

IFRS IN BRIEF

IAS 7 Statement of cash flows

IAS 7 prescribes how to present information in a statement of cash flows about how an entity's cash and cash equivalents changed during the period.

An entity should present its cash flows in the manner most appropriate to its business.

OBJECTIVE

To provide users of financial statements with a basis to assess:

- the ability of the entity to generate cash and cash equivalents, and
- the needs of the entity to utilise those cash and cash equivalents.

Users of financial statements also consider the entity's cash generating ability and cash needs to evaluate its liquidity position in order to take economic decisions as the entity needs cash to carry on its operations, for payment of its liabilities and distributions of returns to its investors.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of

- **Cash**
cash on hand and demand deposits.
- **Cash equivalents**
short-term, highly liquid investments (generally less than three months from date of acquisition) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. This may include bank overdrafts.

CLASSIFICATION OF CASH FLOWS

Cash flows during the period are classified as:

Cash flows from operating activities
Cash flows from investing activities
Cash flows from Financing activities

- **Operating activities**
are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. An entity reports cash flows from operating activities using either the:

- *direct method*
major classes of gross cash receipts and gross cash payments (i.e., each category of inflow and outflow) are disclosed; or
- *indirect method*
profit or loss is adjusted for non-cash transactions, working capital changes and items of income or expenditure associated with investing or financing cash flows.

- **Investing activities**
are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. This includes the aggregate cash flows arising from obtaining and losing control of subsidiaries or other businesses. These cashflows should be reported net of cash and cash equivalents acquired or disposed of.

- **Financing activities**
activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. Cash payments made by lessees for the reduction of lease liabilities are financing activities.

OTHER CLASSIFICATION CONSIDERATIONS

Cash flows must be reported gross. Offsetting is only permitted in very limited cases and additional disclosures are required.

Specific guidance exists around some types of cash flows where classification elections are available. Cash flows should be classified consistently from period to period.

- **Income Taxes**

Income tax payments are usually classified as operating activities, although in specific circumstances they can be classified within financing and investing activities.

- **Interest and dividend income**

can either be presented as operating activities, or as investing activities

- **Interest expense**

can either be presented as operating activities, or as financing activities

- **Dividends paid**

can either be presented as operating

activities, or as financing activities.

FOREIGN CURRENCY CASH FLOWS

Cash flows arising from transactions in a foreign currency are recorded in an entity's functional currency.

Foreign currency cash flows are translated at the exchange rates at the dates of the cash flows or, when appropriate, using average rates.

The effect of movement in foreign exchange rates is included in the cash flow statement so that the opening and closing balances reconcile.

DISCLOSURES

Note disclosure are required for significant non-cash investing and financing transactions

and an explanation of the changes in liabilities arising from financing activities, distinguishing cash flows from non-cash changes. This is often presented as a reconciliation of the financing liabilities.

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