Financial Reporting Standard 1 (Revised 1996) is set out in paragraphs 1-50.

The Statement of Standard Accounting Practice set out in paragraphs 4-50 should be read in the context of the Objective as stated in paragraph 1 and the definitions set out in paragraphs 2 and 3 and also of the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.

The Explanation set out in paragraphs 51-68 shall be regarded as part of the Statement of Standard Accounting Practice insofar as it assists in interpreting that statement.

Appendix III 'The development of the FRS' reviews considerations and arguments that were thought significant by members of the Board in reaching the conclusions on FRS 1 (Revised 1996).

CONTENTS

SUMMARY

General

a Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements' requires reporting entities within its scope to prepare a cash flow statement in the manner set out in the FRS. Cash flows are increases or decreases in amounts of cash, and cash is cash in hand and deposits repayable on demand at any qualifying institution less overdrafts from any qualifying institution repayable on demand

Scope

b The FRS applies to all financial statements intended to give a true and fair view of the financial position and profit or loss (or income and expenditure) except those of:

(i) subsidiary undertakings where 90 per cent or more of the voting rights are controlled within the group, provided that consolidated financial statements in which those subsidiary undertakings are included are publicly available;

(ii) mutual life assurance companies;

(iii) pension funds;

(iv) open-ended investment funds, subject to certain further conditions;

(v) for two years from the effective date of the FRS, building societies that, as required by law, prepare a statement of source and application of funds in a prescribed format; and

(vi) small entities (based on the small companies exemption in companies legislation).

Format for the cashflow statement

c An entity's cash flow statement should list its cash flows for the period classified under the following standard headings:

- operating activities (using either the direct or indirect method)
- returns on investments and servicing of finance
- taxation
- capital expenditure and financial investment
- acquisitions and disposals
- equity dividends paid
- management of liquid resources
- financing.

The last two headings can be shown in a single section provided a subtotal is given for each heading.

d Individual categories of inflows and outflows under the standard headings should be disclosed separately either in the cash flow statement or in a note to it unless they are allowed to be shown net. Cash inflows and outflows may be shown net if they relate to the management of liquid resources or financing and the inflows and outflows either:

(i) relate in substance to a single financing transaction (which is one that fulfils the conditions in paragraph 35 of FRS4 'Capital Instruments'*); or

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* *The conditions set out in paragraph 35 of FRS 4 are:*
(a) the debt and the facility are under a single agreement or course of dealing with the same lender or groups of lenders;
(b) the finance costs for the new debt are on a basis that is not significantly higher than that of the existing debt;
(c) the obligations of the lender (or group of lenders) are firm: the lender is not able legally to refrain from providing funds except in circumstances the possibility of which can be demonstrated to be remote; and
(d) the lender (or group of lenders) is expected to be able to fulfil its obligations under the facility.

(ii) are due to short maturities and high turnover occurring from rollover or reissue (for example, short-term deposits or a commercial paper programme).

The requirement to show cash inflows and outflows separately does not apply to cash flows relating to operating activities.

Links to other primary statements

e Because the information given by a cash flow statement is best appreciated in the context of the information given by the other primary statements, the FRS requires two reconciliations, between:

(i) operating profit and the net cash flow from operating activities; and

(ii) the movement in cash in the period and the movement in net debt.

Neither reconciliation forms part of the cash flow statement but each may be given either adjoining the statement or in a separate note.

f The movement in net debt should identify the following components and reconcile these to the opening and closing balance sheet amounts:

- the cash flows of the entity
- the acquisition or disposal of subsidiary undertakings (excluding cash balances)
- other non-cash changes
- the recognition of changes in market value and exchange rate movements.

Insurance companies and groups

g Insurance companies and groups should include the cash flows of their long-term business only to the extent of cash transferred to, and available to meet the obligations of, the company or group as a whole. The cash flow statement of an insurance company or group should include a section for cash flows relating to portfolio investments rather than a section for cash flows relating to the management of liquid resources.

Banks

h The cash flow statement of an entity qualifying as a bank should include under operating activities cash flows relating to investments held for trading. A bank need not include a section on the management of liquid resources or the reconciliation of cash flows to the movement in net debt.

Other disclosures

i Material transactions not resulting in movements of cash should be disclosed in the notes to the cash flow statement, if the disclosure is necessary for an understanding of the underlying transactions. A consolidated cash flow statement should identify and explain the circumstances and effect of restrictions preventing the transfer of cash from one part of the group to meet obligations of another.

FINANCIAL REPORTING STANDARD 1
(Revised 1996)

OBJECTIVE

1 The objective of this FRS is to ensure that reporting entities falling within its scope:

(a) report their cash generation and cash absorption for a period by highlighting the significant components of cash flow in a way that facilitates comparison of the cash flow performance of different businesses; and

(b) provide information that assists in the assessment of their liquidity, solvency and financial adaptability.

DEFINITIONS

2 The following definitions shall apply in this FRS and in particular in the Statement of Standard Accounting Practice set out in paragraphs 4-50.

Active market:-
A market of sufficient depth to absorb the investment held without a significant effect on the price.

Bank:-
An entity whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.*

Cash:-
Cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Cash includes cash in hand and deposits denominated in foreign currencies.

Cash flow:-
An increase or decrease in an amount of cash.

Equity dividends:-
Dividends relating to equity shares as defined in paragraph 7 of FRS 4 'Capital Instruments'.

Insurance company or group:-
A company that carries on insurance business and is regulated accordingly or an insurance group as defined in the relevant legislation.§

Investment fund:- †
An entity:

(a) whose business consists of investing its funds mainly in securities, with the aim of spreading investment risk and giving members the benefit of the results of the management of its funds;

(b) none of whose holdings in other entities (except those in other investment funds) represents more than 15 per cent by value of the investing entity's investments; and

(c) that has not retained more than 15 per cent of the income it derives from securities.

**The definition is based on:*
(a) in Great Britain, section 262 of the Companies Act 1985, itself based on the definition in the Banking Act 1987;
(b) in Northern Ireland, Article 270 of the Companies (Northern Ireland) Order 1986;
(c) in the Republic of Ireland, section 2(2) (other than paragraph (b) of the Companies (Amendment) Act 1986.

§ In the UK an insurance company is one to which Part II of the Insurance Companies Act 1982 applies. The equivalent reference in the Republic of Ireland is the Companies (Amendment) Act 1986 section 2 (3). In the UK an insurance group is defined in section 255A(5) of the Companies Act 1985. In the Republic of Ireland an insurance company or group is one to which Regulation 3 of the European Community (Insurance Undertakings: Accounts) Regulations 1996 applies.

† This definition is based on three of the four conditions defining an investment company in companies legislation - in Great Britain section 266 of the Companies Act 1985; in Northern Ireland, Article 274 of the Companies (Northern Ireland) Order 1986; and in the Republic of Ireland, section 47 of the Companies (Amendment) Act 1983. Under the definition above, investment companies as defined in companies legislation will qualify as investment funds but so should certain investment entities that are not companies or do not qualify under companies legislation because they distribute capital.

Liquid resources:-
Current asset investments held as readily disposable stores of value. A readily disposable investment is one that:

(a) is disposable by the reporting entity without curtailing or disrupting its business;

and is either:

(b) (i) readily convertible into known amounts of cash at or close to its carrying amount, or

(b) (ii) traded in an active market.

Net debt:-
The borrowings of the reporting entity (comprising debt as defined in FRS 4 'Capital Instruments' (paragraph 6), together with related derivatives, and obligations under finance leases) less cash and liquid resources. Where cash and liquid resources exceed the borrowings of the entity reference should be to 'net funds' rather than to 'net debt'.

Non-equity dividends:-
Dividends relating to non-equity shares as defined in paragraph 12 of FRS 4 'Capital Instruments'.

Overdraft:-
A borrowing facility repayable on demand that is used by drawing on a current account with a qualifying financial institution.

Qualifying financial institution:-
An entity that as part of its business receives deposits or other repayable funds and grants credits for its own account.

3 References to companies legislation mean:

(a) in Great Britain, the Companies Act 1985;

(b) in Northern Ireland, the Companies (Northern Ireland) Order 1986; and

(c) in the Republic of Ireland, the Companies Acts 1963-90 and the European Communities (Companies: Group Accounts) Regulations 1992.

STATEMENT OF STANDARD ACCOUNTING PRACTICE

4 Reporting entities falling within the scope of paragraph 5 of Financial Reporting Standard 1 (Revised 1996) are required to provide as a primary statement within the reporting entity's financial statements a cash flow statement drawn up in accordance with the standard accounting principles set out in paragraphs 6-48 of the FRS.

Scope

5 The FRS applies to all financial statements intended to give a true and fair view of the financial position and profit or loss (or income and expenditure) except those of:

(a) subsidiary undertakings where 90 per cent or more of the voting rights are controlled within the group, provided that consolidated financial statements in which the subsidiary undertakings are included are publicly available.

(b) mutual life assurance companies.

(c) pension funds.

(d) open-ended investment funds that meet all the following conditions:

  (i) substantially all of the entity's investments are highly liquid;

  (ii) substantially all of the entity's investments are carried at market value; and

  (iii) the entity provides a statement of changes in net assets.

(e) for two years from the effective date of the FRS, building societies, as defined by the Building Societies Act 1986 in the UK and by the Building Societies Act 1989 in the Republic of Ireland, that prepare, as required by law, a statement of source and application of funds in a prescribed format.

(f) companies incorporated under companies legislation and entitled to the exemptions available in the legislation for small companies when filing accounts with the Registrar of Companies.

(g) entities that would have been in category (f) above if they were companies incorporated under companies legislation.

Preparation of cashflow statements

6 The cash flow statement should include all the reporting entity's inflows and outflows of cash. Transactions that do not result in cash flows of the reporting entity should not be reported in the cash flow statement.

Format for cashflow statements

7 An entity's cash flow statement should list its cash flows for the period classified under the following standard headings:

- operating activities
- dividends from joint ventures and associates
- returns on investments and servicing of finance

- taxation
- capital expenditure and financial investment
- acquisitions and disposals
- equity dividends paid
- management of liquid resources
- financing.

The first seven headings should be in the sequence set out above. Operating cash flows can be presented by either the direct method (showing the relevant constituent cash flows) or the indirect method (calculating operating cash flows by adjustment to the operating profit reported in the profit and loss account). The cash flows relating to the management of liquid resources and financing can be combined under a single heading provided that the cash flows relating to each are shown separately and separate subtotals are given. Appendix I of the FRS contains examples of cash flow statements for an individual company, a group, a bank and an insurance group.

Classification of cashflows

8 Except for cash inflows and outflows that are shown net (as permitted by paragraph 9), the individual categories of inflows and outflows under the standard headings set out in paragraphs ll-32 should be disclosed separately, where material, in the cash flow statement or in a note. The cash flow classifications may be subdivided further to give a fuller description of the activities of the reporting entity or to provide segmental information.

9 The requirement to show cash inflows and outflows separately does not apply to cash flows relating to operating activities. Cash inflows and outflows within the management of liquid resources or financing may also be netted against each other if they either:

(a) relate in substance to a single financing transaction (which is one that fulfils the conditions in paragraph 35 of FRS 4 'Capital Instruments'*); or

(b) are due to short maturities and high turnover occurring from rollover or reissue (for example, short-term deposits or a commercial paper programme).

10 Each cash flow should be classified according to the substance of the transaction giving rise to it. That substance should be used to determine the most appropriate standard heading under which to report any cash flows that are not specified in the categories set out in paragraphs 11-32 below. However, cash flows relating to interest paid should always be classified under 'returns on investments and servicing of finance' even if the interest has been capitalised in the other primary statements.

Classification of cashflows by standard heading

Operating activities

11 Cash flows from operating activities are in general the cash effects of transactions and other events relating to operating or trading activities, normally shown in the profit and loss account in arriving at operating profit. They include cash flows in respect of operating items relating to provisions, whether or not the provision was included in operating profit.

**The condition set out in paragraph 35 of FRS 4 are:*

(a) the debt and the facility are under a single agreement or course of dealing with the same lender or group of lenders;

(b) the finance costs for the new debt are on a basis that is not significantly higher than that of the existing debt;

(c) the obligations of the lender (or group of lenders) are firm; the lender is not able legally to refrain from providing funds except in circumstances the possibility of which can be demonstrated to be remote; and

(d) the lender (or group of lenders) is expected to be able to fulfil its obligations under the facility.

12 A reconciliation between the operating profit reported in the profit and loss account and the net cash flow from operating activities should be given either adjoining the cash flow statement or as a note. The reconciliation is not part of the cash flow statement: if adjoining the cash flow statement, it should be clearly labelled and kept separate. The reconciliation should disclose separately the movements in stocks, debtors and creditors related to operating activities and other differences between cash flows and profits.

12A Dividends received from joint ventures and associates should be included as separate items between operating activities and returns on investment and servicing of finance.

Returns on investments and servicing of finance

13 'Returns on investments and servicing of finance' are receipts resulting from the ownership of an investment and payments to providers of finance, non-equity shareholders (eg the holders of preference shares) and minority interests, excluding those items required by paragraphs 11-32 to be classified under another heading.

14 Cash inflows from returns on investments and servicing of finance include:

(a) interest received, including any related tax recovered; and

(b) dividends received, net of any tax credits (except dividends from equity accounted entities).

15 Cash outflows from returns on investments and servicing of finance include:

(a) interest paid (even if capitalised), including any tax deducted and paid to the relevant tax authority;

(b) cash flows that are treated as finance costs under FRS 4 (this will include issue costs on debt and non-equity share capital);

(c) the interest element of finance lease rental payments;

(d) dividends paid on non-equity shares of the entity; and

(e) dividends paid to minority interests.

Taxation

16 The cash flows included under the heading 'taxation' are cash flows to or from taxation authorities in respect of the reporting entity's revenue and capital profits. For a subsidiary undertaking, cash flows relating to group relief should be included in this section. Cash flows in respect of other taxation, including payments and receipts in respect of Value Added Tax, other sales taxes, property taxes and other taxes not assessed on the profits of the reporting entity, should be dealt with as set out in paragraphs 39-40 of the FRS.

17 Taxation cash inflows include cash receipts from the relevant tax authority of tax rebates, claims or returns of overpayments. For a subsidiary undertaking, payments received from other members of the group for group relief should be included as cash inflows.

18 Taxation cash outflows include cash payments to the relevant tax authority of tax, including payments of advance corporation tax. For a subsidiary undertaking, payments made to other members of the group for group relief should be included as cash outflows.

Capital expenditure and financial investment

19 The cash flows included in 'capital expenditure and financial investment' are those related to the acquisition or disposal of any fixed asset other than one required to be classified under 'acquisitions and disposals' as specified in paragraphs 22-24 of the FRS and any current asset investment not included in liquid resources dealt with in paragraphs 26-28. If no cash flows relating to financial investment fall to be included under this heading the caption may be reduced to 'capital expenditure'.

20 Cash inflows from 'capital expenditure and financial investment' include:

(a) receipts from sales or disposals of property, plant or equipment; and

(b) receipts from the repayment of the reporting entity's loans to other entities or sales of debt instruments of other entities other than receipts forming part of an acquisition or disposal or a movement in liquid resources, as specified respectively in paragraphs 22-24 and 26-28 of the FRS .

21 Cash outflows from 'capital expenditure and financial investment' include:

(a) payments to acquire property, plant or equipment; and

b) loans made by the reporting entity and payments to acquire debt instruments of other entities other than payments forming part of an acquisition or disposal or a movement in liquid resources, as specified respectively in paragraphs 22-24 and 26-28 of the FRS.

Acquisitions and disposals

22 The cash flows included in 'acquisitions and disposals' are those related to the acquisition or disposal of any trade or business, or of an investment in an entity that is or, as a result of the transaction, becomes or ceases to be either an associate, a joint venture, or a subsidiary undertaking.

23 Cash inflows from 'acquisitions and disposals' include:

(a) receipts from sales of investments in subsidiary undertakings, showing separately any balances of cash and overdrafts transferred as part of the sale;

(b) receipts from sales of investments in associates or joint ventures; and

(c) receipts from sales of trades or businesses.

24 Cash outflows from 'acquisitions and disposals' include:

(a) payments to acquire investments in subsidiary undertakings, showing separately any balances of cash and overdrafts acquired;

(b) payments to acquire investments in associates and joint ventures; and

(c) payments to acquire trades or businesses.

Equity dividends paid

25 The cash outflows included in 'equity dividends paid' are dividends paid on the reporting entity's, or, in a group, the parent's, equity shares, excluding any advance corporation tax.

Management of liquid resources

26 The 'management of liquid resources' section should include cash flows in respect of liquid resources as defined in paragraph 2. Each entity should explain what it includes as liquid resources and any changes in its policy. The cash flows in this section can be shown in a single section with those under 'financing' provided that separate subtotals for each are given.

27 Cash inflows in management of liquid resources include:

(a) withdrawals from short-term deposits not qualifying as cash in so far as not netted under paragraph 9(b); and

(b) inflows from disposal or redemption of any other investments held as liquid resources.

28 Cash outflows in management of liquid resources include:

(a) payments into short-term deposits not qualifying as cash in so far as not netted under paragraph 9(b); and

(b) outflows to acquire any other investments held as liquid resources.

Financing

29 Financing cash flows comprise receipts or repayments of principal from or to external providers of finance. The cash flows in this section can be shown in a single section with those under 'management of liquid resources' provided that separate subtotals for each are given.

30 Financing cash inflows include:

(a) receipts from issuing shares or other equity instruments; and

(b) receipts from issuing debentures, loans, notes, and bonds and from other long-term and short-term borrowings (other than overdrafts).

31 Financing cash outflows include:

(a) repayments of amounts borrowed (other than overdrafts);

(b) the capital element of finance lease rental payments;

(c) payments to reacquire or redeem the entity's shares; and

(d) payments of expenses or commissions on any issue of equity shares.

32 The amounts of any financing cash flows received from or paid to equity accounted entities should be disclosed separately.

Reconciliation to net debt

33 A note reconciling the movement of cash in the period with the movement in net debt should be given either adjoining the cash flow statement or in a note. The reconciliation is not part of the cash flow statement: if adjoining the cash flow statement, it should be clearly labelled and kept separate. The changes in net debt should be analysed from the opening to the closing component amounts showing separately, where material, changes resulting from:

(a) the cash flows of the entity;

(b) the acquisition or disposal of subsidiary undertakings;

(c) other non-cash changes; and

(d) the recognition of changes in market value and exchange rate movements.

Where several balance sheet amounts or parts thereof have to be combined to form the components of opening and closing net debt, sufficient detail should be shown to enable the cash and other components of net debt to be respectively traced back to the amounts shown under the equivalent captions in the balance sheet. A possible format for the analysis of net debt is provided in the examples in Appendix I.

Banks

34 Banks should include as cash only cash and balances at central banks and loans and advances to banks repayable on demand. The cash flow statement of a bank should include under operating activities receipts and payments relating to loans made to other entities. and cash flows relating to investments held for trading. A bank need not include a section on the management of liquid resources nor the reconciliation of cash flows to the movement in net debt. Appendix I contains an example of a cash flow statement for a bank.

Insurance companies and groups

35 The cash flow statement of an entity qualifying as an insurance company or group should include a section for cash flows relating to 'portfolio investments' rather than a section for cash flows relating to the 'management of liquid resources'. Instead of the analysis of the movement in net debt that is generally required, insurance companies and groups should provide an analysis of the movement in portfolio investments less financing, either adjoining the cash flow statement or in a note. The reconciliation is not part of the cash flow statement: if adjoining the cash flow statement, it should be clearly labelled and kept separate. The reconciliation of operating profit to net cash flow from operating activities should normally take profit or loss on ordinary activities before tax as its starting point. Appendix I contains an example of a cash flow statement for an insurance group.

36 Insurance companies and groups, other than mutual life assurance companies to which the FRS does not apply, should include the cash flows of their long-term business— long-term life, pensions and annuity businesses or their equivalents in relation to overseas operations—only to the extent of cash transferred and available to meet the obligations of the company or group as a whole. The note analysing the movements in the balance sheet amounts of portfolio investments and financing during the period should distinguish movements relating to the long-term business to the extent that these are included in the balance sheet amounts.

Exceptional and extraordinary items and cashflows

37 Where cash flows relate to items that are classified as exceptional or extraordinary in the profit and loss account they should be shown under the appropriate standard headings, according to the nature of each item. The cash flows relating to exceptional or extraordinary items should be identified in the cash flow statement or a note to it and the relationship between the cash flows and the originating exceptional or extraordinary item should be explained.

38 Where cash flows are exceptional because of their size or incidence but are not related to items that are treated as exceptional or extraordinary in the profit and loss account, sufficient disclosure should be given to explain their cause and nature.

Value Added Tax and other taxes

39 Cash flows should be shown net of any attributable Value Added Tax or other sales tax unless the tax is irrecoverable by the reporting entity. The net movement on the amount payable to, or receivable from, the taxing authority should be allocated to cash flows from operating activities unless a different treatment is more appropriate in the particular circumstances concerned. Where restrictions apply to the recoverability of such taxes, the irrecoverable amount should be allocated to those expenditures affected by the restrictions. If this is impracticable, the irrecoverable tax should be included under the most appropriate standard heading.

40 Taxation cash flows other than those in respect of the reporting entity's revenue and capital profits and Value Added Tax, or other sales tax, should be included within the cash flow statement under the same standard heading as the cash flow that gave rise to the taxation cash flow, unless a different treatment is more appropriate in the particular circumstances concerned.

Foreign currencies

41 Where a portion of a reporting entity's business is undertaken by a foreign entity, the cash flows of that entity are to be included in the cash flow statement on the basis used for translating the results of those activities in the profit and loss account of the reporting entity. The same basis should be used in presenting the movements in stocks, debtors and creditors in the reconciliation between operating profit and cash from operating activities. Where intragroup cash flows are separately identifiable and the actual rate of exchange at which they took place is known, that rate, or an approximation thereto, may be used to translate the cash flows in order to ensure that they cancel on consolidation. If the rate used to translate intragroup cash flows is not the actual rate, any exchange rate differences arising should be included in the effect of exchange rate movements shown as part of the reconciliation to net debt.

Hedging transactions

42 When a futures contract, forward contract, option contract or swap contract is accounted for as a hedge, the cash flows of the contract should be reported under the same standard heading as the transaction that is the subject of the hedge.

Groups

43 Cash flows that are internal to the group should be eliminated in the preparation of a consolidated cash flow statement. Where a subsidiary undertaking joins or leaves a group during a financial year the cash flows of the group should include the cash flows of the subsidiary undertaking concerned for the same period as that for which the group's profit and loss account includes the results of the subsidiary undertaking.

44 The cash flows of any equity accounted entity should be included in the group cash flow statement only to the extent of the actual cash flows between the group and the entity concerned, for example dividends received in cash and loans made or repaid.

Acquisitions and disposals of subsidiary undertakings

45 A note to the cash flow statement should show a summary of the effects of acquisitions and disposals of subsidiary undertakings indicating how much of the consideration comprised cash. Material effects on amounts reported under each of the standard headings reflecting the cash flows of a subsidiary undertaking acquired or disposed of in the period should be disclosed, as far as practicable. This information could be given by dividing cash flows between continuing and discontinued operations and acquisitions.

Material non-cash transactions

46 Material transactions not resulting in movements of cash of the reporting entity should be disclosed in the notes to the cash flow statement if disclosure is necessary for an understanding of the underlying transactions.

Restrictions on remittability

47 A note to the cash flow statement should identify the amounts and explain the circumstances where restrictions prevent the transfer of cash from one part of the business or group to another.

Comparative figures

48 Comparative figures should be given for all items in the cash flow statement and such notes thereto as are required by the FRS with the exception of the note to the statement that analyses changes in the balance sheet amounts making up net debt (or the equivalent note for insurance companies and groups) and the note of the material effects of acquisitions and disposals of subsidiary undertakings on each of the standard headings.

Date from which effective

49 The accounting practices set out in the FRS should be regarded as standard in respect of financial statements relating to accounting periods ending on or after 23 March 1997. Earlier adoption is encouraged but not required.

Withdrawal of FRS 1 (issued September 1991)

50 The FRS supersedes FRS 1 issued in September 1991.

EXPLANATION

Definitions

Cash flows

51 Cash flows are defined as increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid or near maturity, are included as cash. Overdrafts are included as cash because of their role as negative cash balances—a cheque drawn on an account can either reduce the cash balance or increase the overdraft. Although banks take large volumes of short-term and demand deposits, they do not usually have borrowings with the characteristics of an overdraft.

Liquid resources

52 The definition of liquid resources is expressed in general terms, emphasising the liquidity of the investment and its function as a readily disposable store of value rather than setting out a narrow range of investment instruments. Depending on the entity's policy (which should be disclosed), term deposits, government securities, loan stock, equities and derivatives may each form part of that entity's liquid resources, provided they meet the definition. Short-term deposits would also fall within the definition, though the requirement that they should be readily convertible into known amounts of cash at or close to their carrying amounts would tend to exclude any that are more than one year from maturity on acquisition.

Net debt

53 The objective of the reconciliation of cash flows to the movement in net debt is to provide information that assists in the assessment of liquidity, solvency and financial adaptability. Net debt is defined to include borrowings less liquid resources because movements in net debt so defined are widely used as indicating changes in liquidity, and therefore assist in assessing the financial strength of the entity. The definition excludes non-equity shares of the entity because, although these have features that may be similar to those of borrowings, they are not actually liabilities of the entity. The definition also excludes debtors and creditors because, while these are short-term claims on and sources of finance to the entity, their main role is as part of the entity's trading activities.

Scope

54 Most small reporting entities are exempt from the requirement to include a cash flow statement as part of their financial statements. This exemption does not extend to public companies or to banking companies, insurance companies, authorised persons under the Financial Services Act 1986,* or members of a group containing one or more of the above-mentioned entities. The scope of this exemption is currently being re-examined as part of a wider examination of the reporting requirements for small entities. However, the Board encourages small reporting entities to include a cash flow statement as part of their financial statements, if it would provide useful information to users of those financial statements and the benefits of the exercise outweigh the costs.

Classification of cashflows

55 In setting the conditions for netting cash flows, paragraph 9 permits the cash flows over the period of a single financing transaction to be reported net. A single financing transaction is one that fulfils the conditions in paragraph 35 of FRS 4 'Capital Instruments' that determine when committed facilities can be taken into account in determining the maturity of debt.

** In the UK. The equivalent reference in the Republic of Ireland is the Investment Intermediaries Act 1995.*

56 In order to improve the comparability of cash flow statements of different entities, paragraphs 11-31 give examples of certain standard subdivisions that should be separately disclosed, if material. Reporting entities are encouraged, however, to disclose additional information relevant to their particular circumstances. One form of segmentation that may often be useful is a division of cash flows from operating activities into those relating to continuing and to discontinued operations (as defined in FRS 3 'Reporting Financial Performance'). In some circumstances it may also be useful to divide cash flows in a way that reflects different degrees of access to the underlying cash balances—this may be of especial relevance in regulated industries such as the insurance industry.

57 Certain accounting standards, such as SSAP 13 'Accounting for research and development', SSAP 21 'Accounting for leases and hire purchase contracts', FRS 4 'Capital Instruments' and FRS 5 'Reporting the Substance of Transactions', specify how certain transactions are to be recognised and classified for financial reporting on the basis of the substance of the transaction. In order to achieve consistent treatment in the cash flow statement this FRS requires cash flows, too, to be classified according to the substance of the transaction giving rise to them. For example, cash flows relating to development costs that are capitalised would be included under 'capital expenditure'. Cash flows relating to finance leases are to be divided into the part relating to interest, to be classified under 'servicing of finance', and the part making up repayment of the capital amount, to be classified under 'financing'. Similarly, the cash flows relating to finance costs, as calculated by applying FRS 4, are to be classified under 'returns on investments and servicing of finance'. However, the Board believes that it is important to show the total of cash flows relating to interest paid in the cash flow statement. The FRS therefore requires interest paid to be included as servicing of finance, regardless of whether it is capitalised.

Classification of cash flows by standard heading

Operating activities

58 The FRS allows operating cash flows to be presented using either the direct or the indirect method. A cash flow statement presented under the direct method shows operating cash receipts and payments (including, in particular, cash receipts from customers, cash payments to suppliers and cash payments to and on behalf of employees), aggregating to the net cash flow from operating activities. Rather than reporting the individual component cash flows to arrive at the net cash inflow or outflow from operating activities, the cash flow statement under the indirect method derives the net cash inflow or outflow by means of a reconciliation from operating profit. The FRS requires the reconciliation even if the direct method is used. The reconciliation adjusts operating profit for non-cash charges and credits and brings in operating item cash flows relating to provisions, whether or not the provision was deducted in arriving at operating profit. Examples of such cash flows are redundancy payments falling under a provision for the termination of an operation or for a fundamental reorganisation or restructuring (paragraph 20a and b of FRS 3 'Reporting Financial Performance'), also operating item cash flows provided for on an acquisition.

59 In some businesses material debtors and creditors may arise in relation to the purchase and sale of investments, including investments forming part of liquid resources. The changes in such debtors and creditors should be included in the reconciliation of operating profit to the net cash flow from operating activities only to the extent that the purchase and sale of the investments giving rise to them form part of the operating activities of the entity.

Returns on investments and servicing of finance

60 Interest paid and received and dividends received may result from investing activities, the management of liquid resources, financing or in some cases operating activities. To the extent that entities such as banks, insurance companies or investment companies show interest received or paid and dividends received in their profit and loss accounts as part of their operating profit they should include related cash flows as part of their operating cash flows, unless the interest paid clearly relates to financing— for example, relating to a bank's subordinated loans—in which case it should be included under 'returns on investments and servicing of finance'.

Taxation

61 The taxation cash flows of a reporting entity in relation to revenue and capital profits may result from complex computations that are affected by the operating, investing and financing activities of an entity. The Board believes that it is not useful to divide taxation cash flows into constituent parts relating to the activities that gave rise to them because the apportionment will, in many cases, have to be made on an arbitrary basis. As taxation cash flows generally arise from activities in an earlier period, apportioning the taxation cash flows would in any event not necessarily report the taxation cash flows along with the transactions that gave rise to them. Accordingly, the Board believes that taxation cash flows in relation to revenue and capital profits should be disclosed in a separate section within the cash flow statement entitled 'taxation'.

Insurance companies and groups

62 One purpose of a cash flow statement is to provide information that assists in the assessment of the liquidity, solvency and financial adaptability of an entity. This objective, however, is of only limited application to an insurance company or group. In interpreting the information given by the cash flow statement of an insurance company or group, users should bear in mind that cash inflows of premiums to insurance companies may not increase their liquidity in the same way as cash received for interest or dividends because the receipt of premiums engenders provision requirements for future claims and reserve requirements for solvency.

Exceptional and extraordinary items and cash flows

63 The FRS requires cash flows relating to exceptional or extraordinary items to be identified and explained, to allow a user to gain an understanding of the effect of the underlying transactions on the cash flows. This requirement means that cash flows relating to reorganisation charges that are exceptional must be disclosed separately and explained. The FRS also requires identification of cash flows that are exceptional because of their size or incidence but are not related to items that are treated as exceptional or extraordinary in the profit and loss account. For a cash flow to be exceptional on the grounds of its size alone, it must be exceptional in relation to cash flows of a similar nature. A large prepayment against a pension liability is an example of a possible exceptional cash flow unrelated to an exceptional or extraordinary item in the profit and loss account.

Value Added Tax

64 The cash flows of an entity include Value Added Tax (VAT) where appropriate and thus strictly the various elements of the cash flow statement should include VAT. However, this treatment does not take into account the fact that normally VAT is a short-term timing difference as far as the entity's overall cash flows are concerned and the inclusion of VAT in the cash flows may distort the allocation of cash flows to standard headings. The Board believes that, in order to avoid this distortion and to show cash flows attributable to the reporting entity's activities, cash flows should be shown net of sales taxes and the net movement on the amount payable to, or receivable from, the taxing authority should be allocated to cash flows from operating activities unless a different treatment is more appropriate in the particular circumstances concerned.

Foreign currencies

65 Because of the complementary nature of the profit and loss account and the cash flow statement in reflecting different but related aspects of an entity's performance in the period, the standard requires the cash flow statement to be translated using the same rate as the profit and loss account, unless the actual rate at the date of the transaction is used. Cash flows between members of a group should not be included in the consolidated cash flow statement. However, these cash flows may not cancel unless the actual rate at the date of transfer is used for translation. The FRS allows the actual rate to be used where intragroup cash flows are separately identifiable and the actual rate is known.

Hedging transactions

66 Entities may undertake hedging transactions that result in cash flows. The Board is considering as part of its project on derivatives and other financial instruments the way in which such transactions should be reflected in financial statements. As an interim measure it has decided to confine the recognition of hedges in cash flow statements. An example of the presentation of a hedging transaction in accordance with the FRS would be the inclusion under 'returns on investments and servicing of finance' of the cash flows of interest rate swaps held as a hedge of an entity's own debt.

Material non-cash transactions

67 Consideration for transactions may be in a form other than cash. Since the purpose of a cash flow statement is to report cash flows, non-cash transactions should not be reported in a cash flow statement. However, to obtain a full picture of the alterations in financial position caused by the transactions for the period, separate disclosure of material non-cash transactions (such as shares issued for the acquisition of a subsidiary, the exchange of major assets or the inception of a finance lease contract) is also necessary.

Restrictions on remittability

68 The note identifying the amounts and explaining the circumstances where restrictions prevent the transfer of cash from one part of the business or group to another should refer only to circumstances where access is severely restricted by external factors such as strict exchange control rather than where the sole constraint is a special purpose designated by the reporting entity itself. Depending on the regulatory environment, cash balances in escrow, deposited with a regulator or held within an employee share ownership trust may be subject to restrictions on remittability that should be disclosed.

ADOPTION OF FRS 1 (REVISED 1996) BY THE BOARD

Financial Reporting Standard 1 (Revised 1996) - 'Cash Flow Statements' was approved for issue by the nine members of the Accounting Standards Board.

Sir David Tweedie (Chairman)

Allan Cook (Technical Director)

David Allvey

Ian Brindle

John Coombe

Raymond Hinton

Huw Jones

Professor Geoffrey Whittington

Ken Wild

CONTENTS OF APPENDICES

EXAMPLE I **XYZ LIMITED**
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1996

Reconciliation of operating profit to net cash inflow from operating activities

	£000	£000
Operating profit		6,022
Depreciation charges		899
Increase in stocks		(194)
Increase in debtors		(72)
Increase in creditors		234
Net cash inflow from operating activities		6,889

CASH FLOW STATEMENT

Net cash inflow from operating activities	6,889
Returns on investments and servicing of finance (note 1)	2,999
Taxation	(2,922)
Capital expenditure	(1,525)
	5,441
Equity dividends paid	(2,417)
	3,024
Management of liquid resources (note l)	(450)
Financing (note l)	57
Increase in cash	**2,631**

Reconciliation of net cash flow to movement in net debt (note 2)

Increase in cash in the period	**2,631**	
Cash to repurchase debenture	149	
Cash used to increase liquid resources	450	
Change in net debt*		**3,230**
Net debt at 1.1.96		**(2,903)**
Net funds at 31.12.96		**327**

NOTES TO THE CASH FLOW STATEMENT

Note 1- GROSS CASH FLOWS

	£000	£000
Returns on investments and servicing of finance		
Interest received	3,011	
Interest paid	(12)	2,999
Capital expenditure		
Payments to acquire intangible fixed assets	(71)	
Payments to acquire tangible fixed assets	(1,496)	
Receipts from sales of tangible fixed assets	42	
		(1,525)
Management of liquid resources		
Purchase of treasury bills	(650)	
Sale of treasury bills	200	
		(450)
Financing		
Issue of ordinary share capital	211	
Repurchase of debenture loan	(149)	
Expenses paid in connection with share issues	(5)	
		57

Note 2 - ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 1996 £000	**Cash flows £000**	**Other changes £000**	**At 31 Dec 1996 £000**
Cash in hand, at bank	42	847		889
Overdrafts	(1,784)	1,784		
		2,631		
Debt due within I year	(149)	149	(230)	(230)
Debt due after I year	(1,262)		230	(1,032)
Current asset investments	250	450		700
TOTAL	(2,903)	3,230	–	327

** In this example all changes in net debt are cash flows*

EXAMPLE 2 ***XYZ*** **GROUP PLC**
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1996

		£000	£000
Cash flow from operating activities (note 1)			15,672
Dividends received from associates			350
Returns on investments and servicing of finance* (note 2)			(2,239)
Taxation			(2,887)
Capital expenditure and financial investment (note 2)			(865)
Acquisitions and disposals (note 2)			(17,824)
Equity dividends paid			(2,606)
Cash outflow before use of liquid resources and financing			**(10,399)**
Management of liquid resources (note 2)			700
Financing (note 2) -	Issue of shares	600	
	Increase in debt	2,347	
			2,947
Decrease in cash in the period			**(6,752)**

Reconciliation of net cash flow to movement in net debt (note 3)

Decrease in cash in the period	**(6,752)**	
Cash inflow from increase in debt and lease financing	(2,347)	
Cash inflow from decrease in liquid resources	(700)	
Change in net debt resulting from cash flows		(9,799)
Loans and finance leases acquired with subsidiary		(3,817)
New finance leases		(2,845)
Translation difference		643
Movement in net debt in the period		**(15,818)**
Net debt at 1.1.96		**(15,215)**
Net debt at 31.12.96		**(31,033)**

**This heading would inlcude any dividends received other than those from equity accounted entities included in operationg activites.*

NOTES TO THE CASH FLOW STATEMENT

Note 1- RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	£000	Continuing £000	Discontinued £000	Total £000
Operating profit		18,829	(1,616)	17,213
Depreciation charges		3,108	380	3,488
Cash flow relating to previous year restructuring provision (note 4)			(560)	(560)
Increase in stocks		(11,193)	(87)	(11,280)
Increase in debtors		(3,754)	(20)	(3,774)
Increase in creditors		9,672	913	10,585
Net cash inflow from continuing operating activities		16,662		
Net cash outflow in respect of discontinued activities			(990)	
Net cash inflow from operating activities				15,672

Note 2 - ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	£000	£000
Returns on investments and servicing of finance		
Interest received	508	
Interest paid	(1,939)	
Preference dividend paid	(450)	
Interest element of finance lease rental payments	(358)	
Net cash outflow for returns on investments and servicing of finance		(2,239)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(3,512)	
Sale of trade investment	1,595	
Sale of plant and machinery	1,052	
Net cash outflow for capital expenditure and financial investment		(865)
Acquisitions and disposals		
Purchase of subsidiary undertaking	(12,705)	
Net overdrafts acquired with subsidiary	(5,516)	
Sale of business	4,208	
Purchase of interest in a joint venture	(3,811)	
Net cash outflow for acquisitions and disposals		(17,824)

	£000	£000
Management of liquid resources*		
Cash withdrawn from 7 day deposit	200	
Purchase of government securities	(5,000)	
Sale of government securities	4,300	
Sale of corporate bonds	1,200	
Net cash inflow from management of liquid resources		700
Financing		
Issue of ordinary share capital		600
Debt due within a year:		
increase in short-term borrowings	2,006	
repayment of secured loan	(850)	
Debt due beyond a year:		
new secured loan repayable in 2000	1,091	
new unsecured loan repayable in 1998	1,442	
Capital element of finance lease rental payments	(1,342)	
		2,347
Net cash inflow from financing		2,947

Note 3 - ANALYSIS OF NET DEBT

	At 1 Jan 1996	**Cash Flow**	**Acquisition** (excl. cash and overdrafts)**	**Other non-cash changes**	**Exchange movement**	**At 31 Dec 1996**
	£000	£000	£000	£000	£000	£000
Cash in hand, at bank	235	(1,250)			1,392	377
Overdrafts	(2,528)	(5,502)			(1,422)	(9,452)
		(6,752)				
Debt due after 1 yr	(9,640)	(2,533)	(1,749)	2,560	(792)	(12,154)
Debt due within 1 yr	(352)	(1,156)	(837)	(2,560)	1,465	(3,440)
Finance leases	(4,170)	1,342	(1,231)	(2,845)		(6,904)
		(2,347)				
Current asset investments	1,240	(700)				540
TOTAL	(15,215)	(9,799)	(3,817)	(2,845)	643	(31,033)

Note 4 - CASH FLOW RELATING TO EXCEPTIONAL ITEMS

The operating cash outflows include under discontinued activities an outflow of £560,000, which relates to the £1,600,000 exceptional provision for a fundamental restructuring made in the 1995 accounts.

** XYZ Group PLC includes as liquid resources term deposits of less than a year, government securities and AA rated corporate bonds.*

***This column would include any net debt (excluding cash and overdrafts) disposed of with a subsidiary undertaking.*

Note 5 - MAJOR NON-CASH TRANSACTIONS

a. During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £2,845,000.

b. Part of the consideration for the purchases of subsidiary undertakings and the sale of a business that occurred during the year comprised shares and loan notes respectively. Further details of the acquisitions and the disposal are set out below.

Note 6 - PURCHASE OF SUBSIDIARY UNDERTAKINGS

	£000
Net assets acquired	
Tangible fixed assets	12,194
Investments	1
Stocks	9,384
Debtors	13,856
Taxation recoverable	1,309
Cash at bank and in hand	1,439
Creditors	(21,715)
Bank overdrafts	(6,955)
Loans and finance leases	(3,817)
Deferred taxation	(165)
Minority shareholders' interests	(9)
	5,522
Goodwill	16,702
	22,224
Satisfied by	
Shares allotted	9,519
Cash	12,705
	22,224

The subsidiary undertakings acquired during the year contributed £1,502,000 to the group's net operating cash flows, paid £1,308,000 in respect of net returns on investments and servicing of finance, paid £522,000 in respect of taxation and utilised £2,208,000 for capital expenditure.

Note 7 - SALE OF BUSINESS

	£000
Net assets disposed of	
Fixed assets	775
Stocks	5,386
Debtors	474
	6,635
Loss on disposal	(1,227)
	5,408
Satisfied by	
Loan notes	1,200
Cash	4,208
	5,408

The business sold during the year contributed £200,000 to the group's net operating cash flows, paid £252,000 in respect of net returns on investments and servicing of finance, paid £145,000 in respect of taxation and utilised £209,000 for capital expenditure.

EXAMPLE 3 _XYZ_ INTERNATIONAL BANK PLC
CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 DECEMBER 1996

Reconciliation of operating profit to net operating cash flows

	£m	£m
Operating profits		223.6
Increase in accrued income and prepayments		(161.2)
Increase in accruals and deferred income		118.1
Provision for bad and doubtful debts		20.8
Loans and advances written off net of recoveries		(50.7)
Depreciation and amortisation		42.4
Interest on subordinated loan added back		9.9
Profits on sale of investment debt and equity securities		(1.1)
Provisions for liabilities and charges		3.4
Other non-cash movements		6.3
Net cash flow from trading activities		211.5
Net increase in collections/transmissions	(81.1)	
Net increase in loans and advances to banks and customers	(1,419.1)	
Net increase in deposits by banks and customer accounts	2,542.8	
Net increase in debt securities in issue	39.9	
Net increase in non-investment debt and equity securities	(197.3)	
Net increase in other assets	(18.7)	
Net increase in other liabilities	18.6	
		885.1
Net cash inflow from operating activities		1,096.6

CASH FLOW STATEMENT

Net cash inflow from operating activities	**1,096.6**
Dividends from Associates	10.3
Returns on investments and servicing of finance (note 1)	(20.5)
Taxation	(88.0)
Capital expenditure and financial investment (note 1)	(90.3)
	908.1
Acquisitions and disposals (note 1)	15.1
Equity dividends paid	(57.2)
	866.0
Financing (note 1)	6.0
Increase in cash	**872.0**

NOTES TO THE CASH FLOW STATEMENT

Note 1- GROSS CASH FLOWS

	£m	£m
Returns on investments and servicing of finance		
Interest paid on loan capital	(9.9)	
Preference dividends paid	(10.4)	
Dividends paid to minority shareholders in subsidiary undertaking	(0.2)	
		(20.5)
Capital expenditure and financial investment		
Purchase of investment securities	(14.7)	
Sale and maturity of investment securities	5.7	
Purchase of tangible fixed assets	(121.4)	
Sales of tangible fixed assets	40.1	
		(90.3)
Acquisitions and disposals		
Investment in associated undertaking	(56.1)	
Sale of investment in associated undertaking	71.2	
		15.1
Financing		
Issue of ordinary share capital	18.3	
Repayments of loan capital	(12.3)	
		6.0

Note 2 - ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	At 1.1.96 £m	Cash flow £m	At 31.12.96 £m
Cash and balances at central banks	1,342.9	148.5	1491.4
Loans and advances to other banks repayable on demand	23,743.6	723.5	24,467.1
	25,086.5	872.0	25,958.5

The group is required to maintain balances with the Bank of England which, at 31 December 1996, amounted to £54.0 million (1995 - £43 3 million).

Certain subsidiary undertakings of the group are required by law to maintain reserve balances with the Federal Reserve Bank in the United States of America. Such reserve balances amounted to $30.4 million at 31 December 1996 (1995 - $28.6 million).

Note 3 - ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital £m	Loan capital £m
Balances at I January 1996	435.3	l,248.1
Effect of foreign exchange differences		(115.7)
Cash inflow/(outflow) from financing	18.3	(12.3)
Other movements	(0.1)	
Balances at 31 December 1996	453.5	1,120.1

EXAMPLE 4 **XYZ INSURANCE GROUP PLC**
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1996

Profit on ordinary activities before tax

	£m	£m
Operating profit before taxation after interest		300.2
Depreciation of tangible fixed assets	31.6	
Increase in general insurance technical provisions	198.5	
Decrease in amounts owed by agents	18.1	
Profits relating to long-term business	(135.3)	
Cash received from long-term business (note 1)	74.0	
Loan interest expense	38.7	
		225.6
Net cash inflow from operating activities		525.8

CASH FLOW STATEMENT

Net cash inflow from general business	484.4	
Shareholders' net cash inflow from long-term business	74.0	
Other operating cash flows attributable to shareholders	(32.6)	
Net cash inflow from operating activities		**525.8**
Dividends from associates		22.1
Interest paid (note 2)		(41.9)
Taxation paid		(54.2)
Capital expenditure		(52.1)
Acquisitions and disposals (note 2)		(313.5)
Equity dividends paid		(135.3)
Financing (note 2)		424.6
		375.5

CASH FLOWS WERE INVESTED AS FOLLOWS:

Increase in cash holdings		**22.8**
Net portfolio investment		
(not including long-term business) (note 2)		
Ordinary shares (note 2)	127.2	
Fixed income securities (note 2)	27.9	
Investment properties (note 2)	197.6	
		352.7
Net investment of cash flows		**375.5**

Movement in opening and closing portfolio investments net of financing (note 3)

	£m	£m	£m
Net cash inflow for the period	**22.8**		
Cash flow			
Portfolio investments	352.7		
Increase in loans	(213.9)		
Movement arising from cash flows		161.6	
Movement in long-term business		82.8	
Acquired with subsidiary		145.1	
Changes in market values and exchange rate effects		142.6	
Total movement in portfolio investments net of financing			532.1
Portfolio investments net of financing at 1.1.96			**2,692.3**
Portfolio investments net of financing at 31.12.96			**3,224.4**

NOTES TO THE CASH FLOW STATEMENT

Note 1 - CASH FLOWS OF THE LONG-TERM BUSINESS (OPTIONAL)

	£m
Premiums received	497.3
Claims paid	(326.1)
Net portfolio investments	(66.9)
Other net cash flows	(14.4)
Net cash inflow before retention and transfers	89.9
Transferred to general fund	(74.0)
Cash retained in long-term business	15.9

Note 2 - ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	£m	£m
Interest paid		
Interest paid	(35.2)	
Interest element of finance lease rental payments	(6.7)	
		(41.9)
Acquisitions and disposals		
Acquisition of subsidiary	(330.4)	
Net cash acquired with subsidiary	16.9	
		(313.5)
Financing		
Issue of ordinary share capital	210.7	
Repayment of long-term loan	(232.7)	
New fixed rate loan repayable 2000	446.6	
Net cash inflow from financing		424.6

	£m	£m
Portfolio investments		
Purchase of ordinary shares	(869.5)	
Purchase of fixed income securities	(1,325.3)	
Purchase of investment property	(197.6)	
Sale of ordinary shares	742.3	
Sale of fixed income securities	1,297.4	
Net cash outflow on portfolio investments		(352.7)

Note 3 - MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 Jan 1996*	Cash Flow	Changes in long-term business	Acquired with subsidiary (excl. cash)	Changes to market value and currencies	Other changes	At 31 Dec 1996*
	£m	£m	£m	£m	£m	£m	£m
Cash in hand, at bank	15.3	22.8	15.9		(2.3)		51.7
Ordinary shares	1,258.1	127.2	25.1	128.4	77.2		1,616.0
Fixed income securities	2,246.7	27.9	41.8	122.8	36.4		2,475.6
Investment properties	390.5	197.6			(12.4)		575.7
		352.7					
Loans due within 1 year	(325.7)	232.7		(19.7)	16.1	(31.2)	(127.8)
Loans due after I year	(892.6)	(446.6)		(86.4)	27.6	31.2	(1,366.8)
		(213.9)					
TOTAL	2,692.3	161.6	82.8	145.1	142.6	–	3,224.4

* These amounts are the same as the balance sheet amounts reported by the insurance group and include amounts relating to long-term business which are required by the EC Insurance Accounts Directive to be consolidated.

Note 4 - PURCHASE OF SUBSIDIARY UNDERTAKING

	£m	£m
Net cash acquired with subsidiary undertaking	16.9	
Portfolio investments less financing acquired with subsidiary undertaking	145.1	
Other net assets	108.1	
		270.l
Goodwill		60.3
		330.4
Settled by :		
Payment of cash		330.4

The subsidiary undertaking acquired during the year contributed £57.4m to the group's net operating cash flows, paid £6.2m in respect of interest, paid £4.9m in respect of taxation and utilised £13.2m for capital expenditure.

APPENDIX II

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

1 The International Accounting Standard on cash flows is IAS 7 'Cash Flow Statements'. IAS 7 requires an entity to present its cash flows from operating, investing and financing activities. The cash flows to be reported are inflows and outflows of cash and cash equivalents leading to the reporting of the change in cash and cash equivalents for the period. For the reasons set out in Appendix III the FRS has modified the original FRS 1, which required a cash flow statement similar to that prepared under IAS 7.

The main difference between the standards

2 The FRS defines cash flows to include only movements in cash (cash in hand and deposits repayable on demand, less overdrafts). IAS 7 defines cash flows as movements in both cash and cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. In the FRS cash flows relating to cash equivalents are to be included in the new 'management of liquid resources' section. The narrower definition of cash in the FRS is consistent with the definition of 'cash' in IAS 7.

Minor differences between the standards

3 The requirements of the FRS also differ from IAS 7 in the following ways:

- IAS 7 does not have any exemptions from its scope. The FRS gives exemption to small entities, subsidiary undertakings 90 per cent of whose voting rights are controlled within the group, mutual life assurance companies, pension funds and certain open-ended investment funds. Building societies that prepare a statement of source and application of funds in the prescribed format are permitted two years' exemption from the effective date of the FRS.

- IAS 7 (paragraph 22) allows the following cash flows to be reported net:

  (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer 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.

  Cash flows fulfilling the conditions for net reporting in paragraph 9 of the FRS would also fulfil the conditions in paragraph 22(b) of IAS 7. The FRS has no equivalent permission for cash flows relating to customers to be shown net, since for some businesses the cash flows relating to customers can be an important source of finance.

- IAS 7 classifies cash flows under three headings: 'cash flows from operating activities', 'cash flows from investing activities', and 'cash flows from financing activities'. The FRS specifies a fuller analysis using eight headings.

- Unlike the FRS, IAS 7 does not require a reconciliation of the movement in cash flows to the movement in net debt.

- IAS 7 requires cash flows of a foreign subsidiary to be translated at the exchange rates prevailing at the dates of the cash flows. A weighted average exchange rate may be used that approximates to the actual rate. The FRS states that cash flows should be translated at the same rate as the profit and loss account but allows the use of actual rates or an approximation thereto for intergroup transactions.

APPENDIX III

THE DEVELOPMENT OF THE FRS

History

1 In September 1991 the Board issued FRS 1 'Cash Flow Statements' to replace SSAP 10 'Statements of source and application of funds'. The requirement for a cash flow statement instead of a statement of source and application of funds represented a radical change in financial reporting. In March 1994, when companies had had two years' practical experience with FRS 1, the Board called for comment on the functioning of the standard. The revised FRS is based on the subsequent proposals in FRED 10 'Revision of FRS 1 "Cash Flow Statements"' and the comments received on them.

The function of a cashflow statement

2 A cash flow statement has increasingly come to be recognised as a useful addition to the balance sheet and profit and loss account in their portrayal of financial position, performance and financial adaptability. Historical cash flow information gives an indication of the relationship between profitability and cash-generating ability, and thus of the quality of the profit earned. In addition, analysts and other users of financial information often, formally or informally, develop models to assess and compare the present value of the future cash flows of entities. Historical cash flow information could be useful to check the accuracy of past assessments and indicate the relationship between the entity's activities and its receipts and payments

3 Assessing the opportunities and risks of an entity's business and the stewardship of its management requires an understanding of the nature of its business, which includes the way it generates and uses cash. A cash flow statement in conjunction with a profit and loss account and balance sheet provides information on financial position and performance as well as liquidity, solvency and financial adaptability. It is, therefore, important that the cash flow statement should cross-refer to the information given in the other primary statements. For this reason FRS 1 required a reconciliation of operating profit to cash flow from operating activities and some reconciliation with balance sheet figures. The revised FRS clarifies the link between cash flows and balance sheet movements by requiring a reconciliation between the cash flow statement and components of 'net debt', a widely used tool of financial analysis.

4 Although a cash flow statement shows information about the reporting entity's cash flows in the reporting period, it provides incomplete information for assessing future cash flows. Some cash flows result from transactions that took place in an earlier period and some cash flows are expected to result in further cash flows in a future period. Accordingly, cash flow statements should normally be used in conjunction with profit and loss accounts and balance sheets when making an assessment of future cash flows.

5 The Board specified a cash flow statement in FRS 1 rather than continue with a funds flow statement, which was usually based on changes in working capital, for the reasons given below.

(a) Funds flow data based on movements in working capital can obscure movements relevant to the liquidity and solvency of an entity. For example, a significant decrease in cash available may be masked by an increase in stock or debtors. Entities may, therefore, run out of cash while reporting increases in working capital. Similarly, a decrease in working capital does not necessarily indicate a cash shortage and a danger of failure.

(b) As cash flow monitoring is a normal feature of business life and not a specialised accounting technique, cash flow is a concept that is more widely understood than are changes in working capital.

(c) Cash flows can be a direct input into a business valuation model and, therefore, historical cash flows may be relevant in a way not possible for funds flow data.

(d) A funds flow statement is based largely on the difference between two balance sheets. It reorganises such data, but does not provide new data. The cash flow statement and associated notes required by the FRS may include data not disclosed in a funds flow statement.

Changes implemented by the revised FRS

General comments

6 The comments received on the functioning of FRS 1 indicated widespread support for a cash flow statement but also a belief that the statements produced by applying FRS 1 fell short in a number of respects from what could be achieved. The Board concluded that FRS 1 could be improved to make the cash flow statement a better means of communication between preparers and users of financial Statements. FRED 10's proposals for amending the cash flow standard were generally well received by the commentators and have largely been taken up in the revised FRS.

Definition of cash flows and introduction of 'management of liquid resources' section

7 The issue most often raised in the comments on FRS 1 was its definition of cash equivalents, although there was no consensus on an alternative. The definition was criticised as not reflecting the way in which businesses were managed: in particular, the requirement that to be a cash equivalent an investment had to be within three months of maturity when acquired was considered unrealistic. The definition of cash equivalents had also been a controversial issue in the comments on ED 54, the exposure draft preceding FRS 1. As a result of these comments the Board proposed to omit cash equivalents from cash flows and use only cash (cash in hand and deposits repayable on demand, less overdrafts) as the basis of the cash flows reported in a cash flow statement. The proposal received widespread support and the revised FRS is based on a similar definition of cash.

8 To reflect better the way that entities manage their cash and similar assets and to distinguish cash flows in relation to this activity from other investment decisions, the revised FRS has a section dealing separately with the cash flows arising from the management of liquid resources. Liquid resources are to be identified by each reporting entity according to its policy (which should be disclosed) with the proviso that they include only current asset investments. Cash flows relating to items such as short-term deposits and other cash equivalents under the original standard are to be reported as cash flows under 'management of liquid resources'. The comments supported the FRED'S proposal to introduce a section for cash flows relating to the management of liquid resources.

9 The adoption of a strict cash approach and introduction of the section for cash flows relating to the management of liquid resources have the following advantages. The approach:

(a) avoids an arbitrary cut-off point in the definition of cash equivalents;

(b) distinguishes cash flows arising from accumulating or using liquid resources from those for other investing activities; and

(c) provides information about an entity's treasury activities that was not previously available to the extent that the instruments dealt in fell within the definition of cash equivalents.

Information about liquidity

10 The FRS sets out in its objective the twin purposes of a cash flow statement: to report the cash generation and cash absorption of an entity; and to provide information to assist users to assess its liquidity, solvency and financial adaptability. The majority of those commenting on FRED 10 accepted this objective but a minority believed that a cash flow statement cannot reflect appropriately changes in an entity's liquidity because it focuses only on changes in an entity's cash. Those expressing this concern usually supported a change in focus to the movement in an entity's net debt or net funds.

11 The FRS retains the focus on cash rather than using a broader measure such as net debt because the focus on cash:

- highlights the significant components of cash that make up a cash flow statement;
- shows as cash flow movements transactions that would not be captured by a broader measure such as net debt in any case where the transaction involved an exchange of items that both fell within that broader measure;
- facilitates comparison of the cash flow performances of different entities; and
- is in line with the international focus on cash.

Recognising that movements in net debt can also provide information on an entity's liquidity, solvency and financial adaptability and are often used in discussions of performance, the revised FRS requires an analysis of the movement in net debt or net funds in the period to be given adjoining the cash flow statement or as a note to it.

Scope

12 In developing the FRS the Board has considered the comments on the scope of FRS 1 and FRED 10. Almost one-third of those commenting on FRS 1 mentioned aspects of its scope.

(a) Small entities
At the date of issuing the revised FRS the Board has in hand a separate project reviewing the application of accounting standards to small entities. It will decide in the course of that project whether to continue the exemption of small companies from the requirement to provide a cash flow statement.

(b) Subsidiary undertakings
The FRS exempts wholly-owned subsidiary undertakings and those where 90 per cent of the voting rights in the subsidiary undertaking are controlled within its group.

Where the parent group holds 90 per cent of the voting rights in a subsidiary undertaking it is likely that the liquidity, solvency and financial adaptability of the subsidiary undertaking will essentially depend on the group rather than its own cash flows. The exemption is conditional on consolidated financial statements in which the subsidiary undertaking is included being publicly available. The original standard exempted wholly-owned subsidiary undertakings from the requirement to provide a cash flow statement subject to a number of further conditions and the extension and simplification of the exemption was generally supported when proposed by the FRED .

(c) Pension funds
The FRS makes it clear that pension funds are exempt from preparing a cash flow statement because such a statement would add little to the information already available from the fund account and net assets statement.

(d) Investment funds
The FRS exempts open-ended investment funds from preparing a cash flow statement if three conditions are fulfilled, relating to the liquidity of investments held, whether they are held at market value and whether a statement of changes in net assets is provided. Where these conditions are met a cash flow statement for an open-ended investment fund would be of very limited additional use. Investment funds are defined in paragraph 2 of the FRS using three of the conditions for qualifying as an investment

company in companies legislation. A fourth condition in the legislation requires that capital profits should not be distributed. The Board agreed with those who commented that this condition was not relevant to the exemption and that its inclusion in the standard would have unreasonably excluded unauthorised investment companies that complied with all the relevant conditions.

Format of cash flow statement

13 The Board believes that, to achieve the objectives of cash flow reporting by presenting the information in a way that is useful and easy to understand, individual cash flows should be classified according to the activity that gave rise to them. To promote comparability amongst different entities, the FRS prescribes the following standard headings: 'operating activities', 'returns on investments and servicing of finance', 'taxation', 'capital expenditure and financial investment', 'acquisitions and disposals', 'equity dividends paid', 'management of liquid resources' and 'financing'. In general the commentators supported proposals in FRED 10 to split 'investing activities' into 'capital expenditure' and 'acquisitions and disposals' and reporting dividends paid after these (in the FRS only equity dividends are included below acquisitions and disposals because the Board accepted the arguments of some commentators that non-equity dividends should be reported alongside interest paid). Except for insurance companies, the examples use a format that results in a residual amount of the increase or decrease in cash during the period. This format was preferred by those consulted on this issue, although they did not want the presentation to be mandatory. The FRS therefore follows FRED 10 in allowing reporting entities to choose the format of their cash flow statements, provided these comply with the requirements for classification and order.

14 Both in the consultation on the original cash flow standard and in that on the proposals in FRED 10 some commentators requested that the format of the cash flow statement should be changed to highlight the free cash flows of an entity. There were several interpretations of the exact composition of 'free cash flows'—indeed the commentators themselves suggested several different definitions—but a key issue was to distinguish cash flows for investing to maintain the business from cash flows for investing to expand the business. The Board believes that it is not feasible for an accounting standard to set out how to distinguish expenditure for expansion from expenditure for maintenance. As proposed in FRED 10, the FRS requires cash flows to be analysed into those relating to capital expenditure and those relating to acquisitions and disposals. This distinction should not be interpreted as reflecting on the one hand maintenance expenditure and on the other expenditure for expansion because, depending on the circumstances, these may be included under either heading.

Gross or net cash flows

15 To allow preparers flexibility to emphasise the relevant information for their entities as they wish, the FRS allows the gross cash flows to be shown either in the cash flow statement or in a note. The FRS also allows net reporting for cash flows relating to the management of liquid resources and financing:

(a) where there is in substance a single financing transaction that fulfils the conditions in paragraph 35 of FRS 4 'Capital Instruments' (determining when committed facilities can be taken into account in determining the maturity of debt); or

(b) where the inflows and outflows are due to short maturities and high turnover occurring from rollover or reissue.

Condition (b) would allow the netting of inflows and outflows relating to a constantly renewed short-term facility or a commercial paper programme.

16 Several commentators on the original cash flow standard were concerned about whether gross presentation was appropriate for all cash flows because the volume of some investing or financing transactions was so large that their disproportionate size tended to swamp the other cash flows reported. Other commentators noted that the costs of collecting information on gross cash flows could be high while they doubted the value of that information. FRED 10 proposed that the gross amounts should be shown, in a note if preferred, for all cash flows (other than operating cash flows under the indirect method). A minority of those commenting on FRED 10 also raised concerns with the requirement for gross cash flows even in the notes. However, the Board consulted users, who confirmed that they valued the disclosure of gross amounts. The requirement for gross cash flows therefore is retained in the FRS, except that only net amounts need be shown in relation to rollover and reissue transactions. The international standard allows cash flows to be shown net where turnover is quick, amounts large and maturities short.

Classification of cash flows

17 The FRS requires that a cash flow should be classified according to the substance of the transaction or event that gave rise to it. The substance of a transaction may be determined by applying an accounting standard (for example, SSAP 21 'Accounting for leases and hire purchase contracts', FRS 4 'Capital Instruments' or FRS 5 'Reporting the Substance of Transactions'). The approach based on substance should result in transactions and events being treated on the same basis in cash flow statements as in the other primary statements where treatment is also determined by substance. However, to give a complete picture of interest cash flows in a period, the FRS requires all interest cash flows to be reported under servicing of finance, even if some interest is capitalised in the other financial statements.

Direct or indirect cashflows

18 In developing FRS 1 the Board considered the respective merits of the so-called 'direct' and 'indirect' methods for reporting net cash flow from operating activities. The principal advantage of the direct method is that it shows operating cash receipts and payments. Knowledge of the specific sources of cash receipts and the purposes for which cash payments were made in past periods may be useful in assessing future cash flows. However, the Board noted that it did not believe **that in all cases the benefits** to users of this information outweighed the costs to the reporting entity of providing it and, therefore, did not require the information to be given. The Board remains of this view, and the FRS continues to encourage the direct method only where the potential benefits to users outweigh the costs of providing it.

Reconciliation of operating profit to operating cashflows

19 The FRS permits the reconciliation of operating profit to operating cash flows to be shown either adjoining the cash flow statement, if it is separately identified and clearly labelled, or as a note. Although many commentators welcomed the proposal in FRED 10 to allow the reconciliation to appear above the cash flow statement, others believed the effect would be to detract from the emphasis on cash flows by wedging the statement itself between two reconciliations—one to operating profit, the other to net debt—neither of which represented cash flows. While not prohibiting such a presentation, the wording in the FRS would also permit both reconciliations to follow the primary statement. Some commentators were concerned about how cash flows in relation to provisions should be classified in cash flow statements. The FRS makes it clear that cash flows from operating activities should include cash flows in respect of operating items in relation to any provision, whether on acquisitions, or on termination or for a fundamental reorganisation or restructuring (under paragraph 20a and b of FRS 3).

Banks

20 The Board has discussed the application of the requirement for a cash flow statement with representatives of the banking industry. The banks had argued for exemption during the development of FRS 1 on the basis that a bank's cash is its stock-in-trade and that more useful information would be given by a statement dealing with the capital resources available to the bank. The Board agreed that capital resources were an important indicator of the solvency and financial adaptability of financial institutions, but also believed that a cash flow statement could provide users of financial statements published by banks with useful information on the sources of cash and how it had been utilised. The Board remains of the view that cash flow statements for banks contain information on their generation and use of cash that may be useful to the users of their financial statements, and the FRS contains no exemption for banks.

21 Example 3 in Appendix I shows a cash flow statement for a bank. The special nature of banking and its regulation is recognised in the format headings and by splitting the cash flows from operating activities to show separately the cash flows from trading. A bank may hold a wide range of investments of different maturities for trading or investment and manage its liquidity in relation to all its assets and liabilities. It is therefore difficult to make a meaningful distinction by attempting to identify cash flows that relate to the management of a bank's liquid resources. Banking entities are not required to provide a reconciliation to net debt because, given the nature of their business, changes in net debt have limited meaning. Other measures, such as regulatory capital ratios, may give a better appreciation of a bank's solvency and financial adaptability.

Building societies

22 FRED 10 proposed that building societies should prepare cash flow statements on the same basis as banks and that their existing exemption should be ended. The proposal depended on changes in the legislation on financial reporting by building societies to make it effective. The Board still believes that the proposals in FRED 10 were correct, given the similarity and competition between the banks and building societies. However, the FRS has extended the existing exemption for building societies for a further two years to develop a consensus on cash flow statements and related aspects of financial reporting for banks and building societies.

Insurance companies and groups

23 In developing the FRS the Board considered the application of FRS 1 to insurance companies and groups. Comments from the insurance industry had raised several issues that were believed to arise because of the special nature of the business. A general issue raised was the meaning of a cash flow statement for an insurance company. The special implications of cash flow statements for insurance companies are discussed in paragraph 62 of the Explanation. The FRS encourages segmentation of the cash flows to assist users to understand the nature of the reporting entity's cash flows and the relationship between them. One suggestion is to use segmentation to reflect different degrees of access to cash balances. This would allow insurance companies to divide their businesses into segments to reflect the degree of access that shareholders had to cash balances.

24 The Board believes that cash flows arising from the long-term business of an insurance company or group should be dealt with in the cash flow statement only to the extent of cash transferred to, and available to meet the obligations of, the company or group as a whole. The internal cash flows of the long-term business may be shown in a note to the cash flow statement. The Board takes this approach because the shareholders of an insurance company generally have restricted rights to any profits, and associated cash surpluses, made by the long-term business. Because insurance companies and groups are now required by companies legislation to consolidate the long-term business, these funds need to be included in the note to the cash flow statement analysing the changes in the balance sheet amounts for portfolio investments net of financing.

25 Appendix I contains an example of a cash flow statement for an insurance group. By including a section showing the cash flows relating to portfolio investments, this format recognises the special nature of an insurance business, in particular the importance of generating resources for investment to meet provision requirements for future claims and reserve requirements for solvency. The example for insurance companies contains an analysis of the movement in portfolio investments less financing rather than an analysis of net debt as generally required. Presenting information on portfolio investments less financing recognises that the required balance sheet format for insurance companies does not distinguish between fixed and current financial assets.

Exceptional and extraordinary items and cashflows

26 To reflect the changes introduced by FRS 3 'Reporting Financial Performance', the text now acknowledges the extreme rarity of extraordinary items post-FRS 3. The FRS also explicitly recognises the possibility that cash flows can be exceptional of themselves because of their size or incidence without relating to an exceptional item in the profit and loss account. Sufficient disclosure should be made to explain their cause and nature.

Value Added Tax and other taxes

27 The existence of Value Added Tax (VAT), and other sales taxes, raises the question whether the relevant cash flows should be reported gross or net of the tax element and how the balance of tax paid to, or repaid by, the taxing authorities should be reported. Generally, sales taxes, including VAT, are payable by the ultimate consumer of the goods or services concerned. A business providing goods or services on which VAT is payable (even if at a zero rate) is generally able to reclaim the VAT incurred by it in providing those goods or services. However, businesses that make exempt supplies are unable to reclaim VAT. Between these two categories are partially exempt businesses that can reclaim part of the VAT incurred by them.

28 The cash flows of an entity include VAT where appropriate and thus strictly the various elements of the cash flow statement should include VAT. However, this treatment does not take into account the fact that normally VAT is a short-term timing difference as far as the entity's overall cash flows are concerned and the inclusion of VAT in the cash flows may distort the allocation of cash flows to standard headings. In order to avoid this distortion and to show cash flows attributable to the reporting entity's activities, the Board believes that cash flows should be shown net of sales taxes and the net movement on the amount payable to, or receivable from, the taxing authority should be allocated to cash flows from operating activities unless a different treatment is more appropriate in the particular circumstances concerned.

Foreign exchange

29 To meet the concern that intragroup cash inflows and outflows might not cancel each other out if average or closing rates are used to translate them for preparing consolidated cash flow statements, the FRS permits entities to use actual rates for intragroup cash flows envisaging that these will be applied where there are large single cash flows at rates significantly different from the average or closing rate used for the other cash flows. Several commentators had raised the treatment of foreign currency in cash flow statements. Because of the various approximations that may be required in particular cases, the Board has not sought to specify in detail the methods to be used to deal with foreign exchange differences. It has, however, set out the principle that in translating the cash flows of foreign entities the same basis should be used as for the translation of the profit and loss account. The FRS now clarifies that this principle applies also to the presentation of stocks, debtors and creditors in the reconciliation from operating profits and cash flow from operating activities.

Hedging

30 FRS 1 required cash flows that result from transactions undertaken to hedge another transaction to be reported under the same standard heading as the transaction that is the subject of the hedge. Several commentators expressed concern that the FRS 1 requirement relating to hedging was too broad, for example it could justify cash flows relating to loans taken out to finance overseas investment being classified under 'investing' rather than 'financing'. To meet these concerns the FRS requires that the effect of hedging should be reflected in the cash flow statement only where hedging is by futures contracts, forward contracts, option contracts or swap contracts. This is a pragmatic position that follows the US cash flow standard while awaiting the outcome of the Board's project on derivatives and other financial instruments, which will consider all aspects of hedging and its recognition.

FRS 3 'Reporting Financial Performance'

31 The FRS encourages entities to analyse cash flows on the same basis as that required by FRS 3 in the profit and loss account and to show separately cash flows relating to continuing and discontinued operations. There was widespread support for such analyses when proposed by FRED 10 but commentators did not support a requirement for them.

Restrictions on remittability

32 Several of the comments received on FRS 1 had indicated that disclosures of restricted cash balances would be useful. FRED 10 proposed the disclosure of cash not available for use elsewhere in the group. The FRS requires disclosure for both businesses and groups of the circumstances and effect of restrictions preventing the transfer of cash from one part to another. Paragraph 68 of the Explanation gives examples of items that, depending on the regulatory environment, might be required to be disclosed.