

Audit Alert: FASB addresses presentation of restricted cash in cash flow statement

The Financial Accounting Standards Board issued [proposed ASU](#), Restricted Cash – a consensus of the FASB Emerging Issues Task Force, which addresses the presentation of restricted cash and changes in restricted cash on the statement of cash flows. The proposal aims to reduce the existing diversity in practice in how restricted cash and related changes are presented on the statement of cash flows.

The proposed ASU specifies that restricted cash and restricted cash equivalents should be included with cash and cash equivalents on the statement of cash flows, and that transfers between cash, cash equivalents, and restricted cash or restricted cash equivalents are not part of an entity's operating, investing, and financing activities, and should not be reported on the statement of cash flows.

Consequently, restricted cash and restricted cash equivalents would 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. If the total amount of cash, cash equivalents, and restricted cash or restricted cash equivalents on the statement of cash flows cannot be reconciled to a similarly titled line item or subtotal on the balance sheet, the entity would disclose the amounts of restricted cash or restricted cash equivalents either on the statement of cash flows or in the notes to the financial statements, including a description of the location of those amounts on the balance sheet.

An entity would also be required to provide a description of the provisions of the restrictions on cash and cash equivalents in the notes to the financial statements.

Entities would adopt the proposed ASU on a retrospective basis. The effective date will be determined after the EITF considers stakeholder feedback on the proposal.

The proposed ASU does not define “restricted cash” and “restricted cash equivalents.” As a result, public entities should continue to consider the guidance in SEC Regulation S-X.

Stakeholders have until June 27 to comment on the proposal. –

Source: Grant Thornton, *On The Horizon*, May 5, 2016

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