03/20X5	31/03/20X4	31/03/20X5	31/03/20X4	31/03/20X5	31/03/20X4
	R'000	R'000	R'000	R'000	R'000	R'000
DEPARTMENTS						
Current						
					-	-
					-	-
					-	-
					-	-
Subtotal	-	-	-	-	-	-
Non-current						
					-	-
					-	-
					-	-
Subtotal	-	-	-	-	-	-
Total Departments	-	-	-	-	-	-

Cash in transit at year end 20X4/X5*	
Payment date up to six (6) working days before year end	Amount
	R'000

* For the Cash in transit columns
- Please note the following:

Provincial departments must only reflect payments to departments within their province

National departments must only reflect payments to other national departments.

for the year ended 31 March 2014

CLAIMS RECOVERABLE

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* For the Cash in transit columns - Please note the following:

Provincial departments must only reflect receipts from departments within their province

National departments must only reflect receipts from other national departments.