

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

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Updated in January 2026 to replace references to IAS 1 Presentation of Financial Statements with references to IFRS 18 Presentation and Disclosure in Financial Statements

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 IFRS 18 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 99(d) of IFRS 18 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 12 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 103(k) of IFRS 18 requires an entity to include a line item in its statement of financial position that presents the amount of ‘cash and cash equivalents’. Paragraphs 23–24 of IFRS 18 require an entity to present additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary or not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary.

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 necessary to provide a useful structured summary of its assets in the statement of financial position, the entity would present the demand deposit in an additional line item separately from other cash and cash equivalents.

An entity that presents assets as current or non-current would classify the demand deposit as current applying paragraph 99(d) of IFRS 18, unless the demand deposit is ‘restricted from being exchanged or used to settle a liability for at least 12 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 effect of the restrictions on the entity’s financial position (paragraph 20 of IFRS 18).

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.

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