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FASB Issues Guidance on Restricted Cash

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Introduction

Today, the FASB issued [ASU 2016-18](#),¹ which amends ASC 230² to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The classification of restricted cash in the statement of cash flows, along with eight other cash-flow-related issues, was initially addressed by the Emerging Issues Task Force (EITF) in Issue 15-F.³ However, after deliberation of those issues, the EITF decided to address the diversity in practice related to the cash flow classification of restricted cash separately, in Issue 16-A.⁴ ASU 2016-18 is based on the EITF's consensus reached on that Issue.

¹ FASB Accounting Standards Update No. 2016-18, *Restricted Cash* — a consensus of the FASB Emerging Issues Task Force.

² FASB Accounting Standards Codification (ASC) Topic 230, *Statement of Cash Flows*.

³ See Deloitte's August 30, 2016, *Heads Up* for a discussion of the FASB's guidance that is based on the EITF's consensus in Issue No. 15-F, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments."

⁴ EITF Issue No. 16-A, "Statement of Cash Flows: Restricted Cash."

Key Provisions of the ASU

Key requirements of the ASU are as follows:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms “restricted cash” and “restricted cash equivalents” but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC 250.⁵
- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.
- Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.
- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

For summaries of the decisions reached by the EITF related to these requirements, see Deloitte’s [June 2015](#), [September 2015](#), [November 2015](#), [March 2016](#), and [September 2016 EITF Snapshot](#) newsletters.

Effective Date and Transition

For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption will be permitted for all entities, which must apply the guidance retrospectively to all periods presented.



Editor’s Note

There is diversity in practice under current guidance related to transfers between cash and restricted cash. Entities present such transfers as operating, investing, or financing activities, or as a combination of those. There is also diversity related to how entities present, in their statement of cash flows, those cash receipts and cash payments that directly affect their restricted cash accounts. Some entities present them as cash inflows and outflows, while others disclose them as noncash investing or financing activities.

Although the ASU’s amendments do not affect how an entity determines what restricted cash or restricted cash equivalents are, the changes could significantly alter the way some entities classify and present restricted cash.

⁵ FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

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