

The logo for the Public Sector Accounting Standards Board (Kenya) features the letters 'PSASB' in a bold, blue, sans-serif font. A stylized red and blue graphic element, resembling a swoosh or a checkmark, is integrated between the 'S' and 'A'.

PSASB

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

A close-up photograph of a hand holding a black pen, pointing at a bar chart on a document. The chart has several blue bars of varying heights. The background is slightly blurred, showing stacks of papers and a desk lamp.

CASHFLOW STATEMENT

Guideline, IPSAS 2

2023





MESSAGE FROM THE CEO

Since the gazettelement of PSASB in 2014, there has been major improvements in financial reporting. Entities have consistently sought to improve the financial reports that they prepare and submit for audit by the Office of the Auditor General.

Over the years the Board has also continued to issue new financial reporting templates for various sectors majority of which are IPSAS Accrual based templates. Additionally, the Board is looking to transition National and County Government entities reporting on cash

basis of accounting to accrual basis of accounting in a bid to enhance accountability and transparency in the public sector.

The developments in reporting requirements have necessitated the Board to come up with innovative ways to disseminate knowledge to the users and preparers of financial statements so as to ensure continuous improvement of the financial reports prepared. The engagements with the preparers of financial statements through various platforms and review of the financial statements through Fire Award has provided an indication of areas where the preparers face challenges in applying standards as they prepare the financial statements.

One of the strategic objectives of the Board is to enhance skills and knowledge in financial reporting. It is on the strength of this objective that this guideline has been prepared so as to act as a guide for the users. IPSAS 2; Cashflow Statement Guideline will be of help to the users and preparers of financial statements as it offers a summarized guide on how to prepare the statement of cash flow which is one of the statements included in the templates issued by the Board.

This guideline is geared to provide a high-level understanding of key concepts on the IPSAS 2 and therefore it is not intended to replace the standard. It is my pleasure to issue this guideline with a view that it will provide more clarity on your understanding and application of IPSAS 2.

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Introduction

International Public Sector Accounting Standard (IPSAS) 2, “Cash flow Statement,” was first issued in May 2000, and should be applied for annual reporting periods beginning on or after January 1, 2001. The standard has been amended by various improvements to IPSAS as well as by IPSAS 42, 37, 35, 33, 3 and 4. The objective of this International Public Sector Accounting Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cashflows during the period from operating, investing and financing activities.

Scope

01

1.1 Scope of IPSAS 2

IPSAS 2 applies to entities which prepare and present financial statements under the accrual basis of accounting. The entity shall prepare a cash flow statement in accordance with the requirements of IPSAS 2 and shall present it as an integral part of its financial statements.

1.2 Definition of cash flow terms

Cash Flow: Inflows and outflows of cash and cash equivalents.

Cash: Cash on hand and demand deposits.

Cash Equivalents: Cash equivalents include cash held as bank deposits, short-term investments, and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value – includes overdrafts and cash equivalents with short-term maturities (less than three months). Generally, they exclude equity investments.

Operating activities: The principal revenue-producing activities of the entity. Cash Flow from operations typically includes the cash flows associated with (cash receipts from taxes, levies and fines for governments, cash receipts from member fees for associations or international organisations, cash payments to employees, etc.).

Investing Activities: includes the acquisition and disposal of non-current assets and other investments not included in cash equivalents. Investing cash flows typically include the cash flows associated with buying or selling property, plant, and equipment (PP&E), other non-current assets, and other financial assets.

Financing Activities: are activities that result in changes in the size and composition of the equity capital or borrowings of the entity.

Financing cash flows include cash flows associated with borrowing and repaying bank loans and issuing and buying back shares. The payment of a dividend is also treated as a financing cash flow. Cash flows from investing and financing activities are reported separately gross (gross cash receipts and gross cash payments, no netting) unless they meet certain specified criteria.



Presentation

02

2.1 Common formulas in presentation of cashflows.

Cash flows from operating activities

Net Cash flow from operating activities =

cash receipts from operating activities – cash payments used in operating activities.

Cash flows from investing activities

Net Cash flow from investing activities =

Proceeds from sale of assets and long-term investments – acquisition of assets and long-term investments.

Cash flow from financing

Net Cashflow from financing activities = (Proceeds from financing activities including borrowings, equity and capitalized cash grants among others) – (Repayment of principal on borrowings and other finance costs such as dividends).

Net increase/decrease in cash and cash equivalents

Net increase/decrease in cash and cash equivalents = Net cash flow from/used in operating activities + Net cash flow from/used in investing activities + Net cash flow from/used in financing activities.

Cash and cash equivalents at the beginning of the year

This is the opening balance from the bank accounts, cash on hand and short-term investments which are readily convertible to cash.

Cash and cash equivalents at the end of the year

Cash and cash equivalents at the end of the year = cash and cash equivalents at the beginning of the year + net increase/decrease cash and cash equivalents.

The cash and cash equivalents at the end of the year should tie to bank, cash balances and portion of short- term investments included in the statement of assets and liabilities/statement of financial position.

2.2 Presentation of Cashflow from Operating Activities

01

DIRECT METHOD

Operating cash flows are presented as a list of cash flows (presenting gross cash receipts and payments); cash receipts from taxes, levies and fines for governments, cash receipts from member fees for associations or international organisations, cash payments to employees, etc. or

02

INDIRECT METHOD

Operating cash flows are presented as a reconciliation from profit to cash flow (adjusting surplus or deficit for non-operating and non-cash transactions and for changes in working capital).

Note: PSASB has prescribed the use of direct method of preparation and presentation of the cash flow statement for all public sector entities.

2.3 Foreign Currency Cash flows

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

The cash flows of a foreign controlled entity/missions/branches shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

2.4 Interest and Dividends or Similar Distributions

Cash flows from interest and dividends or similar distributions received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing, or financing activities.

2.5 Taxes on Net Surplus

Cash flows arising from taxes on net surplus shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Other Disclosures

03

The following disclosures are recommended when preparing the statement of cashflow:

1. Where an entity holds significant amounts of cash and cash equivalents that are not available for use.
2. When there are significant non-cash transactions excluded in the statement of cashflow because they do not require the use of cash and cash equivalents e.g. acquisition of assets through lease arrangements.
3. The elements of cash and cash equivalents and a reconciliation of the amounts in the cash flow statement with the equivalent items as reported in the statement of financial position.

3.1 Format

	20XX/ 20XX-1 Ksh	20XX/ 20XX-1 Ksh
Cash Flows From Operating Activities		
Receipts		
Transfers from other government entities/ exchequer received	X	X
Proceeds from Domestic and Foreign Grants	X	X
Transfers from Other Government Entities	X	X
Reimbursements and Refunds	X	X
Entity Own Generated Receipts	X	X
Proceeds from fines, penalties and levies	X	X
Proceeds from sale of goods and services	X	X
Fees received	X	X
Total Receipts	X	X

Payments		
Compensation of Employees	(x)	(x)
Use of goods and services	(x)	(x)
Subsidies	(x)	(x)
Transfers to Other Government Units	(x)	(x)
Other grants and transfers	(x)	(x)
Social Security Benefits	(x)	(x)
Finance Costs, including Loan Interest	(x)	(x)
Other Payments	(x)	(x)
Total payments	(x)	(x)
Net cash flows from operating activities	xx	xx
Cash Flows From Investing Activities		
Acquisition of Assets	(x)	(x)
Acquisition of long- term investments	(x)	(x)
Proceeds from sale of Assets	x	x
Proceeds from sale /liquidation of investments	x	x
Net cash flows from investing activities	(x)	(x)
Cash Flows From Financing Activities		
Proceeds from issue of new shares	x	x
Proceeds from domestic borrowings	x	x
Proceeds from foreign borrowings	x	x
Repayment of borrowings	(x)	(x)
Distribution/dividend to government	(x)	(x)
Net cash flows from financing activities	x	x
Net increase/(decrease) in cash and cash equivalents	xx	xx
Cash and cash equivalents at beginning of period	xx	xx
Cash and cash equivalents at end of period	xx	xx

Illustration of indirect Method of presenting operating activities in a cashflow statement

Entity XXX Cashflow statement for the Year ended 30 June 20xx

	20XX/ 20XX-1 Ksh	20XX/ 20XX-1 Ksh
Cash Flows From Operating Activities		
Surplus/(deficit)	x	x
Non-cash movements		
Depreciation and amortization	x	x
Increase/ (Decrease) in payables	x	x
Increase/ (Decrease) in borrowings	x	x
Increase/(decrease) in inventories	x	x
Increase/ decrease in provisions relating to employee costs	x	x
(Gains)/losses on sale of property, plant and equipment	(x)	(x)
(Gains)/losses on sale of investments	(x)	(x)
(Increase)/ Decrease in other current assets	(x)	(x)
(Increase)/ Decrease in investments due to revaluation	(x)	(x)
(Increase)/ Decrease in receivables	(x)	(x)
Net cash flows from operating activities	xx	xx

3.2 Illustrative Example

Extracts from the financial statements are as follows;

	Ksh.	Ksh.
Surplus	80,000	80,000
Investment income	12,000	12,000
Finance costs	(10,000)	(10,000)
Surplus before tax	82,000	82,000
Tax	(32,000)	(32,000)
Surplus for the year	50,000	50,000
Other comprehensive income		
Revaluation gain	40,000	40,000
Total comprehensive income	90,000	90,000

	Closing balance Ksh	Opening balance Ksh
Current assets		
Inventory	30,000	25,000
Receivables	20,000	26,000
Current liabilities		
Trade payables	14,000	11,000

Additional information

During the year depreciation of Ksh.50,000 and amortisation of Ksh.40,000 was charged to surplus.

Revenues were ksh. 800,000, payments to suppliers ksh. 400,000, use of goods amounted to ksh. 100,000 and compensation to employees was Ksh.126,000.

Interest paid is Ksh.12,000 and taxation paid is Ksh.13,000.

Required:

- Using the direct method prepare the operating activities section of the statement of cash flows.
- Using the indirect method determine the operating activities section of the statement of cash flows.

Answer (a) direct method

The direct method is relatively straightforward in that all the data are cash flows so it is really just a case of listing the receipts as positive and the payments as negative.

Operating activities – Indirect method	Ksh.
Operating activities	
Surplus before tax	82,000
Investment income	(12,000)
Finance cost	10,000
Depreciation	50,000
Amortisation	40,000
Increase in inventory (30,000 – 25,000)	(5,000)
Decrease in receivables (20,000 – 26,000)	6,000
Increase in payables (14,000 – 11,000)	3,000

Cash generated from operations	174,000
Interest paid	(12,000)
Taxation paid	(13,000)
Net cash from operating activities	149,000

Note: When using the direct method, we include a note to the financial statements using the indirect method as shown above. Both methods give the same outcome.

Frequently asked questions

04

Issue	Response
How do I know that my cashflow is balanced?	A cashflow is a reconciliation of opening and closing cash and cash equivalents for the financial period under review. When the correct figures are used the cash and cash equivalents at the end of the year should tie to cash and cash equivalents worked out for cash flow purposes. Where an entity does not have cash equivalents, the figure should tie to cash and bank balances in its statement of financial position.
How does increase in payables affect my cashflow?	Increase in payables means more cash is available for use by an entity and therefore improved liquidity and therefore a cash inflow. Increase in receivables means limited cash is available for use by

<p>How does increase in receivables affect my cashflow?</p>	<p>an entity is and therefore poor liquidity and hence interpreted as a cash outflow.</p>
<p>If my inventory increases, how does it affect my cashflow?</p>	<p>Increase in inventory means more cash outflows and therefore depressed liquidity for the entity</p>
<p>If I acquire asset, how does it affect my cashflow Acquisition of asset?</p>	<p>Acquisition means there is a cash outflow from an entity</p>
<p>What if an entity borrows money for use, how is the cashflow affected?</p>	<p>Borrowing means more cash is available for use by an entity and therefore improved liquidity and this is an inflow. Repayment of loans means limited cash is available for use by an entity and therefore this is a cash outflow.</p>



Disclaimer:

This guideline has been prepared as a guidance to public sector entities in Kenya for implementation of IPSAS 2. However, it does not serve as an advisory or complete standard documentation of cashflow statement or a replacement of IPSAS 2. For further engagements on IPSAS 2 reach out to us on acctstandards@psasb.go.ke



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