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Reporting restricted cash

Your company's financial statements should be transparent about any restrictions on cash. Are your reporting practices in compliance with the current accounting guidance?

THE BASICS

Restricted cash is a separate category of "cash and cash equivalents" that isn't available for general business operations or investments. There are many types of restricted cash.

For example, companies sometimes set aside money for a specific business purpose, such as a loan repayment, a legal retainer or a plant expansion. Similarly, if a major purchase is financed with a loan, the lender may require the borrower to maintain a minimum cash balance or a balance in a separate account as collateral against the loan. Or a business may be restricted from accessing a customer's deposit until the terms of the contract are complete.



BALANCE SHEET

The balance sheet must differentiate restricted cash and cash equivalents from unrestricted amounts. The footnotes also must disclose the nature of any restrictions on cash.

Restricted cash may be classified as either a current or noncurrent asset. If it's expected to be used within one year of the balance sheet date, the cash should be classified as a current asset. However, if it will be unavailable for use for more than a year, it should be classified as a noncurrent asset.

STATEMENT OF CASH FLOWS

Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230) — Restricted Cash*, provides guidance for reporting restricted cash on the statement of cash flows. Under the guidance, transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents aren't part of the entity's operating, investing, and financing activities. So, details of those transfers shouldn't be reported as cash flow activities in the statement of cash flows.

Instead, if the cash flow statement includes a reconciliation of the total cash balances for the beginning and end of the period, the amounts for restricted cash and restricted cash equivalents should be included with cash and cash

equivalents. The updated guidance requires cash flow statements to report separate amounts for the changes during a reporting period of the totals for:

- Cash,
- Cash equivalents,
- Restricted cash, and
- Restricted cash equivalents.

These amounts are typically found just before the reconciliation of net income to net cash provided by operating activities in the statement of cash flows.

GET IT RIGHT

Restrictions on cash are common, but the accounting rules can sometimes be confusing. We can help you report these amounts in an accurate and transparent manner. [Contact us](#) if you have any questions.