

**INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS™**

IPSAS 2, *CASH FLOW STATEMENTS*

IPSAS®

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IPSAS 2, CASH FLOW STATEMENTS

History of IPSAS

This version includes amendments resulting from IPSAS Standards issued up to January 31, 2025.

IPSAS 2, *Cash Flow Statements* was issued in May 2000.

Since then, IPSAS 2 has been amended by the following IPSAS Standards:

- IPSAS 47, *Revenue* (issued May 2023)
- IPSAS 45, *Property, Plant, and Equipment* (issued May 2023)
- IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* (issued May 2022)
- IPSAS 43, *Leases* (issued January 2022)
- IPSAS 42, *Social Benefits* (issued January 2019)
- *Improvements to IPSAS 2018* (issued October 2018)
- *The Applicability of IPSAS* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS* (issued November 2010)
- *Improvements to IPSAS* (issued January 2010)
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* (issued December 2006)
- IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2006)

Table of Amended Paragraphs in IPSAS 2

Paragraph Affected	How Affected	Affected By
3	Deleted	<i>The Applicability of IPSAS</i> April 2016
4	Deleted	<i>The Applicability of IPSAS</i> April 2016
8	Amended	IPSAS 35 January 2015
16	Deleted	<i>The Applicability of IPSAS</i> April 2016
21	Amended	IPSAS 47 May 2023
22	Amended	<i>Improvements to IPSAS</i> January 2010 <i>Improvements to IPSAS</i> November 2010 IPSAS 42 January 2019 IPSAS 44 May 2022 IPSAS 45 May 2023 IPSAS 47 May 2023
25	Amended	<i>Improvements to IPSAS</i> November 2010

Paragraph Affected	How Affected	Affected By
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27	Amended	<i>Improvements to IPSAS</i> November 2010
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36	Amended	IPSAS 4 December 2006
37	Amended	IPSAS 4 December 2006
40 ¹	Deleted	IPSAS 3 December 2006 <i>Improvements to IPSAS</i> November 2010
41	Deleted	IPSAS 3 December 2006
42	Amended	<i>Improvements to IPSAS</i> November 2010
43	Amended	<i>Improvements to IPSAS</i> November 2010
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48	Amended	IPSAS 37 January 2015
50A	New	IPSAS 35 January 2015
52A	New	IPSAS 35 January 2015
52B	New	IPSAS 35 January 2015
55	Amended	IPSAS 43 January 2022
Heading above paragraph 55A	New	<i>Improvements to IPSAS</i> October 2018
55A	New	<i>Improvements to IPSAS</i> October 2018
55B	New	<i>Improvements to IPSAS</i> October 2018
55C	New	<i>Improvements to IPSAS</i> October 2018
55D	New	<i>Improvements to IPSAS</i> October 2018
55E	New	<i>Improvements to IPSAS</i> October 2018
61	Amended	IPSAS 37 January 2015
63A	New	<i>Improvements to IPSAS</i> January 2010
63B	New	<i>Improvements to IPSAS</i> November 2010
63C	New	IPSAS 33 January 2015
63D	New	IPSAS 37 January 2015 IPSAS 35 January 2015
63E	New	<i>The Applicability of IPSAS</i> April 2016

¹ Subsequent paragraphs have been renumbered.

Paragraph Affected	How Affected	Affected By
63F	New	<i>Improvements to IPSAS</i> October 2018
63G	New	IPSAS 42 January 2019
63H	New	IPSAS 43 January 2022
63I	New	IPSAS 44 May 2022
63J	New	IPSAS 45 May 2023
63K	New	IPSAS 47 May 2023
64	Amended	IPSAS 33 January 2015
IE	Amended	IPSAS 3 December 2006 IPSAS 42 January 2019 IPSAS 47 May 2023

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International Public Sector Accounting Standard 2, *Cash Flow Statements*, is set out in the objective and paragraphs 1–64. All the paragraphs have equal authority. IPSAS 2 should be read in the context of its objective, the *Preface to International Public Sector Accounting Standards*, and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision-making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows. The objective of this 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 cash flows during the period from operating, investing, and financing activities.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard, and shall present it as an integral part of its financial statements for each period for which financial statements are presented.**
2. Information about cash flows may be useful to users of an entity's financial statements in (a) assessing the entity's cash flows, (b) assessing the entity's compliance with legislation and regulations (including authorized budgets where appropriate), and (c) making decisions about whether to provide resources to, or enter into transactions with, an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a public financial institution. Entities need cash for essentially the same reasons, however different their principal revenue producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.
3. [Deleted]
4. [Deleted]

Benefits of Cash Flow Information

5. Information about the cash flows of an entity is useful in assisting users to predict (a) the future cash requirements of the entity, (b) its ability to generate cash flows in the future, and (c) its ability to fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.
6. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.
7. Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Operating activities are the activities of the entity that are not investing or financing activities.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Cash and Cash Equivalents

9. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.
10. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts that are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
11. Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its operating, investing, and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.
14. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

16. [Deleted]

Net Assets/Equity

17. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Presentation of a Cash Flow Statement

18. **The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities.**
19. An entity presents its cash flows from operating, investing, and financing activities in a manner that is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity, and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.
20. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element classified as a financing activity.

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded, for example by:
- (a) Taxes (directly and indirectly);
 - (b) [Deleted]
 - (c) Other compulsory contributions and levies;
 - (d) Transfers; or
 - (e) Provision of goods or services to another entity in a binding arrangement.

The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations, pay a dividend or similar distribution to its owner, and make new investments, without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

- (a) Cash receipts from taxes, levies, and fines;
- (b) Cash receipts from charges for goods and services provided by the entity;
- (c) Cash receipts from grants, transfers and other appropriations or other budget authority made by central government or other public sector entities;
- (d) Cash receipts from royalties, fees, commissions, and other revenue;
- (da) Cash payments to beneficiaries of social benefit schemes;
- (e) Cash payments to other public sector entities to finance their operations (not including loans);
- (f) Cash payments to suppliers for goods and services;
- (g) Cash payments to and on behalf of employees;
- (h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;
- (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
- (j) Cash receipts and payments from contracts held for dealing or trading purposes;
- (k) Cash receipts or payments from discontinued operations; and
- (l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68 of IPSAS 45, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

23. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities, since they relate to the main cash-generating activity of that entity.
24. In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of an entity, and no clear distinction is made for the disposition of those funds between current activities, capital works, and contributed capital. Where an entity is unable to separately identify appropriations or budgetary authorizations into current activities, capital works, and contributed capital, the appropriation or budget authorization should be classified as cash flows from operations, and this fact should be disclosed in the notes to the financial statements.

Investing Activities

25. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources that are intended to contribute to the entity's future service delivery. Only cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

- (a) Cash payments to acquire property, plant, and equipment, intangibles, and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant, and equipment;
- (b) Cash receipts from sales of property, plant, and equipment, intangibles, and other long-term assets;
- (c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);
- (f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
- (g) Cash payments for futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

26. The separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
- (a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages, and other short or long-term borrowings;
 - (b) Cash repayments of amounts borrowed; and
 - (c) Cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

Reporting Cash Flows from Operating Activities

27. **An entity shall report cash flows from operating activities using either:**
- (a) **The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**
 - (b) **The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.**
28. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information that (a) may be useful in estimating future cash flows, and (b) not available

under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) From the accounting records of the entity; or
- (b) By adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution), and other items in the statement of financial performance for:
 - (i) Changes during the period in inventories and operating receivables and payables;
 - (ii) Other noncash items; and
 - (iii) Other items for which the cash effects are investing or financing cash flows.

29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:

- (a) Changes during the period in inventories and operating receivables and payables;
- (b) Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and non-controlling interests; and
- (c) All other items for which the cash effects are investing or financing cash flows.
- (d) [Deleted]

Reporting Cash Flows from Investing and Financing Activities

31. **An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 32 and 35 are reported on a net basis.**

Reporting Cash Flows on a Net Basis

32. **Cash flows arising from the following operating, investing, or financing activities may be reported on a net basis:**

- (a) **Cash receipts collected and payments made on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and**
- (b) **Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

33. Paragraph 32(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

- (a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax-sharing arrangement;
- (b) The acceptance and repayment of demand deposits of a public financial institution;
- (c) Funds held for customers by an investment or trust entity; and
- (d) Rents collected on behalf of, and paid over to, the owners of properties.

34. Examples of cash receipts and payments referred to in paragraph 32(b) are advances made for, and the repayment of:
- (a) The purchase and sale of investments; and
 - (b) Other short-term borrowings, for example, those that have a maturity period of three months or less.
35. **Cash flows arising from each of the following activities of a public financial institution may be reported on a net basis:**
- (a) **Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**
 - (b) **The placement of deposits with, and withdrawal of deposits from, other financial institutions; and**
 - (c) **Cash advances and loans made to customers and the repayment of those advances and loans.**

Foreign Currency Cash Flows

36. **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.**
37. **The cash flows of a foreign controlled entity shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**
38. Cash flows denominated in a foreign currency are reported in a manner consistent with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign controlled entity. IPSAS 4 does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.
39. Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.

Interest and Dividends or Similar Distributions

40. **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.**
41. The total amount of interest paid during a period is disclosed in the cash flow statement, whether it has been recognized as an expense in the statement of financial performance or capitalized in accordance with the allowed alternative treatment in IPSAS 5, *Borrowing Costs*.
42. Interest paid and interest and dividends or similar distributions received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends or similar distributions received may be classified as operating cash flows because they enter into the determination of surplus or deficit. Alternatively, interest paid and interest and dividends or similar distributions received may be classified as financing cash

flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

43. Dividends or similar distributions paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends or similar distributions paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to make these payments out of operating cash flows.

Taxes on Net Surplus

44. **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.**
45. Public sector entities are generally exempt from taxes on net surpluses. However, some public sector entities may operate under tax-equivalent regimes, where taxes are levied in the same way as they are on private sector entities.
46. Taxes on net surplus arise from transactions that give rise to cash flows that are classified as operating, investing, or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify, and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity, as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in Controlled Entities, Associates and Joint Ventures

47. When accounting for an investment in an associate, a joint venture, or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.
48. An entity that reports its interest in an associate or a joint venture using the equity method includes in its cash flow statement the cash flows in respect of its investments in an associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

49. **The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities.**
50. **An entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:**
- (a) **The total purchase or disposal consideration;**
 - (b) **The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;**
 - (c) **The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and**
 - (d) **The amount of the assets and liabilities, other than cash or cash equivalents, recognized by the controlled entity or operating unit acquired or disposed of, summarized by each major category.**

- 50A. An investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, need not apply paragraphs 50(c) or 50(d) to an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. A controlling entity that is not itself an investment entity need not apply paragraphs 50(c) or 50(d) to an investment in a controlled investment entity to the extent that investment is measured at fair value through surplus or deficit.
51. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those of acquisitions.
52. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.
- 52A. Cash flows arising from changes in ownership interests in a controlled entity that do not result in a loss of control shall be classified as cash flows from financing activities, unless the controlled entity is held by an investment entity, as defined in IPSAS 35, or through a controlled investment entity, and is required to be measured at fair value through surplus or deficit.
- 52B. Changes in ownership interests in a controlled entity that do not result in a loss of control, such as the subsequent purchase or sale by a controlling entity of a controlled entity's equity instruments, are accounted for as equity transactions (see IPSAS 35), unless the controlled entity is held by an investment entity, or through a controlled investment entity, and is required to be measured at fair value through surplus or deficit. Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.
53. Assets and liabilities other than cash or cash equivalents of a controlled entity or operating unit acquired or disposed of are only required to be disclosed where the controlled entity or unit had previously recognized those assets or liabilities. For example, where a public sector entity that prepares reports under the cash basis is acquired by another public sector entity, the acquiring entity would not be required to disclose the assets and liabilities (other than cash and cash equivalents) of the entity acquired, as that entity would not have recognized noncash assets or liabilities.

Noncash Transactions

54. **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**
55. Many investing and financing activities do not have a direct impact on current cash flows, although they do affect the capital and asset structure of an entity. The exclusion of noncash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of noncash transactions are:
- (a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a lease;
 - (b) The conversion of debt to equity.

Changes in Liabilities Arising from Financing Activities

- 55A. **An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and noncash changes.**
- 55B. To the extent necessary to satisfy the requirement in paragraph 55A, an entity shall disclose the following changes in liabilities arising from financing activities:
- (a) Changes from financing cash flows;
 - (b) Changes arising from obtaining or losing control of controlled entities or other operations;
 - (c) The effect of changes in foreign exchange rates;
 - (d) Changes in fair values; and
 - (e) Other changes.
- 55C. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities. In addition, the disclosure requirement in paragraph 55A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.
- 55D. One way to fulfil the disclosure requirement in paragraph 55A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 55B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the cash flow statement.
- 55E. If an entity provides the disclosure required by paragraph 55A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Components of Cash and Cash Equivalents

56. **An entity shall disclose the components of cash and cash equivalents, and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.**
57. In view of the variety of cash management practices and banking arrangements around the world, and in order to comply with IPSAS 1, an entity discloses the policy that it adopts in determining the composition of cash and cash equivalents.
58. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Disclosures

59. **An entity shall disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.**
60. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a

controlled entity that operates in a country where exchange controls or other legal restrictions apply, when the balances are not available for general use by the controlling entity or other controlled entities.

61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include:
- (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
 - (b) [Deleted]
 - (c) The amount and nature of restricted cash balances.
62. Where appropriations or budget authorizations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programs and the government's budgetary information. Refer to IPSAS 1 for a brief discussion of the comparison of actual and budgeted figures.

Effective Date

63. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged. If an entity applies this Standard for a period beginning before July 1, 2001, it shall disclose that fact.**
- 63A. **Paragraph 22 was amended by *Improvements to IPSAS* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact and apply paragraph 83A of IPSAS 17.**
- 63B. **Paragraph 25 was amended by *Improvements to IPSAS* issued in November 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2012, it shall disclose that fact.**
- 63C. **Paragraph 64 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**
- 63D. **IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 8 and 30(b), 47, 48 and 61(b), and added paragraphs 50A, 52A and 52B. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**
- 63E. **Paragraphs 3, 4 and 16 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**
- 63F. **Paragraphs 55A–55E were added by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2021. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.**

- 63G. Paragraph 22 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.
- 63H. Paragraphs 26 and 55 were amended by IPSAS 43, *Leases* issued in January 2022. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.
- 63I. Paragraph 22 was amended by IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations* issued in May 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 44 at the same time.
- 63J. Paragraph 22 was amended by IPSAS 45 issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies this amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.
- 63K. Paragraphs 21 and 22 were amended by IPSAS 47, *Revenue*, issued in May 2023. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.
64. When an entity adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 2.

Revision of IPSAS 2 as a result of the IASB's *Improvements to IFRS* issued in 2009

BC1. The IPSASB reviewed the revisions to IAS 7 included in the *Improvements to IFRS* issued by the IASB in April 2009 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Revision of IPSAS 2 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC2. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

- (a) Removes the standard paragraphs about the applicability of IPSAS to "public sector entities other than GBEs" from the scope section of each Standard;
- (b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and
- (c) Amends paragraph 10 of the Preface to International Public Sector Accounting Standards by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 2 as a result of *Improvements to IPSAS, 2018*

BC3. The IPSASB reviewed the revisions to IAS 7 included in the narrow scope amendments titled *Disclosure Initiative* (Amendments to IAS 7) issued by the IASB in January 2016, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting the amendments. The IPSASB acknowledged that entities would need time to implement this amendment, and therefore set an effective date for this amendment of January 1, 2021, two years later than the other amendments in *Improvements to IPSAS, 2018*.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 2.

Cash Flow Statement (For an Entity Other Than a Financial Institution)**Direct Method Cash Flow Statement (paragraph 27(a))****Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2**

(in thousands of currency units) **20X2** **20X1**

CASH FLOWS FROM OPERATING ACTIVITIES**Receipts**

Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X

Payments

Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Social benefits	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)

Net cash flows from operating activities

X X

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)

Net cash flows from investing activities

(X) (X)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	<u>X</u>	<u>X</u>
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	<u>X</u>	<u>X</u>
Cash and cash equivalents at end of period	<u><u>X</u></u>	<u><u>X</u></u>

Notes to the Cash Flow Statement**(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	(in thousands of currency units)	20X2	20X1
Cash on hand and balances with banks		X	X
Short-term investments		X	X
		<u>X</u>	<u>X</u>

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) Property, Plant and Equipment

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

(c) Reconciliation of Liabilities Arising from Financing Activities to Surplus/(Deficit)

	(in thousands of currency units)	20X2	20X1
Surplus/(deficit)		X	X
Non-cash movements			
Depreciation		X	X
Amortization		X	X
Increase in provision for doubtful debts		X	X
Increase in payables		X	X
Increase in borrowings		X	X
Increase in social benefits liabilities		X	X
Increase in provisions relating to employee costs		X	X

CASH FLOW STATEMENTS

(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	X	X

(d) *Reconciliation of Liabilities Arising from Financing Activities*

	20X1	Cash flows	Non-cash changes		20X2
			Acquisition	New leases	
Long-term borrowings	X	X	X	X	X
Lease liabilities	X	X	X	X	X
Long-term debt	X	X	X	X	X

Indirect Method Cash Flow Statement (paragraph 27(b))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2

(in thousands of currency units) **20X2** **20X1**

CASH FLOWS FROM OPERATING ACTIVITIES

Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in social benefits liabilities	X	X
Increase 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 in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	X	X

Notes to the Cash Flow Statement**(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	(in thousands of currency units)	20X2	20X1
Cash on hand and balances with banks		X	X
Short-term investments		X	X
		<u>X</u>	<u>X</u>
		<u>X</u>	<u>X</u>

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) Property, Plant and Equipment

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of a capital transfer by the national government. Cash payments of X were made to purchase property, plant, and equipment.

(c) Reconciliation of Liabilities Arising from Financing Activities

	20X1	Cash flows	Non-cash changes	20X2
			Acquisition	New leases
Long-term borrowings	X	X	X	X
Lease liabilities	X	X	X	X
Long-term debt	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

Reconciliation of Liabilities Arising from Financing Activities

- This example illustrates one possible way of providing the disclosures required by paragraphs 55A–55E.
- The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IPSAS 1, *Presentation of Financial Statements*.

	20X1	Cash flows	Non-cash changes			20X2
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	X	X	X	X	X	X
Short-term borrowings	X	X	X	X	X	X
Lease liabilities	X	X	X	X	X	X
Assets held to hedge long-term borrowings	X	X	X	X	X	X
Total liabilities from financing activities	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

COMPARISON WITH IAS 7

IPSAS 2, *Cash Flow Statements* is drawn primarily from IAS 7, *Cash Flow Statements* and includes an amendment made to IAS 7 as part of the *Improvements* to IFRS issued in April 2009. The main differences between IPSAS 2 and IAS 7 are as follows:

- IPSAS 2 uses different terminology, in certain instances, from IAS 7. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” and “net assets/equity” in IPSAS 2. The equivalent terms in IAS 7 are “income,” “income statement,” and “equity.”
- IPSAS 2 contains a different set of definitions of technical terms from IAS 7 (paragraph 8).
- In common with IAS 7, IPSAS 2 allows either the direct or indirect method to be used to present cash flows from operating activities. Where the direct method is used to present cash flows from operating activities, IPSAS 2 encourages disclosure of a reconciliation of surplus or deficit to operating cash flows in the notes to the financial statements (paragraph 29).
- The Illustrative Examples accompanying IPSAS 2 do not include an illustration of a Cash Flow Statement for a financial institution.