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| FRD 110 |  |  | Cash flow statements (April 2022) |
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| Purpose |  |  | To prescribe the requirements for the classification of interest paid, interest and dividends received, capital grants and which cash flows shall be reported on a net basis; and  To provide guidance on the treatment of goods and services tax in cash flow statements. |
| Application |  |  | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act* *1994.* Application by State owned corporations is encouraged. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2015. |
|  |  | **3.2** | FRD 110A *Cash flow statements* is renamed to FRD 110 *Cash flow statements* effective 1 April 2022. |
| **Requirements** |  |  | Classification of interest paid and interest and dividends received  An entity shall classify interest paid and interest and dividends received as operating cash flows. |
|  |  |  | Classification of capital grants  The payment of a capital grant shall be classified as cash flows from operating activities, unless the grant is designated as contributed capital, in which case it shall be classified as cash flows from investing activities. |
|  |  |  | The receipt of a capital grant shall be classified as cash flows from operating activities, unless the grant is designated as contributed capital, in which case it shall be classified as cash flows from financing activities. |
|  |  |  | Reporting cash flows on a net basis  Cash flows arising from the following operating, investing or financing activities shall be reported on a net basis:   1. **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** 2. **cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.** |
|  |  |  | Cash flows arising from each of the following activities of a financial institution shall be reported on a net basis:   1. **cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;** 2. **the placement of deposits with and withdrawal of deposits from other financial institutions; and** 3. **cash advances and loans made to customers and the repayment of those advances and loans.** |
| Definitions |  |  | **Financial Institution:** an institution (public or private) that collects funds (from the public or other institutions) and invests them in financial assets.  Refer to paragraph 6 of AASB 107 for the following definitions:  Cash equivalents;  Cash flows;  Financing activities;  Investing activities; and  Operating activities. |
| Guidance |  |  | **Capital grant**  Cash flows from capital grants may be presented on a separate line to distinguish such transactions from other cash flows in the same category. |
|  |  |  | **Goods and Services Tax**  UIG Interpretation 1031 *Accounting for the Goods and Services Tax* requires cash flows, other than investing and financing cash flows where the goods and services tax (GST) is recoverable from, or payable to, the taxation authority, to be presented on a gross basis in the cash flow statement. |
|  |  |  | Investing and financing cash flows are presented net of the GST where the GST is recoverable from, or payable to, the taxation authority. The GST component of such cash flows shall be classified as operating cash flows. |
| Relevant pronouncements |  | 7.1 | AASB 107 *Cash Flow Statements* (January 2015)  UIG Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* (December 2013) |
| Background |  | 8.1 | AASB 107 allows interest paid and interest and dividends received to be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and interest and dividends 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.  This FRD limits the choice available under AASB 107 to improve the consistency and comparability of Victorian public sector entity financial reporting and to improve convergence with the Government Finance Statistics framework, which requires interest paid and interest and dividends received to be presented as operating cash flows.  This FRD also clarifies the classification of capital grants and GST on the cash flow statement. |
|  |  | 8.2 | This FRD was originally issued in December 2004. It was revised in:  February 2005 to enhance the included guidance.  June 2016 to remove the first-time adoption requirements as they are no longer required. |