

ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

CASH FLOW STATEMENTS

(GRAP 2)

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Acknowledgement

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529 Fifth Avenue, 6th Floor

New York, New York 10017 USA

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CASH FLOW STATEMENTS

This Standard was originally issued by the Accounting Standards Board (the Board) in April 2004. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standard of GRAP became effective:

  - GRAP 24 *Presentation of Budget Information in Financial Statements*
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standard of GRAP became effective:

  - GRAP 18 *Segment Reporting*
- Consequential amendments when the following Standards of GRAP became effective:

  - GRAP 35 *Consolidated Financial Statements*

  - GRAP 37 *Joint Arrangements*

Introduction

This pronouncement is set out in paragraphs .01 to .55. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

.03 Information about cash flows may be useful to users of an entity's financial statements in assessing the entity's cash flows, assessing the entity's compliance with legislation and regulations (including approved budgets where appropriate) and for making decisions about whether to provide resources to, or enter into transactions with an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a public financial institution. Entities need cash for essentially the same reasons, however different their principal revenue-producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.

Benefits of cash flow information

.04 Information about the cash flows of an entity is useful in assisting users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

.05 A cash flow statement, when used in conjunction with other financial statements,

provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.

.06 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

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

Cash comprises cash on hand and demand deposits.

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

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

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

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

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

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Cash and cash equivalents

.08 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

.09 Bank borrowings are generally considered to be financing activities. Bank overdrafts which are repayable on demand may form an integral part of an entity's cash management activities. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to

overdrawn.

.10 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a cash flow statement

.11 The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.

.12 An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

.13 A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

Operating activities

.14 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

(a) by way of taxes (directly and indirectly); or

(b) from the recipients of goods and services provided by the entity.

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

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

(a) cash receipts from taxes, levies and fines;

(b) cash receipts from charges for goods and services provided by the entity;

(c) cash receipts from grants or transfers and other appropriations or other budget authority made by national government or other entities;

(d) cash receipts from royalties, fees, commissions and other revenue;

(e) cash payments to other entities to finance their operations (not including loans);

(f) cash payments to suppliers for goods and services;

(g) cash payments to and on behalf of employees;

(h) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;

(i) cash payments of local property taxes or income taxes (where applicable) in relation to operating activities;

(j) cash receipts and payments from contracts held for dealing or trading purposes;

(k) cash receipts or payments from discontinued operations; and

(l) cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets for rental to others and subsequently held for sale as described in paragraph .75 of the Standard of GRAP on *Property, Plant and Equipment* are cash flows from operating activities. The cash received from rents and subsequent sales of such assets are also cash flows from operating activities.

.16 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

Investing activities

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

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

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

Financing activities

.18 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short- or long-term borrowings;

(b) cash repayments of amounts borrowed; and

(c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

.19 An entity shall report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

.20 The direct method provides information which may be useful in estimating future cash flows. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the entity; or

(b) by adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution) and other items in the statement of financial performance for:

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

.21 Entities should provide a reconciliation of the surplus or deficit with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

Reporting cash flows from investing and financing activities

.22 An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs .23 and .26 are reported on a net basis.

Reporting cash flows on a net basis

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

(a) cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and

(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

.24 Paragraph .23(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

(a) the collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;

(b) the acceptance and repayment of demand deposits of a public financial institution;

(c) funds held for customers by an investment or trust entity; and

(d) rents collected on behalf of, and paid over to, the owners of properties.

.25 Examples of cash receipts and payments referred to in paragraph .23(b) are advances made for, and the repayment of:

(a) the purchase and sale of investments; and

(b) other short-term borrowings, for example, those which have a maturity period of three months or less.

.26 Cash flows arising from each of the following activities of a public financial institution may be reported on a net basis:

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

(b) the placement of deposits with and withdrawal of deposits from other financial institutions; and

(c) cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

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

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

.29 Cash flows denominated in a foreign currency are reported in a manner consistent with the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates* (GRAP 4). This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign controlled entity. GRAP 4 does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.

.30 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Interest and dividends or similar distributions

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

activities.

.32 The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of financial performance or capitalised in accordance with the Standard of GRAP on *Borrowing Costs*.

.33 Interest paid and interest and dividends or similar distributions received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends or similar distributions received may be classified as operating cash flows because they enter into the determination of surplus or deficit. Alternatively, interest paid and interest and dividends or similar distributions received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

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

Taxes on surplus

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

.36 Entities are generally exempt from taxes on surpluses.

.37 Taxes on surplus arise from transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in controlled entities, associates and joint ventures

.38 When accounting for an investment in an associate, a joint venture, or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee,

for example, to dividends or similar distributions and advances.

.39 An entity which reports its interest in an associate or a joint venture using the equity method includes in its cash flow statement the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Acquisitions and disposals of controlled entities and other operating units

.40 The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities.

.41 An entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:

(a) the total purchase or disposal consideration;

(b) the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;

(c) the amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and

(d) the amount of the assets and liabilities other than cash or cash equivalents recognised by the controlled entity or operating unit acquired or disposed of, summarised by each major category.

.41A An investment entity, as defined in the Standard of GRAP on *Consolidated Financial Statements* (GRAP 35), need not apply paragraph .41(c) or .41(d) to an investment in a controlled entity that is required to be measured at fair value. A controlling entity that is not itself an investment entity need not apply paragraphs .41(c) and .41(d) to an investment in a controlled investment entity to the extent that the investment is measured at fair value.

.42 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those acquisitions.

.43 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

.43A Cash flows arising from changes in ownership interests in a controlled entity that do

not result in a loss of control shall be classified as cash flows from financing activities, unless the controlled entity is held by an investment entity, as defined in GRAP 35, or through a controlled investment entity, and is required to be measured at fair value.

.43B Changes in ownership interests in a controlled entity that do not result in a loss of control, such as the subsequent purchase or sale by a controlling entity of a controlled entity's equity instruments, are accounted for as equity transactions (see GRAP 35), unless the controlled entity is held by an investment entity, or through a controlled investment entity, and is required to be measured at fair value. Accordingly, the resulting cash flows are classified in the same way as other transactions determined in paragraph .18.

Non-cash transactions

.44 Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

.45 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a finance lease; and

(b) the conversion of debt to equity.

Components of cash and cash equivalents

.46 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.

.47 In view of the variety of cash management practices and banking arrangements and in order to comply with the Standard of GRAP on *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

.48 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other disclosures

.49 ***An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.***

.50 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a controlled entity that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the controlling entity or other controlled entities.

.51 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

(a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;

(b) [Deleted];

(c) the amount and nature of restricted cash balances; and

(d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see the Standard of GRAP on *Segment Reporting*).

.52 Where appropriations or budget authorisations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programmes and the government's budgetary information. Refer to the Standard of GRAP on *Presentation of Budget Information in Financial Statements* for a discussion of the comparison of actual and budgeted figures.

Effective date

Initial adoption of the Standards of GRAP

.53 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.54 ***An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 April 2015, it shall disclose that fact.***

.54A ***Paragraphs .41A, .43A and .43B were added by GRAP 35 issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.54B ***Paragraphs .38 and .39 were amended, and paragraph .51(b) deleted by the Standard of GRAP on Joint Arrangements issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

Withdrawal of the Standard of GRAP on *Cash Flow Statements* (2004)

.55 This Standard supersedes the Standard of GRAP on *Cash Flow Statements* issued in 2004.

Comparison with the International Public Sector Accounting Standard on *Cash Flow Statements* (May 2000)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Cash Flow Statements* (IPSAS 2). The main differences between this Standard and IPSAS 2 are as follows:

- Definitions not essential to the understanding of this Standard have been deleted.
- IPSAS 2 describes the residual of total assets after deducting total liabilities as "net assets/equity" whereas this Standard refers to "net assets".
- The use of the indirect method, whereby surplus or deficit is adjusted for the effects of transactions, has been eliminated from this Standard to ensure consistency of preparation.
- Paragraphs included in IPSAS 2 have been transferred to the *Framework for the Preparation and Presentation of Financial Statements*[2] and have been deleted from this Standard, for instance paragraphs that covered future economic benefits or service potential, economic entity and net assets.
- Guidance on accounting for acquisitions of entities that apply another basis of accounting has been deleted.
- The appendix with an illustrative example of the cash flow statement (for an entity other than a financial institution) has been deleted from this Standard.

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*