



# CASH & CASH EQUIVALENTS



Comprises of cash on hand and demand deposits



# What is Cash & Cash Equivalents ?



Short-term, highly liquid investment that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.



# Cash Equivalents

Does investment qualify a cash equivalent?

Investment normally qualifies as a cash equivalent only when it has a short maturity i.e. 3 month or less from the date of acquisition.



Does equity investment qualify as cash equivalents?

Equity investments are excluded from cash equivalent unless if they are cash equivalents in substance i.e. preferred shares acquired within a short period of their maturity and with a specified redemption date.



How about bank overdrafts?

Bank overdrafts are generally classified as borrowings but MFRS 107 notes that if a bank overdraft is repayable on demand and forms an integral part of an entity's cash management, then it is a component of cash and cash equivalents.



# Importance of Cash & Cash Equivalents



- Higher cash equivalents equal higher liquidity.

- Liquidity refers to the rate at which an asset can be converted into cash.

- A company with higher liquidity ratios is considered healthier and poses less of a risk, hence it serves as one of the most important health indicators of a company's financial system.



# What is the purpose of keeping Cash Equivalents?

- Used to meet short-term liabilities of the business such as account payables
- Used to buy inventories, meet operating expenses, and make other purchases
- Indicates the liquidity position of the company.
  - The higher the cash equivalents, the higher is the liquidity*
- Helps to finance acquisitions



# Disclosure



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

Restricted cash balances should be disclosed in a note, including a narrative explanation of any restriction.



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