

# FINANCIAL ACCOUNTING SERIES

**FASB** ACCOUNTING STANDARDS UPDATE

No. 2016-18  
November 2016

## Statement of Cash Flows (Topic 230)

Restricted Cash

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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*Please ask for our Product Code No. ASU2016-18.*

FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published monthly with the exception of January, August, and October by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is \$255 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 442**

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### Restricted Cash

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# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

Stakeholders indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Entities classify transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities, in the statement of cash flows. Also, some entities present direct cash receipts into, and direct cash payments made from, a bank account that holds restricted cash as cash inflows and cash outflows, while others disclose those cash flows as noncash investing or financing activities. This Update addresses that diversity.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230.

## What Are the Main Provisions?

The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents.

## How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

GAAP currently does not include specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents other than limited guidance for not-for-profit entities. Specifically, there is no guidance to address how to classify and present changes in restricted cash or restricted cash

equivalents that occur when there are transfers between cash, cash equivalents, and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents. The amendments in this Update are an improvement to GAAP because they provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows, thereby reducing the diversity in practice described above.

## When Will the Amendments Be Effective?

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

The amendments in this Update should be applied using a retrospective transition method to each period presented.

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Add the Master Glossary term *Public Business Entity* to Subtopic 230-10 as follows:

### **Public Business Entity**

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

## Amendments to Subtopic 230-10

3. Amend paragraphs 230-10-45-4 through 45-5 and 230-10-45-24, with a link to transition paragraph 230-10-65-3, as follows:

### Statement of Cash Flows—Overall

#### Other Presentation Matters

##### > Form and Content

##### > > Cash and Cash Equivalents

**230-10-45-4** A statement of cash flows shall explain the change during the period in the total of cash, cash and cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The statement shall use descriptive terms such as cash or cash and cash equivalents rather than ambiguous terms such as funds. ~~The total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows shall be the same amounts as similarly titled line items or subtotals shown in the statements of financial position as of those dates.~~ When cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall provide the disclosures required in paragraph 230-10-50-8.

**230-10-45-5** Cash purchases and sales of items commonly considered to be cash equivalents generally are part of the entity's cash management activities rather than part of its operating, investing, and **financing activities**, and details of those transactions need not be reported in a statement of cash flows. In addition, transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity's operating, investing, and financing activities, and details of those transfers are not reported as cash flow activities in the statement of cash flows.

##### > Classification

##### > > Reporting Operating, Investing, and Financing Activities

**230-10-45-24** A statement of cash flows for a period shall report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on the total of cash, cash and cash equivalents, and amounts generally

described as restricted cash or restricted cash equivalents during the period. The statement of cash flows shall report that information in a manner that reconciles beginning and ending totals of cash, ~~cash~~ and cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

4. Add paragraphs 230-10-50-7 through 50-8 and their related heading, with a link to transition paragraph 230-10-65-3, as follows:

## **Disclosure**

### **> Restrictions on Cash and Cash Equivalents**

**230-10-50-7** An entity shall disclose information about the nature of restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. An entity within the scope of Topic 958 on not-for-profit entities also shall provide the disclosures required in paragraph 958-210-50-3.

**230-10-50-8** When cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall, for each period that a statement of financial position is presented, present on the face of the statement of cash flows or disclose in the notes to the financial statements, the line items and amounts of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents reported within the statement of financial position. The amounts, disaggregated by the line item in which they appear within the statement of financial position, shall sum to the total amount of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the end of the corresponding period shown in the statement of cash flows. This disclosure may be provided in either a narrative or a tabular format.

5. Amend paragraphs 230-10-55-10, 230-10-55-13, and 230-10-55-19 through 55-20 (by adding item q) and their pending content and add paragraphs 230-10-55-12A and 230-10-55-18A, with a link to transition paragraph 230-10-65-3, as follows:

## **Implementation Guidance and Illustrations**

### **> Illustrations**

#### **> > Example 1: Direct and Indirect Method for a Manufacturing Entity**

**230-10-55-10** The following is a statement of cash flows for the year ended December 31, 19X1, for Entity A, a U.S. corporation engaged principally in manufacturing activities. This statement of cash flows illustrates the direct method of presenting cash flows from operating activities, as encouraged in paragraph 230-10-45-25.

**Entity A**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 19X1**  
**Increase (Decrease) in Cash and Cash Equivalents**

Cash flows from operating activities:		
Cash received from customers	\$ 13,850	
Cash paid to suppliers and employees	(12,000)	
Dividend received from affiliate	20	
Interest received	55	
Interest paid (net of amount capitalized)	(220)	
Income taxes paid	(325)	
Insurance proceeds received for business interruption	5	
Cash paid to settle lawsuit for patent infringement	(30)	
Net cash provided by operating activities	\$ 1,355	
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
Insurance proceeds received for damage to equipment	10	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	(925)	
Net cash used in investing activities	(1,165)	
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under capital lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	(200)	
Net cash provided by financing activities	875	
Net increase in cash and cash equivalents, cash equivalents, and restricted cash	1,065	
Cash and cash equivalents, cash equivalents, and restricted cash at beginning of year	600	
Cash and cash equivalents, cash equivalents, and restricted cash at end of year	\$ 1,665	
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income		\$ 760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
Gain on insurance proceeds received for damage to equipment	(10)	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments	595	
Net cash provided by operating activities		\$1,355

**In addition, amend the following pending content for paragraph 230-10-55-10, with no additional link to transition:**

**Pending Content:**

**Transition Date:** *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance:** 842-10-65-1

**230-10-55-10** The following is a statement of cash flows for the year ended December 31, 19X1, for Entity A, a U.S. corporation engaged principally in manufacturing activities. This statement of cash flows illustrates the direct method of presenting cash flows from operating activities, as encouraged in paragraph 230-10-45-25.

**Entity A**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 19X1**  
**Increase (Decrease) in Cash and Cash Equivalents**

Cash flows from operating activities:		
Cash received from customers	\$ 13,850	
Cash paid to suppliers and employees	(12,000)	
Dividend received from affiliate	20	
Interest received	55	
Interest paid (net of amount capitalized)	(220)	
Income taxes paid	(325)	
Insurance proceeds received for business interruption	5	
Cash paid to settle lawsuit for patent infringement	(30)	
Net cash provided by operating activities		\$1,355
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
Insurance proceeds received for damage to equipment	10	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	(925)	
Net cash used in investing activities		(1,165)
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under finance lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	(200)	
Net cash provided by financing activities		875
Net increase in cash and cash equivalents, cash equivalents, and restricted cash		1,065
Cash and cash equivalents, cash equivalents, and restricted cash at beginning of year		600
Cash and cash equivalents, cash equivalents, and restricted cash at end of year		\$ 1,665
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income		\$ 760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
Gain on insurance proceeds received for damage to equipment	(10)	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments		595
Net cash provided by operating activities		\$1,355

**230-10-55-12A** Shown below is an illustrative disclosure of the nature of restrictions on cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents required by paragraph 230-10-50-7, as well as an illustrative disclosure of the line items and amounts of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents reported within the statement of financial position that sum to the total of the same such amounts at the end of the period shown in the statement of cash flows as required by paragraph 230-10-50-8 (in this illustrative example, assume Entity A has no restricted cash equivalents). Comparative statements of financial position are provided in the illustrative example in paragraph 230-10-55-19 only to facilitate understanding of the statement of cash flows. For purposes of applying paragraphs 230-10-50-7 through 50-8 to this illustrative example, assume that the year ended December 31, 19X1, is the only period for which a statement of financial position is presented.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

**[For ease of readability, the new table is not underlined.]**

	<u>12/31/19X1</u>
Cash and cash equivalents	\$ 1,465
Restricted cash	125
Restricted cash included in other long-term assets	<u>75</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 1,665</u>

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with an insurer for the payment of specific workers' compensation claims. Restricted cash included in other long-term assets on the statement of financial position represents amounts pledged as collateral for long-term financing arrangements as contractually required by a lender. The restriction will lapse when the related long-term debt is paid off.

**230-10-55-13** The following is Entity A's statement of cash flows for the year ended December 31, 19X1, prepared using the indirect method, as described in paragraph 230-10-45-28.

**Entity A**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 19X1**  
**Increase (Decrease) in Cash and Cash Equivalents**

Cash flows from operating activities:		
Net income		\$ 760
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
Gain on insurance proceeds received for damage to equipment	(10)	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments	<u>595</u>	
Net cash provided by operating activities		<u>1,355</u>
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
Insurance proceeds received for damage to equipment	10	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	<u>(925)</u>	
Net cash used in investing activities		(1,165)
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under finance lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	<u>(200)</u>	
Net cash provided by financing activities		<u>875</u>
Net increase in cash and cash equivalents, cash equivalents, and restricted cash		1,065
Cash and cash equivalents, cash equivalents, and restricted cash at beginning of year		<u>600</u>
Cash and cash equivalents, cash equivalents, and restricted cash at end of year		<u><u>\$ 1,665</u></u>

In addition, amend the following pending content for paragraph 230-10-55-13, with no additional link to transition:

**Pending Content:**

**Transition Date:** (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

**230-10-55-13** The following is Entity A's statement of cash flows for the year ended December 31, 19X1, prepared using the indirect method, as described in paragraph 230-10-45-28.

<b>Entity A</b>		
<b>Consolidated Statement of Cash Flows</b>		
<b>For the Year Ended December 31, 19X1</b>		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		
Cash flows from operating activities:		
Net income		\$ 760
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
Gain on insurance proceeds received for damage to equipment	(10)	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments	<u>595</u>	
Net cash provided by operating activities		<u>1,355</u>
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
Insurance proceeds received for damage to equipment	10	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	<u>(925)</u>	
Net cash used in investing activities		(1,165)
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under capital lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	<u>(200)</u>	
Net cash provided by financing activities		<u>875</u>
Net increase in cash and cash equivalents, cash equivalents, and restricted cash		1,065
Cash and cash equivalents, cash equivalents, and restricted cash at beginning of year		<u>600</u>
Cash and cash equivalents, cash equivalents, and restricted cash at end of year		<u>\$ 1,665</u>

**230-10-55-18A** Shown below is an illustrative disclosure of the nature of restrictions on cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents required by paragraph 230-10-50-7, as well as an illustrative disclosure of the line items and amounts of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents reported within the statement of financial position that sum to the total of the same such amounts at the end of the period shown in the statement of cash flows as required by paragraph 230-10-50-8 (in this illustrative example, assume Entity A has no restricted cash equivalents). Comparative statements of financial position are provided in the illustrative example in paragraph 230-10-55-19 only to facilitate understanding of the statement of cash flows. For purposes of applying paragraphs 230-10-50-7 through 50-8 to this illustrative example, assume that the year ended December 31, 19X1, is the only period for which a statement of financial position is presented.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

**[For ease of readability, the new table is not underlined.]**

	<b><u>12/31/19X1</u></b>
Cash and cash equivalents	\$ 1,465
Restricted cash	125
Restricted cash included in other long-term assets	<u>75</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u><u>\$ 1,665</u></u>

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with an insurer for the payment of specific workers' compensation claims. Restricted cash included in other long-term assets on the statement of financial position represents amounts pledged as collateral for long-term financing arrangements as contractually required by a lender. The restriction will lapse when the related long-term debt is paid off.

**230-10-55-19** The following summarizes financial information for the current year for Entity A, which provides the basis for the statements of cash flows presented in paragraphs 230-10-55-10 through ~~55-18~~55-18A.

**Entity A**  
**Consolidated Statement of Financial Position**

	<u>1/1/X1</u>	<u>12/31/X1</u>	<u>Change</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 600,300	\$ 4,665,146	\$ 4,065,116
Restricted cash	225	125	(100)
Accounts receivable (net of allowance for losses of \$600 and \$450)	1,770	1,940	170
Notes receivable	400	150	(250)
Inventory	1,230	1,375	145
Prepaid expenses	110	135	25
<u>Total current assets</u>	<u>4,035</u>	<u>5,190</u>	<u>1,155</u>
Investments	250	275	25
Property, plant, and equipment, at cost	6,460	8,460	2,000
Accumulated depreciation	(2,100)	(2,300)	(200)
Property, plant, and equipment, net	4,360	6,160	1,800
Intangible assets	40	175	135
<u>Other long-term assets</u>	<u>430</u>	<u>430</u>	<u>-</u>
<u>Total noncurrent assets</u>	<u>5,080</u>	<u>7,040</u>	<u>1,960</u>
<b>Total assets</b>	<b><u>\$ 8,769,115</u></b>	<b><u>\$ 41,875,230</u></b>	<b><u>\$ 3,115</u></b>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 1,085	\$ 1,090	\$ 5
Interest payable	30	45	15
Income taxes payable	50	85	35
Short-term debt	450	750	300
<u>Current portion of lease obligation</u>	<u>-</u>	<u>125</u>	<u>125</u>
<u>Total current liabilities</u>	<u>1,615</u>	<u>2,095</u>	<u>480</u>
Lease obligation	-	725,600	725,600
Long-term debt	2,150	2,425	275
Deferred taxes	375	525	150
Other liabilities	225	275	50
<u>Total noncurrent liabilities</u>	<u>2,750</u>	<u>3,825</u>	<u>1,075</u>
<u>Total liabilities</u>	<u>4,365</u>	<u>5,920</u>	<u>1,555</u>
<b>Stockholders' equity:</b>			
Capital stock	2,000	3,000	1,000
Retained earnings	2,395,750	2,955,310	560
<u>Total stockholders' equity</u>	<u>4,395,750</u>	<u>5,955,310</u>	<u>1,560</u>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 8,769,115</u></b>	<b><u>\$ 41,875,230</u></b>	<b><u>\$ 3,115</u></b>

**Entity A**  
**Consolidated Statement of Income**  
**For the Year Ended December 31, 19X1**

Sales	\$13,965
Cost of sales	(10,290)
Depreciation and amortization	(445)
Selling, general, and administrative expenses	(1,890)
Interest expense	(235)
Equity in earnings of affiliate	45
Gain on sale of facility	80
Interest income	55
Insurance proceeds	15
Loss from patent infringement lawsuit	(30)
Income before income taxes	<u>1,270</u>
Provision for income taxes	(510)
Net income	<u><u>\$ 760</u></u>

In addition, amend the following pending content for paragraph 230-10-55-19, with no additional link to transition:

**Pending Content:**

**Transition Date:** (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

**230-10-55-19** The following summarizes financial information for the current year for Entity A, which provides the basis for the statements of cash flows presented in paragraphs 230-10-55-10 through ~~55-1855-18A~~.

<b>Entity A</b>			
<b>Consolidated Statement of Financial Position</b>			
	<u>1/1/1X1</u>	<u>12/31/1X1</u>	<u>Change</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 600300	\$ 4,665,146	\$ 4,065,116
<u>Restricted cash</u>	225	125	(100)
Accounts receivable (net of allowance for losses of \$600 and \$450)	1,770	1,940	170
Notes receivable	400	150	(250)
Inventory	1,230	1,375	145
Prepaid expenses	110	135	25
<u>Total current assets</u>	<u>4,035</u>	<u>5,190</u>	<u>1,155</u>
Investments	250	275	25
Property, plant, and equipment, at cost	6,460	8,460	2,000
Accumulated depreciation	(2,100)	(2,300)	(200)
Property, plant, and equipment, net	4,360	6,160	1,800
Intangible assets	40	175	135
<u>Other long-term assets</u>	<u>430</u>	<u>430</u>	<u>-</u>
<u>Total noncurrent assets</u>	<u>5,080</u>	<u>7,040</u>	<u>1,960</u>
<b>Total assets</b>	<b><u>\$ 8,769,115</u></b>	<b><u>\$ 11,875,230</u></b>	<b><u>\$ 3,115</u></b>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 1,085	\$ 1,090	\$ 5
Interest payable	30	45	15
Income taxes payable	50	85	35
Short-term debt	450	750	300
<u>Current portion of finance lease obligation</u>	<u>-</u>	<u>125</u>	<u>125</u>
<u>Total current liabilities</u>	<u>1,615</u>	<u>2,095</u>	<u>480</u>
Finance lease obligation	-	7,260	7,260
Long-term debt	2,150	2,425	275
Deferred taxes	375	525	150
Other liabilities	225	275	50
<u>Total noncurrent liabilities</u>	<u>2,750</u>	<u>3,825</u>	<u>1,075</u>
<b>Total liabilities</b>	<b><u>4,365</u></b>	<b><u>5,920</u></b>	<b><u>1,555</u></b>
<b>Stockholders' equity:</b>			
Capital stock	2,000	3,000	1,000
Retained earnings	2,395,750	2,955,310	560
<u>Total stockholders' equity</u>	<u>4,395,750</u>	<u>5,955,310</u>	<u>1,560</u>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 8,769,115</u></b>	<b><u>\$ 11,875,230</u></b>	<b><u>\$ 3,115</u></b>

**Entity A**  
**Consolidated Statement of Income**  
**For the Year Ended December 31, 19X1**

Sales	\$ 13,965
Cost of sales	(10,290)
Depreciation and amortization	(445)
Selling, general, and administrative expenses	(1,890)
Interest expense	(235)
Equity in earnings of affiliate	45
Gain on sale of facility	80
Interest income	55
Insurance proceeds	15
Loss from patent infringement lawsuit	(30)
Income before income taxes	1,270
Provision for income taxes	(510)
Net income	\$ 760

**230-10-55-20** The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- g. Entity A paid \$100 from its restricted cash for workers' compensation claims accrued before January 1, 19X1. Before January 1, 19X1, Entity A's insurer required \$225 to be set aside by a contractual arrangement for the payment of specific workers' compensation claims.

**In addition, amend the following pending content for paragraph 230-10-55-20, with no additional link to transition:**

**Pending Content:**

**Transition Date:** (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

**230-10-55-20** The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- g. Entity A paid \$100 from its restricted cash for workers' compensation claims accrued before January 1, 19X1. Before January 1, 19X1, Entity A's insurer required \$225 to be set aside by a contractual arrangement for the payment of specific workers' compensation claims.

6. Add paragraph 230-10-65-3 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2016-18,  
Statement of Cash Flows (Topic 230): Restricted Cash**

**230-10-65-3** The following represents the transition and effective date information related to Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*:

- a. For public business entities, the pending content that links to this paragraph shall be effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.
- b. For all other entities, the pending content that links to this paragraph shall be effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.
- c. An entity shall apply the pending content that links to this paragraph retrospectively to all periods presented.
- d. Earlier application of the pending content that links to this paragraph is permitted, including adoption in an interim period. If an entity early adopts the pending content that links to this paragraph in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.
- e. An entity shall provide the disclosures in paragraphs 250-10-50-1(a) and (b)(1) and 250-10-50-2, as applicable, in the first interim and annual period the entity adopts the pending content that links to this paragraph.

## Amendments to Subtopic 830-230

7. Amend paragraph 830-230-45-1, with a link to transition paragraph 230-10-65-3, as follows:

### Foreign Currency Matters—Statement of Cash Flows

#### Other Presentation Matters

**830-230-45-1** A statement of cash flows of an entity with **foreign currency transactions** or foreign operations shall report the **reporting currency** equivalent of **foreign currency** cash flows using the exchange rates in effect at the time of the cash flows. An appropriately weighted average **exchange rate** for the period may be used for **translation** if the result is substantially the same as if the rates at the dates of the cash flows were used. (That is, paragraph 830-30-45-3 applies to cash receipts and cash payments.) The statement of cash flows shall report the effect of exchange rate changes on cash, **cash equivalents**, and amounts

generally described as restricted cash or restricted cash equivalents balances held in foreign currencies as a separate part of the reconciliation of the change in the total of cash, cash and {remove glossary link}cash equivalents{remove glossary link}, and amounts generally described as restricted cash or restricted cash equivalents during the period. See Example 1 (paragraph 830-230-55-1) for an illustration of this guidance.

## Amendments to Subtopic 958-205

8. Amend paragraphs 958-205-55-5 by adding item ii and 958-205-55-19 through 55-21, with a link to transition paragraph 230-10-65-3, as follows:

### Not-for-Profit Entities—Presentation of Financial Statements

#### Implementation Guidance and Illustrations

##### > Illustrations

##### > > Example 1: Illustrative Financial Statements

**958-205-55-5** The following facts and transactions are reflected in the illustrative financial statements in Example 1. The transactions are presented by class of net assets to facilitate locating their effects in the statements and notes. The transactions in (a) through (hh) affect **net assets without donor restrictions**. The transactions in (i) through (n), (s), (t), and (w) affect **net assets with donor restrictions**. The transactions in (hhh), (o) through (r), and (u) affect both classes of net assets.

- ii. The composition of assets restricted to investment in land, buildings, and equipment as of June 30, 20X1, and 20X0, is shown below. The change in restricted cash below represents a purchase of investments restricted to investment in land, buildings, and equipment.

[For ease of readability, the new table is not underlined.]

	<u>6/30/20X1</u>	<u>6/30/20X0</u>
Restricted cash	\$ 60	\$ 160
Contributions receivable	2,440	1,500
Investments	2,710	2,900
	<u>\$ 5,210</u>	<u>\$ 4,560</u>

> > **Statement of Financial Position**

**958-205-55-6** The following illustrates the requirements of Subtopic 958-210. Comparative statements of financial position are provided to facilitate understanding of the statement of activities and the statement of cash flows.

**958-205-55-9** The following illustrates a statement of financial position for Not-for-Profit Entity A.

<b>Not-for-Profit Entity A</b>		
<b>Statements of Financial Position</b>		
<b>June 30, 20X1 and 20X0</b>		
(in thousands)		
Assets:	<b>20X1</b>	<b>20X0</b>
Cash and cash equivalents	\$ 4,575	\$ 4,960
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	218,070	203,500
<b>Total assets</b>	<b>\$ 296,720</b>	<b>\$ 282,980</b>
Liabilities and net assets:		
Accounts payable	\$ 2,570	\$ 1,050
Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity trust obligations	1,685	1,700
Long-term debt	5,500	6,500
<b>Total liabilities</b>	<b>10,630</b>	<b>12,340</b>
Net assets:		
Without donor restrictions (Note DD)	92,600	84,570
With donor restrictions (Note B)	193,490	186,070
<b>Total net assets</b>	<b>286,090</b>	<b>270,640</b>
<b>Total liabilities and net assets</b>	<b>\$ 296,720</b>	<b>\$ 282,980</b>

**Note:** See paragraph 958-205-55-21 for the notes to financial statements.

**> > > Statement of Cash Flows**

**958-205-55-18** The following illustrates the requirements of Subtopic 958-230. Statements of cash flows are illustrated using both the direct and indirect methods of reporting cash flow from operating activities. An NFP may choose either method of reporting cash flows from operating activities. If the direct method is used, a reconciliation to the indirect method (as illustrated in paragraph 230-10-55-10) may be reported but is not required.

**958-205-55-19** The direct method is as follows.

**Not-for-Profit Entity A**  
**Statement of Cash Flows**  
**Year Ended June 30, 20X1**  
(in thousands)

Cash flows from operating activities:	
Cash received from service recipients	\$ 5,020
Cash received from contributors	8,030
Cash collected on promises to give	2,615
Interest and dividends received	8,570
Miscellaneous receipts	150
Cash paid to employees and retirees	(13,400)
Cash paid to suppliers	(5,658)
Interest paid	(382)
Grants paid	(5,175)
<b>Net cash used by operating activities</b>	<b>(230)</b>
Cash flows from investing activities:	
Purchase of equipment	(1,500)
Proceeds on sale of equipment	200
Insurance proceeds from fire loss on building	250
Proceeds from sale of investments	76,100
Purchase of investments	(74,900)
<b>Net cash provided by investing activities</b>	<b>4,950</b>
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in perpetual endowment	200
Investment in term endowment	70
Investment in land, buildings, and equipment	1,210
Investment subject to annuity trust agreements	200
	<u>1,680</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	300
Payments of annuity trust obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	(1,000)
	<u>(1,985)</u>
<b>Net cash used by financing activities</b>	<b>(305)</b>
<b>Net decrease in cash and cash equivalents, cash equivalents, and restricted cash</b>	<b>(385)</b>
<b>Cash and cash equivalents, cash equivalents, and restricted cash at beginning of year</b>	<b>4,960,120</b>
<b>Cash and cash equivalents, cash equivalents, and restricted cash at end of year</b>	<b>\$ 4,574,635</b>
Supplemental data for noncash investing and financing activities:	
Gifts of equipment	\$ 140
Gift of paid-up life insurance, cash surrender value	80

**958-205-55-20** The indirect method is as follows.

**Not-for-Profit Entity A**  
**Statement of Cash Flows**  
**Year Ended June 30, 20X1**  
(in thousands)

Cash flows from operating activities:	
Change in net assets	\$ 15,450
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	3,200
Fire loss	80
Actuarial loss on annuity trust obligations	30
Gain on sale of equipment	(200)
Increase in accounts and interest receivable	(460)
Decrease in inventories and prepaid expenses	390
Increase in contributions receivable	(325)
Increase in accounts payable	1,520
Decrease in refundable advance	(650)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Realized and unrealized gains on investments	(15,800)
Interest and dividends restricted for reinvestment	(300)
<b>Net cash used by operating activities</b>	<b>(230)</b>
Cash flows from investing activities:	
Purchase of equipment	(1,500)
Proceeds on sale of equipment	200
Insurance proceeds from fire loss on building	250
Proceeds from sale of investments	76,100
Purchase of investments	(74,900)
<b>Net cash provided by investing activities</b>	<b>450</b>
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in perpetual endowment	200
Investment in term endowment	70
Investment in land, buildings, and equipment	1,210
Investment subject to annuity trust agreements	200
	<u>1,680</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	300
Payments of annuity trust obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	(1,000)
	<u>(1,985)</u>
<b>Net cash used by financing activities</b>	<b>(305)</b>
<b>Net decrease in cash and cash equivalents, cash equivalents, and restricted cash</b>	<b>(385)</b>
<b>Cash and cash equivalents, cash equivalents, and restricted cash at beginning of year</b>	<b>4,960,120</b>
<b>Cash and cash equivalents, cash equivalents, and restricted cash at end of year</b>	<b>\$ 4,574,635</b>
Supplemental data:	
Noncash investing and financing activities:	
Gifts of equipment	\$ 140
Gift of paid-up life insurance, cash surrender value	80
Interest paid	382

> > **Notes to Financial Statements**

**958-205-55-21** The following are illustrative notes to financial statements. Note B provides information required by paragraph 958-210-45-9. Note DD provides information required by paragraph 958-210-45-11. Note F provides information required by paragraph 958-720-45-15. Note G provides information required by paragraphs 958-210-45-7(c) and 958-210-50-1A. Note D and Note E provide information that is useful to users but is not explicitly required. Note H provides information required by paragraphs 230-10-50-7 through 50-8. Comparative statements of financial position are provided in the illustrative example in paragraph 958-205-55-9 only to facilitate understanding of the statement of cash flows. For purposes of applying paragraphs 230-10-50-7 through 50-8 to this illustrative example, assume that the year ended June 30, 20X1, is the only period for which a statement of financial position is presented. Additional endowment disclosure requirements are illustrated in Example 3 included in this Section. All amounts are in thousands.

**[Note: Only the new note disclosure is shown here.]**

Note H

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

**[For ease of readability, the new table is not underlined.]**

	<u>6/30/20X1</u>
Cash and cash equivalents	\$ 4,575
Restricted cash included in assets restricted to investment in land, buildings, and equipment	60
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 4,635</u>

Assets restricted to investment in land, buildings, and equipment on the statement of financial position include restricted cash received with a donor-imposed restriction that limits use of that cash to long-term purposes.

## Amendments to Subtopic 958-230

9. Amend paragraph 958-230-55-3, with a link to transition paragraph 230-10-65-3, as follows:

### Not-for-Profit Entities—Statement of Cash Flows

#### Implementation Guidance and Illustrations

##### > Implementation Guidance

##### > > Cash Received with a Donor-Imposed Restriction That Limits Its Use to Long-Term Purposes

**958-230-55-3** When an NFP reports cash received (or cash receipts from the sale of donated **financial assets** that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash as discussed in paragraph 230-10-45-21A) with a **donor-imposed restriction** that limits its use to long-term purposes in conformity with paragraph 958-210-45-6, an adjustment to the change in net assets to reconcile to net cash flows from operating activities is necessary when using the indirect method of reporting cash flows in order to present those cash receipts as cash inflows from financing activities as required by paragraph 230-10-45-14(c), for the statement of cash flows to reconcile beginning and ending cash and cash equivalents. For instance, in accordance with Topic 230, such a cash receipt that is restricted for the purchase of equipment shall be reported as a cash flow from financing activities (using a caption such as **contributions** restricted for purchasing equipment), and it shall be simultaneously reported as a cash outflow from investing activities (using a caption such as **purchase of assets restricted to investment in property and equipment** or, if the equipment was purchased in the same period, **purchase of equipment**). ~~An adjustment to reconcile the change in net assets to net cash used or provided by operating activities would also be needed if the contributed asset is not classified as cash or cash equivalents on the statement of financial position. When the equipment is purchased in a subsequent period, both the proceeds from the sale of assets restricted to investment in the equipment and the purchase of the equipment shall be reported as cash flows from investing activities.~~

## Amendments to Status Sections

10. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

**230-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Public Business Entity</b>	Added	2016-18	11/17/2016
230-10-45-4	Amended	2016-18	11/17/2016
230-10-45-5	Amended	2016-18	11/17/2016
230-10-45-24	Amended	2016-18	11/17/2016
230-10-50-7	Added	2016-18	11/17/2016
230-10-50-8	Added	2016-18	11/17/2016
230-10-55-10	Amended	2016-18	11/17/2016
230-10-55-12A	Added	2016-18	11/17/2016
230-10-55-13	Amended	2016-18	11/17/2016
230-10-55-18A	Added	2016-18	11/17/2016
230-10-55-19	Amended	2016-18	11/17/2016
230-10-55-20	Amended	2016-18	11/17/2016
230-10-65-3	Added	2016-18	11/17/2016

11. Amend paragraph 830-230-00-1, by adding the following item to the table, as follows:

**830-230-00-1** The following table identifies the changes made to this Subtopic:

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
830-230-45-1	Amended	2016-18	11/17/2016

12. Amend paragraph 958-205-00-1, by adding the following items to the table, as follows:

**958-205-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-205-55-5	Amended	2016-18	11/17/2016
958-205-55-19 through 55-21	Amended	2016-18	11/17/2016

13. Amend paragraph 958-230-00-1, by adding the following item to the table, as follows:

**958-230-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-230-55-3	Amended	2016-18	11/17/2016

*The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Daryl E. Buck  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

## Background Information

BC2. Stakeholders indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230. Entities classify transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities, on the statement of cash flows. Also, some entities present direct cash receipts into, and direct cash payments made from, a bank account that holds restricted cash as cash inflows and cash outflows, while others disclose those cash flows as noncash investing or financing activities.

BC3. At its March 3, 2016 meeting, the Task Force reached a consensus-for-exposure on this Issue. The Board subsequently ratified the consensus-for-exposure on April 20, 2016, and on April 28, 2016, issued proposed Accounting Standards Update, *Statement of Cash Flows (Topic 230): Restricted Cash*, for public comment, with a comment period that ended on June 27, 2016. The Board received 19 comment letters on the proposed Update. The staff supplemented the comment letters with feedback directly obtained through outreach with financial statement users.

BC4. The Task Force considered feedback received on the proposed Update at its September 22, 2016 meeting and reached a consensus. The Board subsequently ratified the consensus, resulting in issuance of this Update.

## Statement of Cash Flows Presentation

BC5. The Task Force reached a consensus that a statement of cash flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. That is, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows under the amendments in this Update. The Task Force recognizes

that some entities present cash and cash equivalents with restrictions in multiple line items on the statement of financial position and that in some cases those line items are titled something other than restricted cash or restricted cash equivalents; therefore, the phrase *amounts generally described as restricted cash or restricted cash equivalents* is used throughout this Update. This consensus requires that those amounts also be included in the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

BC6. The Task Force believes that a primary objective of a statement of cash flows is to provide relevant information about the sources and uses of an entity's cash during a period and, therefore, it is most meaningful to present the ultimate cash inflows and outflows of an entity, irrespective of whether those cash flows are to or from restricted cash accounts. Some entities disclose the ultimate cash flows of a segregated restricted cash or restricted cash equivalents account as noncash investing or financing activities. For example, some entities disclose repayments of amounts borrowed that are directly paid from a segregated restricted cash account as noncash financing activities rather than as cash outflows from financing activities. Including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents on the statement of cash flows will result in presenting the ultimate cash inflows and outflows of the entity in the body of the statement of cash flows.

BC7. The Task Force believes that including amounts generally described as restricted cash and restricted cash equivalents in the beginning-of-period and end-of-period reconciliation of total cash and cash equivalents on the statement of cash flows will resolve the diversity in practice about how to present cash flows that directly affect restricted cash because those direct cash flows will be presented in the body of the statement of cash flows regardless of whether restricted cash or restricted cash equivalents are in a segregated account or commingled with unrestricted cash and cash equivalents and regardless of the timing of when the restrictions are established or released.

BC8. The Task Force considered, but rejected, classifying changes in restricted cash or restricted cash equivalents that result from transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the basis of either the nature of the restriction (that is, investing activities) or the purpose for the restriction. The Task Force believes that internal transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents do not represent a cash inflow or outflow of the entity because there is no cash receipt or cash payment with a source outside of the entity that affects the sum of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Some Task Force members noted that internal transfers do not faithfully represent an entity's investing activities. Furthermore, some Task Force members noted that classifying changes in restricted cash or restricted cash equivalents on the basis of the purpose for the restriction could result in a duplicate cash flow classification. For example, if an entity is required by its lender to establish a restricted cash

account for the future payment of debt, the entity establishes the restricted cash account by transferring cash from cash to restricted cash and classifies the change in restricted cash as a cash outflow for financing activities although the change does not represent repayments of amounts borrowed. When the restriction is released, the following occurs: (a) cash is transferred from restricted cash to cash and the change in restricted cash is classified as a cash inflow from financing activities, and (b) a cash payment is made to the lender to pay down the debt and is classified as a cash outflow for financing activities. In this example, the statement of cash flows presents a financing outflow twice even though there was only one repayment of amounts borrowed. For those reasons, the Task Force noted that presenting internal transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the body of the statement of cash flows, whether presented on a gross or net basis, does not provide meaningful information to a financial statement user.

BC9. Although the Master Glossary does not include specific definitions of restricted cash or restricted cash equivalents, some Task Force members believe that only those financial instruments that first meet the definition of cash or cash equivalents before considering the restrictions that exist in a separate provision outside those financial instruments should be included in the beginning-of-period and end-of-period reconciliation of the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows. Other Task Force members believe that the nature of the restrictions on cash or cash equivalents should be considered and that in certain cases the restrictions could be so severe that the financial instrument would not meet the definition of cash or cash equivalents, thereby preventing those balances from being included in the beginning-of-period and end-of-period reconciliation of total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows. The Task Force considered defining restricted cash; however, it ultimately decided that the issue resulting in diversity in practice is the presentation of changes in restricted cash on the statement of cash flows. The Task Force's intent is not to change practice for what an entity reports as restricted cash or restricted cash equivalents.

## Disclosures

BC10. The Task Force reached a consensus that certain disclosures should be required to supplement the statement of cash flows. Specifically, an entity should (a) disclose information about the nature of the restrictions on cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents and (b) when cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, for each period that a statement of financial position is presented, present on the face of the statement

of cash flows or disclose in the notes to the financial statements, the line items and amounts of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents reported within the statement of financial position. The amounts, disaggregated by the line item in which they appear within the statement of financial position, should sum to the total amount of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the end of the corresponding period shown in the statement of cash flows.

BC11. The Task Force believes that disclosing the nature of the restrictions on cash and cash equivalents will provide insight into the availability of amounts generally described as restricted cash and restricted cash equivalents on the statement of financial position and will help provide information about the sources and uses of restricted cash and restricted cash equivalents during a reporting period. In response to feedback received from several respondents, the Task Force considered prescribing more specific disclosures about the nature of the restrictions, such as the purpose and terms, the source, and the length of time of the restriction. However, the Task Force ultimately rejected prescribing more specific disclosures because the Task Force noted that developing characteristics to disclose about the nature of the restrictions was beyond the scope of this Update and that entities should be provided with the flexibility to disclose relevant information about the nature of those restrictions on the basis of individual circumstances.

BC12. Some Task Force members expressed concern that a financial statement user might be unable to agree the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the beginning and at the end of a period on the statement of cash flows to line items on the statement of financial position in situations in which restricted cash and restricted cash equivalents are not separately presented on the statement of financial position. The Task Force agreed that being able to agree the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows to related amounts on the statement of financial position is desirable. Therefore, the Task Force proposed that entities should be required to provide information that will allow a user to identify (a) which line items other than restricted cash or restricted cash equivalents on the statement of financial position include restricted cash and restricted cash equivalents and (b) the amounts of restricted cash and restricted cash equivalents included in those line items.

BC13. Although a majority of respondents supported the amendments in the proposed Update, several respondents and the FASB's Taxonomy (XBRL) staff recommended that a disclosure be required in any situation in which the statement of financial position includes more than one line item of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, even when the title of any of those line items is similar to the title of the line item description used on the statement of cash flows. In response to that feedback, the

Task Force reached the consensus described in (b) in paragraph BC10. Furthermore, the Task Force noted that the requirement applies only to periods in which a statement of financial position is presented (that is, a reconciliation would not be needed if there are no statement of financial position data to reconcile). Such disclosure would facilitate the understanding of the relationship between the statement of cash flows and the statement of financial position. The Task Force also reached a consensus that reporting entities will be given flexibility to provide the disclosure in either a narrative or a tabular format.

BC14. In the proposed Update, the Task Force asked respondents about whether disclosures of the amounts of gross transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents (excluding transfers, constructive or actual, that result in a concurrent cash receipt from or a concurrent cash payment to an outside source) would provide meaningful information to financial statement users. The majority of the respondents stated that disclosures of the amount of gross transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents would not provide useful information about an entity's operating, investing, and financing activities because there is no cash flow with a source outside the entity, and financial statement users are focused on period-end balances of restricted cash that will be disclosed. Several other respondents stated that disclosing gross transfers between unrestricted cash and restricted cash would provide meaningful information about the availability of an entity's cash resources and liquidity.

BC15. The Task Force reached a consensus that disclosures of gross amounts of transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents should not be required. Task Force members believe that requiring disclosures of gross transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents does not provide useful information about an entity's operating, investing, and financing activities because there is no cash receipt or cash payment with a source outside of the entity that affects the sum of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. In other words, the gross transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the statement of financial position do not provide relevant information about the cash receipts and cash payments of an entity during a period, which is the primary objective of a statement of cash flows as described in Topic 230.

BC16. In the proposed Update, the Task Force asked respondents about whether other disclosures should be provided. The majority of respondents stated that no additional disclosures are necessary. Several respondents suggested that other disclosures should be required, such as a disaggregated rollforward of restricted cash and restricted cash equivalents, information about forward liquidity of restricted cash and restricted cash equivalents, and contractual obligations to replenish restricted cash accounts. The Task Force discussed the feedback received and reached a consensus that no additional disclosures should be

required and noted that there are current FASB projects or potential future FASB projects that would be more appropriate for broader standard-setting activities related to disclosures about restrictions on cash, such as the FASB disclosure framework project. Furthermore, the Task Force noted that requiring such other disclosures would go beyond the primary focus of the amendments in this Update, which is to provide narrow guidance about the presentation of changes in restricted cash or restricted cash equivalents on the statement of cash flows.

## Transition

BC17. The Task Force reached a consensus that an entity should apply the amendments in this Update retrospectively to all periods presented. The Task Force believes that there will be a significant benefit to retrospective transition because it will enhance the interperiod consistency and comparability of financial information.

BC18. The Task Force reached a consensus to require the transition disclosures in paragraphs 250-10-50-1(a) and (b)(1) and 250-10-50-2, as applicable, in the interim and annual period in which the amendments in this Update are adopted.

BC19. The Task Force noted that if an entity is considering changing its accounting policy for determining restricted cash and restricted cash equivalents, applicable guidance on a change in an accounting principle in Topic 250, Accounting Changes and Error Corrections, should be applied. Such evaluation would be separate from adoption of the amendments in this Update.

## Effective Date

BC20. The Task Force decided that the amendments in this Update should be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

## How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

BC21. IFRS does not provide specific guidance about the presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows. As such, the amendments in this Update that require a statement of cash flows to explain the change during the period in the total of cash, cash

equivalents, and amounts generally described as restricted cash or restricted cash equivalents will differ from IFRS. International Accounting Standard (IAS) 7, *Statement of Cash Flows*, requires an entity to disclose the components of cash and cash equivalents and to present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position. However, IFRS does not explicitly state that amounts generally described as restricted cash or restricted cash equivalents would be included in the disclosure. As such, the amendments in this Update that require a disclosure to agree the total amount of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents shown on the statement of cash flows with the sum of the amounts reported in the statement of financial position and line items in which such amounts are reported will differ from IFRS.

BC22. IAS 7 provides guidance that requires an entity to disclose, together with a commentary from management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group. IFRS 12, *Disclosure of Interests in Other Entities*, also provides guidance that requires an entity to disclose significant restrictions (for example, statutory, contractual, and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group, guarantees that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group, and the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply. The amendments in this Update that require an entity to disclose the nature of the restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents may provide information that is similar to information that results from the disclosures required by IFRS.

## Benefits and Costs

BC23. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information on financial statements.

BC24. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The amendments will provide the

benefit of more consistent application of GAAP and will benefit financial statement users by reducing diversity in practice. Thus, on balance, the Task Force concluded that those benefits justify the limited costs that entities are expected to incur as a result of applying the amendments in this Update.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2017 Taxonomy, are available for public comment through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.