Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7
Statement of Cash Flows)

The Committee received a request about whether an entity includes a demand deposit as a component of
cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is
subject to contractual restrictions on use agreed with a third party. In the fact pattern described in the
request, the entity:

a. holds a demand deposit whose terms and conditions do not prevent the entity from accessing the
   amounts held in it (that is, were the entity to request any amount from the deposit, it would receive
   that amount on demand).

b. has a contractual obligation with a third party to keep a specified amount of cash in that separate
demand deposit and to use the cash only for specified purposes. If the entity were to use the
   amounts held in the demand deposit for purposes other than those agreed with the third party, the
   entity would be in breach of its contractual obligation.

Cash and cash equivalents in the statement of cash flows

The Committee noted that the question in the request is about whether the demand deposit meets the
definition of ‘cash’ in IAS 7.

Paragraph 6 of IAS 7 defines ‘cash’ by stating that it ‘comprises cash on hand and demand deposits.’ IAS
7 includes no requirements on whether an item qualifies as cash beyond the definition itself.

IAS 7 and IAS 1 Presentation of Financial Statements indicate that amounts included in cash and cash
equivalents may be subject to restrictions, namely:

a. paragraph 48 of IAS 7 requires an entity to disclose information about ‘significant cash and cash
   equivalent balances held by the entity that are not available for use by the group’; and

b. paragraph 66(d) of IAS 1 requires an entity to classify as current an asset that is ‘cash or a cash
   equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to
   settle a liability for at least twelve months after the reporting period’.

The Committee concluded that restrictions on the use of a demand deposit arising from a contract with a
third party do not result in the deposit no longer being cash, unless those restrictions change the nature of
the deposit in a way that it would no longer meet the definition of cash in IAS 7. In the fact pattern
described in the request, the contractual restrictions on the use of the amounts held in the demand deposit
do not change the nature of the deposit—the entity can access those amounts on demand. Therefore, the
Committee concluded that the entity includes the demand deposit as a component of ‘cash and cash
equivalents’ in its statement of cash flows.

Presentation in the statement of financial position

Paragraph 54(i) of IAS 1 requires an entity to include a line item in its statement of financial position that
presents the amount of ‘cash and cash equivalents’. Paragraph 55 of IAS 1 states ‘an entity shall present
additional line items (including by disaggregating the line items listed in paragraph 54) … in the statement
of financial position when such presentation is relevant to an understanding of the entity’s financial
position’.

Therefore, the Committee concluded that, in the fact pattern described in the request, the entity presents the
demand deposit as cash and cash equivalents in its statement of financial position. When relevant to an
understanding of its financial position, the entity would disaggregate the ‘cash and cash equivalents’ line
item and present the demand deposit separately in an additional line item.

An entity that presents assets as current or non-current would classify the demand deposit as current
applying paragraph 66(d) of IAS 1, unless the demand deposit is ‘restricted from being exchanged or used
to settle a liability for at least twelve months after the reporting period’.

Disclosures

Paragraph 45 of IAS 7 states that ‘an entity shall disclose the components of cash and cash equivalents…’.
Applying this requirement, in the fact pattern described in the request, the entity discloses the demand
deposit as a component of cash and cash equivalents. The entity also considers whether to disclose additional information:

a. in the context of the requirements in IFRS 7 Financial Instruments: Disclosures about liquidity risk arising from financial instruments and how an entity manages that risk; and

b. if the information it provides in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient to enable users of financial statements to understand the impact of the restrictions on the entity’s financial position (paragraph 31 of IAS 1).

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether to include demand deposits subject to contractual restrictions on use agreed with a third party as a component of cash and cash equivalents in its statements of cash flows and financial position. Consequently, the Committee decided not to add a standard-setting project to the work plan.