



IAS 7 STATEMENT OF CASH FLOWS

FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 7 was adopted by the IASB in April 2001. IAS 7 had originally been issued by the IASC in December 1992. IAS 7 is applicable for annual reporting periods commencing on or after 1 January 1994.

OBJECTIVE

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

Information about the cash flows of an entity is useful in providing 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 flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

SCOPE

An entity shall prepare a statement of cash flows in accordance with the requirements of IAS 7 and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

PRESENTATION OF A STATEMENT OF CASHFLOWS

Operating activities

Cash flows from operating activities are a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to:

- repay loans;
- maintain operating capability;
- pay dividends; and
- make new investments without recourse to external sources of financing.

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity and generally result from the transactions and other events that enter into the determination of profit or loss.

Examples of cash flows from operating activities are:

- cash receipts from sale of goods and the rendering of services;
- cash payments for goods and services from suppliers;
- cash receipts from royalties, fees, commissions and other revenue;
- cash payments to and on behalf of employees; and
- cash payments or refunds from income tax or insurance and other similar cash flows.

While a sale of an item of plant gives rise to a gain or loss which has an impact on the profit and loss, the cash flows from a sale of plant are cash flows from investing activities.

Cash flows from operating activities are reported using either the direct method or indirect method.

The **direct method** discloses major classes of gross cash receipts and gross cash payments from the operating activities. Information about major classes of gross cash receipts and payments may be obtained either from the accounting records of the entity or by adjusting sales, cost of sales, expenses and other items reported in the statement of comprehensive income, as appropriate, for:

- changes during the period in inventories and operating receivables and payables;
- other non-cash items (such as depreciation and provisions); and
- other items for which the cash effects are investing or financing cash flows (such as the disposal of non-current assets).

Entities are encouraged to report cash flows from operating activities using the direct method.

The **indirect method** operates whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Investing activities

Cash flows from investing activities represent the extent to which expenditures are made to generate future income and cash flows. Only expenditures that result in recognised assets in the statement of financial position are eligible for classification as investing activities.

Examples of investing activities include:

- cash payments to acquire property, plant and equipment, intangibles and other long term assets;
- cash receipts from sales of property, plant and equipment, intangibles and other long term assets; and
- cash receipts and payments relating to transactions on equity or debt instruments and other similar cash flows.

Financing activities

Cash flows from financing activities are useful in predicting the claims on future cash flows by providers of capital to the entity.

Examples of cash flows from financing activities include:

- cash proceeds from share issue;
- cash payments to owners to acquire / redeem the entity's shares;
- cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease;
- cash repayments of amounts borrowed; and
- cash proceeds from the issue of debentures, loans, bonds and other similar activities.

The cash flows should be classified in a consistent manner from period to period.

Changes in ownership interests

The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

REPORTING CASH FLOWS ON A GROSS OR NET BASIS

IAS 7 requires that the major classes of cash flows be reported on a gross basis, except for the following which may be reported on a net basis:

- 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
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Financial institutions only

Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

- cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- the placement of deposits with and withdrawal of deposits from other financial institutions; and
- cash advances and loans made to customers and the repayments of those advances and loans.

OTHER ISSUES

- **Foreign currency cash flows** – cash flows arising from transactions in a foreign currency are translated to the entity's functional currency by using the exchange rate at the date of the cash flow. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, they are included in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and end of the period.
- **Investments in subsidiaries, associates and joint ventures** – when accounting for an investment in a joint venture or associate or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between the investor and the investee, e.g. dividends and advances.
- **Non-cash transactions** – investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 7 disclosure requirements.

DEFINITIONS

Cash	Comprises cash on hand and demand deposits.
Cash equivalents	Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. (Note: cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. An investment would normally only qualify as a cash equivalent where it has a short maturity; i.e. time of three months or less from the date of acquisition.)
Cash flows	Inflows and outflows of cash and cash equivalents.
Financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
Investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
Operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 107 *Statement of Cash Flows* and is applicable for annual reporting periods commencing on or after 1 January 2005.

AUSTRALIAN DISCLOSURE REQUIREMENTS

Not-for-profit entities that use the direct method and that highlight the net cost of services in their statement of comprehensive income for the reporting period shall disclose in the complete set of financial statements a reconciliation of cash flows arising from operating activities to net cost of services as reported in the statement of comprehensive income.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 Application of Tiers of Australian Accounting Standards (and AASB 2010-2 *Amendments to Australian Accounting Standards* arising from Reduced Disclosure Requirements) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- a. Tier 1: Australian Accounting Standards; and
- b. Tier 2: Australian Accounting Standards
 - Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. The Australian Disclosure requirement detailed above has been shaded as it is also not applicable to RDR entities.

RELATED INTERPRETATION

- Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*

Interpretation 1031 is an Australian interpretation dealing with the accounting implications of GST. As per Interpretation 1031, revenues, expenses and assets should be recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST should be recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position should be shown inclusive of GST.

Cash flows should be presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities which is recoverable from, or payable to, the taxation authority, which should be disclosed as operating cash flows.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the “Yes / No / N/A” column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for “No” answers.

CODE		YES / NO / N/A	EXPLANATION (If required)
IAS 1.29	Has the entity presented separately each material class of similar items in the statement of cash flows?		
IAS 7.10	Has the entity classified the cash flows during the period by operating, investing and financing activities (definitions of these different categories of cash flows are presented in IAS 7.6 and examples are presented in IAS 7.13 – 15, IAS 7.16 and IAS 7.17)?		
IAS 7.18	Has the entity reported cash flows from operating activities using either: a. the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or b. the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows?		
IAS 7.21	Has the entity reported major classes of gross cash receipts and payments arising from investing and financing activities separately, except to the extent that cash flows described in IAS 7.22 and IAS 7.24 which are reported on a net basis?		
IAS 7.22	Has the entity reported the cash flows arising from the following operating, investing or financing activities on a net basis: a. 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 b. cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short?		
IAS 7.24	If the entity is a financial institution, have the cash flows arising from each of the following activities of a financial institution been reported on a net basis: a. cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date; b. the placement of deposits with and withdrawal of deposits from other financial institutions; and c. cash advances and loans made to customers and the repayment of those advances and loans?		

CODE		YES / NO / N/A	EXPLANATION (If required)
IAS 7.45	Has the entity disclosed the components of cash and cash equivalents and presented a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position?		
IAS 7.46	Has the entity disclosed the policy adopted in determining the composition of cash and cash equivalents?		
IAS 7.39	Has the aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses been presented separately and classified as investing activities?		
IAS 7.40	Has the following information been disclosed, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following: a. the total consideration paid or received; b. the portion of the consideration consisting of cash and cash equivalents; c. the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and d. the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses, over which control is obtained or lost, summarised by each major category?		
IAS 7.31	Has the entity disclosed cash flows from interest and dividends received and paid separately? Has the entity classified the cash flows from above in a consistent manner from period to period as operating, investing or financing activities?		
IAS 7.35	Has the entity disclosed cash flows arising from taxes on income separately and classified them as cash flows from operating activities unless they can be specifically identified with financing and investing activities?		
IAS 7.43	Has the entity disclosed within the notes to the financial report relevant information about investing and financing transactions that do not require the use of cash or cash equivalents, and have they been excluded from the statement of cash flows?		
IAS 7.48	Has the entity disclosed the following information regarding significant cash and cash equivalent balances held, but that are not available for use by the group: a. the amount; and b. a commentary by management?		

CODE		YES / NO / N/A	EXPLANATION <i>(If required)</i>
IAS 7.50	<p>Has the entity disclosed the following information, together with a commentary by management:</p> <ul style="list-style-type: none">a. the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;b. the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; andc. the amount of cash flows arising from the operating, investing and financing activities of each reportable segment (see IAS 8 Operating Segments)? <p>Note: the disclosure in IAS 7.50 is not required but is encouraged.</p>		

OTHER MATTERS

LEGAL NOTICE

© CPA Australia Ltd (ABN 64 008 392 452), 2011. All rights reserved. Save and except for direct quotes from the Australian Accounting Standards Board (AASB) and accompanying documents issued by the Australian Accounting Standards Board (AASB) ("AASB Copyright"), all content in these materials is owned by or licensed to CPA Australia. The use of AASB Copyright in these materials is in accordance with the AASB's Terms and Conditions. All trademarks and trade names are proprietary to CPA Australia and must not be downloaded, reproduced or otherwise used without the express consent of CPA Australia. You may access and display these pages on your computer, monitor or other video display device and make one printed copy of any whole page or pages for personal and professional non-commercial purposes only. You must not: (i) reproduce the whole or part of these materials to provide to anyone else; or (ii) use these materials to create a commercial product or to distribute them for commercial gain.

AASB Standards may contain IFRS Foundation copyright material ("IFRS Copyright"). Enquiries concerning reproduction of IFRS Copyright material within Australia should be addressed to The Director of Finance and Administration, AASB, PO Box 204, Collins Street West, Victoria 8007. All existing rights in this material are reserved outside Australia. Requests to reproduce IFRS Copyright outside Australia should be addressed to the IFRS Foundation at www.ifrs.org.

© CPA Australia Ltd (ABN 64 008 392 452), 2010. All rights reserved. Save and except for direct quotes from the International Financial Reporting Standards (IFRS) and accompanying documents issued by the International Accounting Standards Board (IASB) ("IFRS Copyright"), all content in these materials is owned by or licensed to CPA Australia. The use of IFRS Copyright in these materials is in accordance with the IASB's Terms and Conditions. All trademarks and trade names are proprietary to CPA Australia and must not be downloaded, reproduced or otherwise used without the express consent of CPA Australia. You may access and display these pages on your computer, monitor or other video display device and make one printed copy of any whole page or pages for personal and professional non-commercial purposes only. You must not: (i) reproduce the whole or part of these materials to provide to anyone else; or (ii) use these materials to create a commercial product or to distribute them for commercial gain. Requests to reproduce IFRS Copyright should be addressed to the IFRS Foundation at www.ifrs.org.

DISCLAIMER

CPA Australia Ltd has used reasonable care and skill in compiling the content of these materials. However, CPA Australia Ltd makes no warranty that the materials are complete, accurate and up to date. These materials do not constitute the provision of professional advice whether legal or otherwise. Users should seek their own independent advice prior to relying on or entering into any commitment based on the materials. The materials are purely published for reference purposes alone and individuals should read the latest and complete standards.

LIMITATION OF LIABILITY

CPA Australia, its employees, agents and consultants exclude completely all liability to any person for loss or damage of any kind including but not limited to legal costs, indirect, special or consequential loss or damage (however caused, including by negligence) arising from or relating in any way to the materials and/or any use of the materials. Where any law prohibits the exclusion of such liability, then to the maximum extent permitted by law, CPA Australia's liability for breach of the warranty will, at CPA Australia's option, be limited to the supply of the materials again, or the payment of the cost of having them supplied again.