



IAS7 Cash Flow Statements

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Objective of IAS 7

- The objective of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period according to operating, investing and financing activities.

[Scope]

- An entity 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.

Fundamental Principle of IAS 7

- The cash flow statement analyses changes in cash and cash equivalents during a period.
- Cash and cash equivalents comprise ...
- ... an investment normally meets the definition of a cash equivalent when ...
- Equity investments are normally excluded unless ...
- Bank overdrafts ... [IAS 7.7-8]

Definitions

- Cash
- Cash equivalents
- Cash flows
- Operating activities
- Investing activities
- Financing activities
- [IAS 7.6]

Presentation of the Cash Flow Statement 1

- Cash flows must be analysed between operating, investing and financing activities. [IAS 7.10]
- Key principles specified by IAS 7 for the preparation of a cash flow statement are as follows ...

Presentation of the Cash Flow Statement 2

- **operating activities** are the main revenue producing activities of the enterprise that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees [IAS 7.14]
- **investing activities** are the acquisition and disposal of long term assets and other investments that are not considered to be cash equivalents [IAS 7.6]

Presentation of the Cash Flow Statement 3

- interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period [IAS 7.31]
- cash flows arising from taxes on income are normally classified as operating, unless they can be specifically identified with financing or investing activities [IAS 7.35]

[The Direct Method 1]

- The **direct method** shows each major class of gross cash receipts and gross cash payments. The operating cash flows section of the cash flow statement under the direct method would appear something like this:
- [IAS 7.18]

[The Direct Method 2]

| | |
|---|---------------|
| Cash receipts from customers | xx,xxx |
| Cash paid to suppliers | xx,xxx |
| Cash paid to employees | xx,xxx |
| Cash paid for other operating expenses | xx,xxx |
| Interest paid | xx,xxx |
| Income taxes paid | xx,xxx |
| Net cash from operating activities | xx,xxx |

Indirect Method 1

- The **indirect method** adjusts accrual basis net profit or loss for the effects of non-cash transactions. The operating cash flows section of the cash flow statement under the indirect method would appear something like this:
- [IAS 7.18]

Indirect Method 2

| | |
|---|---------------|
| Profit before interest and income taxes | XX,XXX |
| Add back depreciation | XX,XXX |
| Add back amortisation of goodwill | XX,XXX |
| Increase in receivables | XX,XXX |
| Decrease in inventories | XX,XXX |
| Increase in trade payables | XX,XXX |
| Interest expense | XX,XXX |
| Less Interest accrued but not yet paid | <u>XX,XXX</u> |
| Interest paid | XX,XXX |
| Income taxes paid | XX,XXX |
| Net cash from operating activities | XX,XXX |

Additional Issues 1

- cash flows relating to extraordinary items should be
- the exchange rate used for translation of transactions ...
- cash flows of foreign subsidiaries ...

[Additional Issues 2]

- the components of cash and cash equivalents should be disclosed ...
- cash and cash equivalents ... not available for use ...

[Reference]

- I recognise the help I received from the materials prepared by Deloitte, Touche, Tohmatsu in preparing this presentation.