

14. Cash flow statement

Introduction

- 14.1. Charities preparing their accounts under the FRSSE and this SORP are encouraged, but not required, to prepare a cash flow statement. If a charity chooses to prepare a cash flow statement, it should refer to the guidance set out in Section D: Voluntary Disclosures and Appendix III of the FRSSE.
- 14.2. The cash flow statement provides information about the ways in which a charity uses the cash generated by its activities and about changes in cash held by a charity. It also provides information that is helpful in assessing a charity's liquidity and underlying solvency. 'Liquidity' refers to the ability to meet its immediate and short-term obligations as they fall due. 'Solvency' refers to the ability of a charity to meet its longer-term obligations as they fall due.
- 14.3. The statement identifies a charity's cash flows and the net increase or decrease in cash in the financial year. For charities using the FRSSE, cash is normally regarded as cash 'at bank and in hand' less overdrafts repayable on demand which should be reconciled to the balance sheet amounts.
- 14.4. This module sets out:
- structure of the cash flow statement;
 - methods of compiling the cash flow statement; and
 - template for a cash flow statement.

Structure of the cash flow statement

- 14.5. The format of the cash flow statement when prepared under the FRSSE should identify cash generated from a charity's activities, cash from other sources and the application of cash and reconcile the net increase or decrease in cash to the balance sheet amounts at the end of the financial year.
- 14.6. An example of how a cash flow statement may be presented is provided in Table 7, which may be adapted as necessary for the reporting purposes of the charity. For example, a columnar presentation may be adopted to distinguish between cash flows relating to restricted funds and cash flows relating to unrestricted funds. When a charity is preparing consolidated accounts, a cash flow statement must, if prepared, be on a consolidated basis.

Methods of compiling the cash flow statement

- 14.7. The FRSSE encourages, but does not require, the use of the indirect method when presenting cash flow information. The indirect method is the method most commonly used and is the method illustrated in Table 7.

14.8. The indirect method involves identifying the cash flows from operating activities which is normally the net income/(expenditure) shown in the statement of financial activities (SoFA) which is adjusted for:

- non-cash movements in the SoFA; and
- any deferrals or accruals arising from cash receipts or payments.

Template for a cash flow statement

14.9. A template for a cash flow statement using the indirect method is given in Table 7. Charities using this format must provide a reconciliation to show how the net movement in funds presented in the SoFA has been adjusted to arrive at the cash flows from operating activities presented in the cash flow statement. An example of how this reconciliation may be set out is given in Table 8. A reconciliation of cash should also be provided and an example is given in Table 9.

14.10. The template for the cash flow statement set out in Table 7 must be adapted as necessary for any additional items that apply. An example would be cash flows arising from the payment of taxes. Similarly, any headings that do not apply must be omitted.

Table 7: Cash flow statement

	Total funds	Prior year funds	Note
	£	£	
Cash generated from operating activities:			
<i>Net cash provided by (used in) operating activities</i>	X	(X)	Table 8
Cash flows from other sources:			
Dividends, interest and rents from investments	X	X	
Proceeds from the sale of property, plant and equipment	X	X	
Cash inflows from new borrowing	X	-	
Proceeds from sale of investments	X	-	
Receipt of endowment	X	-	
	X	X	
Application of cash:			
Purchase of property, plant and equipment	(X)	(X)	
Purchase of investments	(X)	(X)	
Repayments of borrowing	(X)	(X)	
	(X)	(X)	
Net increase/(decrease) in cash:	X	(X)	
Cash at bank and in hand less overdrafts at the beginning of the year	X	X	Table 9
Cash at bank and in hand less overdrafts at end year	X	X	Table 9

Table 8: Reconciliation of net income/(expenditure) to net cash flow from operating activities

	Current Year	Prior Year
	£	£
Net income/ (expenditure) (as per the statement of financial activities)	X	(X)
Adjustments for:		
Depreciation charges	X	X
Dividends, interest and rents from investments	(X)	(X)
Loss/(profit) on the sale of fixed assets	X	(X)
(Increase)/decrease in stocks	(X)	X
(Increase)/decrease in debtors	(X)	X
Increase/(decrease) in creditors	X	(X)
Net cash provided by (used in) operating activities	X	(X)

Table 9: Analysis of cash at bank and in hand less overdrafts

	Current Year	Prior Year
	£	£
Cash at bank and in hand	X	X
Overdrafts included in bank loans and overdrafts falling due within one year	(X)	(X)
	X	X