



Technical Accounting Alert

Relevant IFRS
IAS 7 Statement of Cash Flows

Introduction

Applying AASB 7 / IAS 7 *Statement of Cash Flows* gives rise to a number of interpretive and application issues. Increasingly, regulators and other commentators on financial statements are highlighting errors or inconsistencies in application of the standard.

This TA Alert provides selected guidance to help identify and address some of the common pitfalls and difficult interpretative issues arising from the application of IAS 7. The topics addressed are listed in the table of contents on the next page.

In addition, example disclosures can be found in the Grant Thornton's *Example Financial Statements*, available for download at:

http://www.granthornton.com.au/Publications/Tools-and-resources/Technical-publications/Financial_Statements.asp

Definition of cash and cash equivalents

General

The statement of cash flows reflects movements in cash and cash equivalents. The definitions of these terms are therefore central to its proper preparation.

IAS 7 paragraph 6 (IAS 7.6) provides the following definitions:

- **Cash** comprises cash on hand and demand deposits.
- **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

IAS 7.7 goes on to explain that cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. IAS 7 does not define 'short-term' but does state 'an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three-months or less from the date of acquisition' (IAS 7.7). Consequently, equity or other investments that do not have a maturity date are excluded from cash equivalents unless they are, in substance, cash equivalents (see 'Money market funds' below). This three-month time limit is somewhat arbitrary but is consistent with the concept of insignificant risk of changes in value and a purpose of meeting short-term cash commitments. In our view, exceptions to this three-month time limit are rare and investments with a longer maturity at inception may be included in cash equivalents only if there is strong evidence to show that they are, in substance, cash equivalents (see discussion of 'Demand deposits and other types of deposit account' below for examples). Any investment or term deposit with an initial maturity of more than three months does not become a cash equivalent when the remaining maturity period reduces to less than three months.

Bank overdrafts are generally classified as borrowings but IAS 7.8 notes that if a bank overdraft is repayable on demand and forms an integral part of an entity's cash management then it is included as a component of cash and cash equivalents. A characteristic of such a banking arrangement is that the bank balance often fluctuates from being positive to overdrawn.

Demand deposits and other types of deposit account

IAS 7 does not provide a definition of demand deposit. In practice, these are generally considered to be deposits with financial institutions that are repayable on demand within one working day and without penalty.

Other types of deposit accounts need to be considered carefully to assess whether they are classified as cash equivalents. Examples include:

- fixed-term deposits (ie deposits with a fixed maturity, often referred to simply as 'term deposits')
- open-ended or perpetual deposits requiring a period of notice for withdrawal without penalty
- longer-term deposits with early withdrawal provisions subject to some form of penalty, such as loss of interest.

Inclusion of these other deposit accounts within cash equivalents depends on both:

- the terms of the deposit or investment account (short maturity, convertible to known amounts of cash, insignificant risk of changes in value)
- the purpose for which it is held (to meet short-term cash commitments rather than for investment or other purposes).

Many open-ended or perpetual deposit accounts (ie those with no stated maturity date) offer a marginally better rate of interest than demand deposits but require some period of notice for withdrawal without penalty (ie interest is earned at the stated rate until the date of withdrawal). Entities will often use such accounts to temporarily hold cash required for working capital cash management if the withdrawal period is reasonably short. If the notice period is less than three-months, then the deposit account can be classified as a cash equivalent if the cash is intended to be used to meet short-term cash commitments.

Longer-term deposits with early withdrawal provisions subject to a penalty present particular issues. If an entity places cash in a deposit account with a stated maturity of over three months, but with early access subject to a significant penalty, it is unlikely that the intended purpose is to meet short-term cash commitments. The significant penalty also casts doubt on whether the conversion into cash is possible without a significant loss of value. The investment is unlikely to be classified as a cash equivalent for those reasons.

However, there may be limited circumstances where classification of a longer-term deposit with early withdrawal provisions subject to a penalty as a cash equivalent is appropriate. The entity may be hopeful that identified short-term cash commitments can be satisfied from its forecast or budgeted cash flows but place some cash in a term deposit with early access in case the forecast cash inflows do not materialise. In such cases, the terms and conditions of these deposits need to be carefully reviewed at the inception of the deposit to identify if it can be classified as cash equivalent. It is critical that, at inception, the term deposit can be converted to known amounts of cash with insignificant risk of change in value. This usually means that the terms for early withdrawal are not punitive (which would in turn mean that the interest rate for the full term is less than it would be for the same term with no early access). The entity's past practices in managing these deposits, and their role in its overall cash and treasury management strategy, are also relevant.

Example – Term deposits

Entity A recently sold surplus plant and machinery for cash proceeds of CU250,000. Management decide to deposit the funds with the bank in two term deposit accounts as follows:

CU175,000 into a 12-month term account, earning 4.5% interest. The cash can be withdrawn by giving 7-days notice but the entity will incur a penalty, being the loss of all interest earned.

CU75,000 into a 12-month term account earning 3.5% interest. The cash can be withdrawn by giving 7-days notice.

Interest will be paid for the period of the deposit but only at the rate of 3%, which is equivalent to the bank's stated rate for short-term deposits.

Management are confident that they will not need to withdraw the cash from the higher-rate deposit within the term, but want to keep easy access to the remaining CU75,000 to cover any working capital shortfalls that might arise.

Analysis

An investment in a term deposit can be classified as a cash equivalent only when it is held for the purpose of meeting short-term cash commitments and is convertible into known amounts of cash, subject to an insignificant risk of change in value: although the principal will be fully recoverable with early withdrawal, the entity will lose all accumulated interest over the term, which seems to be a significant penalty. The cash is not needed to meet short-term cash commitments and so would not qualify as a cash equivalent.

although the deposit is stated to have a 12-month maturity period, it can be withdrawn with 7-days notice. Although this incurs a penalty, the reduction in the rate of interest from 3.5% to 3% is unlikely to be considered significant. The intention of management is to keep these funds available for short-term cash needs and so this deposit is likely to qualify as a cash equivalent

Money market funds

Money market funds are investment vehicles that invest in relatively short-term (usually between one day and one year) debt instruments such as treasury bills, certificates of deposit and commercial papers. In some jurisdictions the description 'money market fund' can be used only by funds that meet defined criteria and are subject to specific legal and regulatory requirements. As the main purpose of the investment is usually preservation of principal with modest dividends, they are generally regarded as being at low risk of significant changes in value.

Shares or units in these funds are typically redeemable with little or no notice period, at a redemption value based on the share of net assets of the fund. Because the redemption value is based on a net asset value, rather than a fixed amount of cash, the legal form is not consistent with the definition of cash equivalents. However, in limited cases these investments are nonetheless regarded as cash equivalents in substance.

In our view it is acceptable to classify an investment in a money market fund as a cash equivalent only if there is sufficient evidence that, in substance, the definition of cash equivalents is satisfied. In particular, it is not sufficient that the investment can readily be realised in cash. The investment must be readily convertible (normally through redemption with the fund) to an amount of cash that is subject to an insignificant risk of change. The assessment of risk must be done at the time of the initial investment. This assessment would include a review of the fund's investment rules, the nature of its underlying investments and the stability of the redemption value. Again, the entity's past practices in managing

these investments, and their role in its overall cash and treasury management strategy, are also relevant.

Example – Money market funds

Entity A holds units in two money market funds that are redeemable on demand at net asset value:

high-returns fund – the fund aims to achieve superior returns and may invest in longer-term (up to 2 years) sovereign and corporate bonds to do so, including some bonds with higher credit risk. During the year, entity A invested CU80,000 in this fund and recorded a related fair value gain of CU9,300 in profit or loss. Two weeks after the reporting date, entity A converted the investment into CU87,900 cash (ie CU1,400 less than the year-end value)

short-term fund – the fund holds a low risk portfolio of short-maturity, low credit risk investments designed to achieve a stable level of income while maintaining the value of each unit at close to nominal value. The entity uses this fund to 'park' surplus cash and invested CU100,000 in this fund at the beginning of the year. The entity will convert this into cash whenever needed to satisfy any working capital shortfalls or other cash needs.

Analysis

An investment in a money market fund can be classified as an 'in substance' cash equivalent only when it is held for the purpose of meeting short-term cash commitments, and is convertible into an amount of cash that is subject to an insignificant risk of change.

high-returns fund - although the investment in the high-growth fund is readily convertible into cash, the high risk portfolio and observed exposure to changes in value determine that it is not a cash equivalent.

short-term fund - by comparison, the low risk fund seems to be subject to an insignificant risk of change in value. The investment is readily convertible into cash and is held to meet short-term cash commitments. It is therefore likely to be classed as a cash equivalent.

Restricted' cash

Sometimes, cash deposits are described as 'restricted' because they are set aside for a specific purpose and are either notionally or legally 'ring-fenced'. The nature of the restriction needs to be considered to identify whether the deposit can be classified as cash or cash equivalent.

For example, a bank account may be subject to a floating charge to provide general security for a loan or loans. Such a charge is unlikely to restrict the account from being classified as cash or cash equivalent (assuming the other criteria are met), because a floating charge does not restrict the use of the account for normal trading purposes. This may be compared to a deposit account subject to a fixed charge which is held as security for a specific loan. The charge may prevent the deposit account from being used for any purpose other than providing the lender with a right of set-off to secure repayment of the loan if the borrower defaults on the scheduled payments. The restriction in this case would prevent classification as a cash equivalent because the deposit cannot be converted into cash 'on demand' and is not available to meet short-term cash needs.

Another situation is a 'client money' account used by an entity such as an insurance broker or travel agent. Before considering IAS 7 classification, an assessment should be made as to whether the client money account should be recognised as an asset by the entity in its statement of financial position (see IFRS Hot Topic 2008-06 *Accounting for client money*). If the entity does not recognise the client money account it does not appear in the cash flow statement.

In a group situation, there may be restrictions on the transfer of monies from a foreign subsidiary to the parent because of exchange control restrictions. This restriction would not prevent classification as cash or cash equivalent in the consolidated financial statements, provided it meets the definition as such in the subsidiary.

Where a restriction applies but does not prevent classification as cash or a cash equivalent, the nature of the restriction needs to be disclosed (IAS 7.48). If the restriction prevents classification as a cash equivalent, this may need to be shown as a separate item in the reconciliation of cash and cash equivalent balances with the appropriate line items in the statement of financial position (see 'Presentation issues' below for further details).

Example – Restricted cash: designated account

Entity A is a property company. During the year it has secured CU5m of finance, which is ring-fenced for use only for a specific development. The funds are held in a designated bank deposit account to be used only for the purposes of the specific development project, which is expected to take 3 years to complete. Withdrawals from the account can only be made with the approval of the lender when specified milestones are met. At the year end, CU1m of the fund has been used on the development and CU4m remains in the designated account.

Analysis

In this situation, the money has been obtained in order to support long-term cash needs, being the completion of the development over the three-year period. Although the designated account may not have a specified term, withdrawals can only be made to pay for actual expenditure when certain conditions are met on the specified project, which is expected to occur over the three-year lifespan of the project. Consequently, the account is not available 'on demand' and is not available to meet short-term cash commitments. Consequently, it will not meet the definition of cash equivalents. The balance in the designated account at the reporting date is likely to be included in the 'cash at bank' line item in the statement of financial position so adequate disclosure on the amount of and the reasons for the restrictions should be given in a note.

Example – Restricted cash: Government restrictions

Entity A has a wholly owned subsidiary Entity B, which holds bank accounts with domestic banks. Entity B can use the money freely within its local jurisdiction and classifies the amounts as cash and cash equivalents in accordance with IAS 7, but Government restrictions prevent it from remitting cash abroad to Entity A or to any fellow subsidiary outside the local jurisdiction.

Analysis

Entity B has appropriately classified the amounts as cash and cash equivalents in its individual financial statements and it seems likely that this is still an appropriate classification in the consolidated financial statements. However, the amounts are only available to meet the short-term cash commitments of the subsidiary, Entity B. The restriction preventing remittance to the rest of the group should be disclosed in sufficient detail to enable users to understand the impact on the group's financial position and liquidity.

Classification of cash flow by activity (operating / investing / financing)

IAS 7 requires entities to classify and report cash flows according to the activity which gave rise to them. There are three activity classes:

- **operating activities** are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities
- **investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents
- **financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

This classification by activities is designed to provide useful information about the relative importance of these activities and the inter-relationships between them to help users of the financial statements to assess the liquidity and financial adaptability of the entity. The wording of the definitions means that operating activities is the 'default' category for all cash flows that do not meet the definition of either investing or financing.

The standard provides some examples of the cash flows expected to be classified under these headings but the limited guidance provided allows some discretion and leaves a number of questions unanswered. The following guidance is designed to highlight some of the more problematic or unclear areas but is not intended to be comprehensive. The actual classification in practice must reflect the nature of the activities of the entity and so some cash flows that may look similar may be classified differently because the nature and purpose of the business is different; for example dividends received by a venture capital company are likely to be classified as operating but a manufacturing entity is more likely to classify such income as investing.

Interest and dividends

IAS 7.31-34 allow some flexibility in the classification of cash flows from interest and dividends received and paid. Each category is however classified in a consistent manner from period to period as either operating, investing or financing activities, depending on the nature of the entity's activities.

Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution because of the nature of the entity's business. For other entities, an accounting policy choice needs to be made. Commonly, interest paid is classified as financing because it is a cost of obtaining finance. Similarly, interest and dividends received are classified as investing because they

represent returns on investments.

Alternatively, IAS 7.33 permits interest paid and interest and dividends received to be classified as operating cash flows "because they enter into the determination of profit or loss" (IAS 7.33).

Dividends paid are classified as financing because they are a cost of obtaining financial resources. Alternatively, they may be classified as operating to indicate the ability of the entity to pay dividends out of operating cash flows.

Example – Interest received

Entity C is a furniture retailer. It offers customers two years extended credit for sales over CU1,000. During the year, it recorded revenue for these sales of CU980,000 plus finance income of CU65,000 and received cash relating to these sales of CU360,000, of which CU40,000 related to interest.

Analysis

Entity has an accounting policy choice to classify interest received as an operating cash flow, as permitted by IAS 7.33, or as an investing cash flow on the grounds that it is a return on an investment. In this example, the interest income is primarily derived from the entity's principal revenue-generating activity (the sale of furniture) and so entity C is more likely to classify the interest income within operating cash flows, but this is not mandatory.

In practice, a single cash flow may include both an interest element and a repayment of capital. In such cases, the two elements may need to be disaggregated if they are classified differently. Even if the two elements are included in the same category, interest paid needs to be disclosed separately (see 'Presentation issues' later in this Hot Topic).

AASB 123 / IAS 23 *Borrowing Costs* requires some amounts of interest expense to be capitalised into the cost of qualifying assets in certain circumstances. IAS 7.32 and 33 seem to require that interest paid be classified as either an operating or a financing cash flow. This seems inconsistent with IAS 7.16, which might be interpreted to require that capitalised interest paid should be classified as an investing cash flow as it is part of the amount recognised for the related asset in the statement of financial position. IAS 7 does not currently deal explicitly with capitalised interest and so judgement is required to select which category to use. The classification selected should be applied consistently.

Capitalised interest

Entity A constructs a machine (that is a qualifying asset under IAS 23) and pays construction expenses of CU1,000, which includes CU50 of capitalised interest. The entity paid CU120 interest in the year, including the amount capitalised. Entity A normally classifies interest paid as a financing cash flow.

Analysis

Entity A has an accounting policy choice:

recognise CU950 as an investing cash flow and CU120 as financing

recognise CU1,000 as an investing cash flow and CU70 as financing. In addition, the total amount of CU120 interest paid is disclosed in a note (see 'Presentation issues' below).

Future developments

At its meeting in September 2011, the IASB tentatively decided that interest paid that is capitalised in accordance with IAS 23 should follow the classification of the underlying asset in which those payments were capitalised (ie the qualifying asset). An amendment to IAS 7 is proposed in the next *Improvements to IFRSs* exposure draft, which was published on 3 May 2012.

Short-term loans to related parties

An entity may provide a loan or advance to another group entity or other related party, sometimes on a short-term basis, with or without charging interest. The short-term nature of such advances does not automatically result in classification as an operating activity. Unless making cash advances to other entities is part of the normal operating activities of the entity (eg trade receivables or payables), such cash flows would normally be classified as investing.

Expenditure on internally generated intangibles

Improvements to IFRSs April 2009 amended IAS 7.16 such that only expenditure that results in a recognised asset in the statement of financial position is eligible for classification as investing activities.

To illustrate two applications of this requirement:

- expenditure relating to internally generated intangible assets is recognised in investing cash flows only if the capitalisation criteria in IAS 38 *Intangible Assets* paragraph 57 are met
- in the extractive industries, expenditure on exploration or evaluation activities is included as investing only if these costs are capitalised in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Expenditure that is expensed to profit or loss as incurred, such as research costs or training expenses, is recognised in operating cash flow activities.

Cash flows relating to assets held for rental to others

For entities that routinely rent out assets to others in the ordinary course of business, cash flows associated with the rental assets are classified within operating activities (IAS 7.14). This includes cash payments to acquire or manufacture such assets and cash receipts from rents and the subsequent sales of the assets. This explicit requirement was introduced through *Improvements to IFRSs* May 2008, related to an amendment in IAS 16 *Property, Plant and Equipment*. This contrasts to the usual investing activity classification of cash payments made to acquire or manufacture property, plant and equipment for own use and cash receipts from the sale of such assets.

Cash flows relating to a business combination

A number of cash flow statement issues arise in relation to business combinations, including classification of different types of consideration paid. Generally, this is expected to be an investing activity because IAS 7.39 requires that aggregate cash flows arising from obtaining or losing control of a subsidiary are presented separately within investing activities. However, in more complex scenarios the guidance in IAS 7 is not always clear. This and other issues related to the acquisition and disposal of subsidiaries are considered in a separate section later in this Hot Topic.

Tax cash flows

It is usually possible to identify tax expense/income with the related transaction or event in order to recognise the tax amount in profit or loss, other comprehensive income or equity in accordance with IAS 12 paragraphs 57-68C. Similarly, when it is practicable to identify a tax cash flow with an individual transaction that is classified as investing or financing, the tax cash flow is also classified as investing or financing in accordance with the underlying transaction. However, IAS 7 notes that it is often impracticable to identify tax cash flows with individual transactions. Also, tax cash flows often arise in a different period from the cash flows of the underlying transactions. Accordingly, taxes paid should generally be classified as operating cash flows (IAS 7.35-36).

Total cash flows arising from taxes should be separately disclosed, either on the face of the statement or in the notes.

Presentation issues

There are a number of presentation issues that have created differences in the practical application of IAS 7. The following guidance highlights the more common issues and provides some reminders of how to address them. In some areas, an entity can choose the most appropriate method of presentation, which should then be applied consistently each period.

Cash flows from operating activities can be presented using either:

- the direct method (IAS 7.18(a)) – each major class of gross cash receipts and gross cash payments is disclosed separately, such as cash receipts from the sale of goods or services; cash payments to suppliers and cash payments to and on behalf of employees
- the indirect method (IAS 7.18(b)) – profit or loss is adjusted for items relating to investing and financing activities and for the effects of non-cash transactions, such as changes in inventories and operating receivables and payables; depreciation and amortisation; movements in provisions; deferred taxes and unrealised foreign currency gains and losses.

Gross cash flows

Major classes of investing and financing cash receipts and payments should be presented gross on the face of the statement of cash flows (IAS 7.21). Similarly, when using the direct method, major classes of operating cash receipts and payments are also presented gross (IAS 7.18). There are limited exceptions to this gross presentation where inflows and outflows can be offset and presented net (IAS 7.22). For non-financial institutions, cash receipts and payments made on behalf of customers, where these reflect the activities of the customer, can be presented net. For example, where an entity is acting as agent, cash flows should only reflect the commission received by the agent. There may also be some limited circumstances where the turnover of transactions is quick, the amounts are large and the maturities are short. For example, an entity may have a portfolio of investments that it actively manages with frequent sales and purchases.

For financial institutions, there are additional exceptions to the gross presentation requirements, allowing many transactions with customers such as making loans and collecting repayments, to be presented net (IAS 7.24).

Example – net cash flows

Entity A is a travel agent that provides travel services to its customers. Customers pay the entity and entity A then remits the cash to the travel service providers, after deducting the related agency commissions. The suppliers are responsible for providing services direct to customers and for settling any claims from customers. Entity A presents as revenue the net commissions earned in accordance with IAS 18 *Revenue*.

Analysis

If the direct method of presenting operating cash flows is used, entity A will present cash receipts from customers and cash payments to suppliers on a net basis. This reflects the substance of the transactions with customers and suppliers, consistently with the statement of comprehensive income presentation of net revenue. If the indirect method of presenting operating cash flows is used, this net presentation is automatically reflected.

Starting point for the indirect method

Using the indirect method, an entity determines its cash flows from operating activities by adjusting profit or loss for various items (IAS 7.18(b)). This raises the question as to which profit or loss figure should be used. The illustrative example in Appendix A to IAS 7 starts with 'profit before tax' and so may be considered the preferred treatment but others are acceptable. Alternatives commonly seen in practice are:

- start with operating profit (this term is not defined in IFRS and so management judgement is needed to identify an appropriate sub-total for this item)
- start with the final profit or loss figure at the foot of the income statement (or the sub-total used immediately before the section presenting other comprehensive income if a single statement format is used).

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires the results of any discontinued operation to be presented separately from those of continuing operations on the face of the statement of comprehensive income. Consequently, the 'profit before tax' figure relates only to continuing operations and so will need to be adjusted for relevant operating cash flows relating to the discontinued operation if profit before tax is used as the starting point in the statement of cash flows. If the entity chooses to use the 'bottom line' profit or loss for the period amount, then this will include both continuing and discontinued operations and so no adjustment is needed.

In either case, the taxation paid figure should include the total from both continuing and discontinued operations.

Presentation of adjustments to profit or loss using the indirect method

IAS 7 is not explicit as to whether the adjustments to profit or loss should be presented on the face of the statement of cash flows or in the notes. The Illustrative Example in Appendix A to IAS 7 shows them in the statement itself and is a widely-used presentation. Presentation in the notes is also used but placement varies in practice (either among the other notes to the financial statements or immediately

following the statement of cash flows).

Reconciliation of cash and cash equivalent balances

IAS 7 requires that the components making up the total opening and closing balances of cash and cash equivalents in the statement of cash flows should be disclosed. These totals should be reconciled to the appropriate line items in the statement of financial position (IAS 7.45). For example, some term deposits or restricted cash deposits may be included in the line item 'cash at bank' in the statement of financial position, but are excluded from the balance of cash and cash equivalents (see 'Definition of cash and cash equivalents' section above).

Where the reporting entity holds foreign currency cash and cash equivalent balances, these are monetary items that will be retranslated at the reporting date in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Any exchange differences arising on retranslation will increase or decrease these balances but do not give rise to cash flows. The effect of these exchange differences is presented at the foot of the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and end of the period (IAS 7.28).

The treatment of foreign exchange differences in the statement of cash flows is discussed later in this Hot Topic.

Example – foreign exchange differences Extract from statement of cash flows

	20X1 CU000	20X0 CU000
Net change in cash and cash equivalents	23,469	1,165
Cash and cash equivalents, beginning of year	11,259	10,029
Exchange differences on cash and cash equivalents	61	43
Cash and cash equivalents, end of year	<u>34,789</u>	<u>11,237</u>

Extract from notes to the financial statements - Cash and cash equivalents

Cash and cash equivalents consist of the following:

	20X1 CU000	20X0 CU000
Cash at bank and in hand:		
CU	24,352	7,867
GBP	2,087	674
USD	1,392	449
Short-term deposits (CU)	<u>6,958</u>	<u>2,247</u>
	<u>34,789</u>	<u>11,237</u>

Non-cash transactions

IAS 7.43 requires that investing and financing transactions that do not involve an inflow or outflow of cash or cash equivalents are excluded from the statement of cash flows. Examples of such transactions include the issuance of shares in exchange for shares in another entity and the acquisition of property, plant or equipment under a finance lease.

Such transactions require specific disclosure to give the user of the financial statements relevant information about the transaction. For example, when equipment is acquired under a finance lease, it is necessary to eliminate this item from the total amount of tangible asset additions to identify the appropriate investing cash outflow. The non-cash transaction note can be used to reconcile the tangible asset additions figure, distinguishing cash additions from leased additions. Similarly, the creation of the finance lease liability does not involve any cash inflow so again the non-cash transaction note can be used to reconcile the movement in the liability. Any payments of principal are reported as financing cash outflows (IAS 7.17(e)), with any interest element reported as financing or operating, depending on the entity's accounting policy.

Example – non-cash transactions

Entity B is a manufacturing company. It obtains a new machine to use within its manufacturing plant under a 5-year finance lease agreement. Entity B recognises the machine within property, plant and equipment at an amount of CU400,000 and recognises a finance lease liability for CU400,000. By the end of the reporting period, B has paid scheduled repayments of CU35,000, of which CU2,900 was recognised as a finance cost in profit or loss. Entity B has a policy of recognising interest paid within financing activities.

Analysis

The addition to property, plant and equipment of CU400,000 will be shown as a non-cash transaction in the notes to the financial statements (IAS 7.43) because there is no immediate cash flow involved at the inception of the lease. The creation of the CU400,000 lease liability is not shown as a financing inflow but is instead disclosed in the non-cash transactions note.

The CU2,900 interest element of the lease rentals is included in the total of interest paid within financing activities in accordance with the entity's accounting policy and the CU32,100 (CU35,000 – CU2,900) capital element of the lease rentals paid will be classified as a financing outflow in accordance with IAS 7.17(e).

Central banking function

In some cases, the reporting entity may have no cash in its own name. For example, the cash operations of a subsidiary may be administered by the parent company which effectively acts as a bank. All suppliers and employees are paid by the parent company and receipts from customers are received into the parent company's bank account. As the subsidiary has no direct cash transactions, a question arises as to whether a statement of cash flows is required.

IAS 7.43 requires an entity to disclose its non-cash investing and financing transactions, suggesting that the subsidiary's transactions that are channelled through the parent should be disclosed. This does not, however, explicitly require disclosure of non-cash transactions relating to operating activities. On this basis, some may argue that there is no need to provide any such disclosure for a subsidiary that has no bank account. In our view, however, this view is hard to reconcile that approach with IAS 7's overall objectives. The fact that they channel these cash flows through another entity for administrative purposes should not detract from the need to present relevant information to users of the financial statements. In such situations, the subsidiary is effectively using the parent entity as its 'bank' and the intra-group account is, in substance, the subsidiary's 'bank account'.

In our view, the cash flow information described above is best presented as a primary statement of cash flows, clearly annotated to confirm that all cash flows are directed through another entity and recognising a zero balance in cash and cash equivalents at the beginning and end of the reporting period. The net impact of these centrally managed cash flows will be reflected in the intercompany balances between the parent and subsidiary. The net movement should be shown as an investing or financing activity as appropriate. This approach is consistent with the requirements in IAS 7 that all entities should prepare a statement of cash flows that forms an integral part of the financial statements.

Disclosure of total interest paid

IAS 7.31 requires that cash flows arising from interest and dividends received and paid be classified separately under the activity appropriate to their nature (see above). In addition, IAS 7.32 requires that the total amount of interest paid during a period be disclosed in the statement of cash flows. The amount included in this total includes all interest paid in the period, irrespective of whether it has been recognised as an expense in profit or loss or capitalised in accordance with IAS 23 *Borrowing Costs*. If all interest paid falls to be classified under a single activity, our preferred view is to show the total under the appropriate heading on the face of the statement of cash flows but presentation in a note to the financial statements is also acceptable. Some entities disclose this information immediately after the statement of cash flows.

Example - Capitalised interest

As in a previous example, entity A constructs a machine (that is a qualifying asset under IAS 23) and pays construction expenses of CU1,000, which includes CU50 of capitalised interest. The entity paid CU120 interest in the year, including the amount capitalised.

Analysis

Entity A has an accounting policy choice relating to the classification of capitalised interest:

recognise CU950 as an investing cash flow and CU120 as financing. In this case, the inclusion of a separate line item 'interest paid CU120' in financing activities is sufficient to satisfy the IAS 7.32 disclosure requirement

recognise CU1,000 as an investing cash flow and CU70 as financing. If this option is selected, entity A would also need to disclose the total amount of CU120 interest paid, either at the foot of the statement of cash flows or in a note to the financial statements.

Cash flow per share

Some entities may wish to disclose a 'cash flow per share' amount. This is not specifically addressed in IFRS and so judgement is needed to determine the appropriate accounting policy.

Relevant guidance may be found in AASB 133 / IAS 33 *Earnings Per Share*, which envisages that an entity may choose to disclose an amount per share that is based on a different amount than the earnings figure required by IAS 33. In such cases, IAS 33.73 requires specific disclosure, including details of how the numerator is calculated, together with a reconciliation to a related line item in the statement of comprehensive income. Although some entities wishing to disclose cash flow per share may not be included within the scope of IAS 33, the guidance for developing accounting policies given in IAS 8.10-11 would require that it be considered.

Measurement issues

There is little guidance within IAS 7 relating to the measurement of items to be included within the statement of cash flows because the measurement of gross cash flows usually requires little judgement or estimation. However, when the indirect method for the presentation of operational cash flows is used, there are some reconciliations that can cause problems in practice. The following guidance provides some reminders of how to address the most common issues.

Foreign currency exchange differences

As previously noted, when the reporting entity holds foreign currency cash and cash equivalents, these are monetary items that will be retranslated at the reporting date in accordance with AASB 121 / IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Any exchange differences arising on this retranslation will have increased or decreased these cash and cash equivalent balances. As these exchange differences do not give rise to any cash flows, they should not be reported as any part of the cash flow activities presented in the statement of cash flows. (Their net impact should be disclosed as a reconciling item between opening and closing balances of cash and cash equivalents at the foot of the statement of cash flows, as noted earlier.)

The non-cash impact of the exchange differences needs to be eliminated from the operating, financing and investing cash flows. The method of doing this within the statement of cash flows depends on a number of factors, including whether:

- the exchange difference has been recognised in profit and loss or in other comprehensive income (OCI)
- the related transaction is settled or unsettled
- the related transaction relates to operating, investing or financing activities
- the entity applies the direct or indirect method.

Individual entities

Exchange differences that have been recognised in profit or loss on settled transactions classified as operating activities do not cause any difficulties in the statement of cash flows as they will automatically have been reflected either through the direct cash flows or in the reconciliation from profit to operating cash flows using the indirect method. However, where a settled transaction does not relate to operating activities and the exchange gain or loss is included in profit or loss, it should be removed in the reconciliation required under the indirect method as it will in effect be included as part of the cash flows

arising from the settlement disclosed under financing or investing activities.

Example - Foreign currency cash flows

Entity A (whose functional currency is CU) had a balance of cash and cash equivalents of CU10,000, but no trade receivables or trade payables on 1 Jan 20X2. During 20X2, the entity entered into the following foreign currency transactions:

Entity A purchased goods for resale from Europe for €200,000 when the exchange rate was CU1=€1.5. This balance is still unpaid at 31 Dec 20X2 when the exchange rate is CU1=€1.6. An exchange gain on retranslation of the trade payable of CU8,333 is recorded in profit or loss [$€200,000 @ 1.5 = CU133,333$; $€200,000 @ 1.6 = CU125,000$]

Entity A sold the goods to an American client for \$280,000 when the exchange rate was CU1=\$2. This amount was settled when the exchange rate was CU1=\$1.96. A further exchange gain of CU2,857 regarding the trade receivable is recorded in profit or loss [$$280,000 @ 2 = CU140,000$; $$280,000 @ 1.96 = CU142,857$]

Entity A also borrowed €100,000 under a long-term loan agreement when the exchange rate was CU1=€1.54 and immediately converted it to CU64,935. The loan was retranslated at 31 Dec 20X2 @ 1.6 = CU62,500, with a further exchange gain of CU2,435 recorded in profit or loss.

Entity A therefore records a cumulative exchange gain of CU13,625 (8,333 + 2,857 + 2,435) in arriving at its profit for the year.

In addition, Entity A records a gross profit of CU6,667 (CU140,000 – CU133,333) on the sale of the goods.

Analysis

Entity A includes the following amounts in its statement of cash flows using the indirect method of reporting operating activities.

	CU
Profit (13,625 + 6,667)	20,292
Adjustment for:	
Foreign exchange gain on financing item	(2,435)
Increase in trade payables	<u>125,000</u>
Net cash inflow from operating activities	142,857
Cash inflow from financing activity	<u>64,935</u>
Net increase in cash and cash equivalents	207,792
Cash and cash equivalents at beginning of period	<u>10,000</u>
Cash and cash equivalents at end of period	<u>217,792</u>

Foreign operations

In a group situation, a foreign operation may be included in the consolidated financial statements. IAS 21 requires that the foreign operation's assets and liabilities be retranslated at the closing rate of exchange and income and expenditure items are translated at their actual exchange rate (or an average rate if appropriate). In this case, all exchange differences are recorded in other comprehensive income (OCI), until disposal of the foreign operation when they are reclassified into profit or loss. IAS 7 requires the foreign operation's cash flows to be translated at the actual exchange rate or an average rate, if appropriate (IAS 7.26-27).

Care is needed when applying the indirect method in the consolidated statement of cash flows that includes a foreign operation. If translated financial statements of the foreign operation are used, exchange differences will be included in the movements between opening and closing balances of assets and liabilities. For example, an increase in inventories held by a foreign subsidiary from \$240 to \$270 during the year will be reported as an unchanged amount of CU150 if the opening rate of CU1=\$1.60 becomes CU1=\$1.80 by the reporting date. It is therefore advisable to take the functional currency statement of cash flows of the foreign subsidiary as the starting point. The \$30 increase in inventories can then be translated at the average exchange rate (assuming this is an appropriate approximation) to achieve the required cash flow amount in the consolidated statement of cash flows. Otherwise, an adjustment is needed to not only account for the exchange difference related to the opening balance but also to reflect the difference between the closing rate used for the closing balance and the average rate used for the recognition of inventory used in profit or loss.

Example - Cash flows of foreign operations (extract)

Entity A (whose functional currency is CU) has a foreign subsidiary entity B, based in the USA. Entity B has an opening balance of inventory of \$240 and a closing balance of \$270. At the start of the year, the exchange rate is CU1 = \$1.60, the closing rate is CU1 = \$1.80 and the average rate for the year is CU1 = \$1.65.

Analysis

IAS 7.26 requires that the cash flows of the foreign subsidiary are translated at the actual exchange rate at the time of the transaction, or at an average exchange rate if that is a suitable approximation (IAS 7.27).

The simplest way of presenting the change in inventory of the foreign subsidiary is to identify the change in the subsidiary's functional currency and translate that at the average rate, ie \$30 (270-240) @ 1.65 = CU18.18. This amount is included in the changes in working capital presented in the reconciliation of net cash flows from operating activities using the indirect method. This can be reconciled as follows:

		CU
Inventories at end of year	(\$270 @ 1.8)	150
Inventories at beginning of year	(\$240 @ 1.6)	<u>150</u>
Change in inventory	\$30	-
Exchange difference:		
Retranslation of opening balance at closing rate	(\$240 @ 1.8 - \$240 @ 1.6)	16.67
Retranslation of movement included in profit or loss	(\$30 @ 1.8 - \$30 @ 1.65)	<u>1.51</u>
Increase in inventories reported in the statement of cash flows		<u>18.18</u>

Cash flows relating to business combinations and disposals

A number of cash flows can arise relating to the acquisition of a business by an entity. Generally, these are expected to be recognised as investing activities because IAS 7.39 requires that aggregate cash flows arising from obtaining or losing control of a subsidiary are presented separately within investing activities. However, other requirements in IAS 7 create apparent contradictions that have led to inconsistencies in practice.

Consideration transferred in a business combination
Deferred consideration

Normally, cash consideration paid at the time of a business combination will be classified as an investing activity (IAS 7.39). The acquiring entity will record the fair value of the deferred consideration as a liability at the acquisition date (AASB 3 / IFRS 3.37). This liability will increase as the discount reflecting the time value of money unwinds and is reflected as a finance charge in profit or loss. When the liability is settled at a later date, the payment will reflect both the amount initially recognised as consideration plus the interest element (ie the unwinding of the discount). IAS 7 does not deal directly with how this payment should be classified and so in practice the following alternatives may be observed:

- classify the entire payment as an investing cash flow on the grounds that it is part of the aggregate cash flows arising from obtaining control of the subsidiary (IAS 7.39)
- classify the entire payment as a financing cash flow on the grounds that the payment of deferred items represent a reduction of a liability; this is consistent with the required treatment of a payment made by a lessee to reduce the outstanding liability relating to a finance lease (IAS 7.17(e))
- disaggregate the payment into
 - the amount initially recognised as consideration (and treat as investing or financing as above) and
 - the interest element resulting from the unwinding of the discount, which should be treated as a financing or operating cash flow according to the entity's policy choice (see 'Interest and dividends' above).

This disaggregation approach is consistent with IAS 7.12, which notes that a single payment may include cash flows that are classified differently and gives the repayment of a loan as an example.

Our preferred view is to disaggregate the payment into the consideration and interest components in accordance with the third approach described above.

Future developments

The IFRS Interpretations Committee (IFRIC) has debated the treatment of both deferred and contingent (see below) consideration in a business combination at its meetings in September 2011, November 2011 and March 2012. No firm decisions were made at these meetings but the supporting Agenda Papers suggest that our preferred views are currently better supported than the alternatives. However, these discussions are not final and so cannot be considered as interpretive guidance from the IFRIC. Consequently, judgement is required to select an accounting policy choice until such time as IAS 7 is amended to address this lack of clarity.

Contingent consideration

Similar decisions need to be made for contingent consideration as for deferred consideration (see above) but with an added complication. As with deferred consideration, the amount initially recognised as a liability is the fair value of the contingent consideration (IFRS 3.39). Changes to this fair value that relate to conditions and events after the acquisition date are recognised in profit or loss and do not affect the consideration transferred in exchange for the acquiree (and, consequently, do not affect goodwill (IFRS 3.58)). In addition, the fair value initially recognised will be adjusted to reflect the passage of time and related unwinding of the discount. Again, inconsistency is observed in practice and the subsequent payment of the contingent consideration may be recognised as follows:

- classify the entire payment as an investing cash flow on the grounds that it is part of the aggregate cash flows arising from obtaining control of the subsidiary (IAS 7.39)
- classify the entire payment as a financing cash flow on the grounds that the payment of contingent consideration recognised as a liability represents a reduction of that liability; consistent with the required treatment of a payment made by a lessee to reduce the outstanding liability relating to a finance lease (IAS 7.17(e))
- disaggregate the payment in accordance with IAS 7.12 into:
 - the principal amount of contingent consideration, including any changes to the amount initially recognised to reflect any changes in the expected outcome of the contingency (classify this principal amount as investing or financing as above) and
 - the interest element resulting from the unwinding of the discount which should be treated as a financing or operating cash flow according to the entity's policy choice (see 'Interest and dividends' above)
- disaggregate the payment in accordance with IAS 7.12 into:
 - the amount initially recognised as consideration (and treat as investing or financing as above)
 - the amount of any excess over the amount initially recognised as consideration that reflects conditions and events after the acquisition date and are recognised in profit or loss. Classify this element of the payment as an operating cash flow on the grounds that it does not result in a recognised asset in the statement of financial position (IAS 7.16)
 - the interest element resulting from the unwinding of the discount, which should be treated as a financing or operating cash flow according to the entity's policy choice (see 'Interest and dividends' above).

Although technical arguments can be made to support the fourth approach (disaggregation into three components), this can be challenging to apply in practice, especially if the amount actually paid is lower than the original estimated amount of contingent consideration. Therefore, our preferred view is to disaggregate at least the interest component in accordance with the third approach.

Cash and cash equivalents acquired

Any cash and cash equivalents acquired in a business combination must be netted against the amount of consideration paid and disclosed under investing activities (IAS 7.42).

Transaction costs

There is no specific guidance in IAS 7 regarding transaction costs relating to the acquisition of a subsidiary and some inconsistency is seen in practice. IAS 7.39 states that the aggregate cash flows arising from obtaining or losing control of a subsidiary shall be presented separately and classified as investing. However, *Improvements to IFRSs* April 2009 amended IAS 7.16 such that only expenditure that results in a recognised asset in the statement of financial position is eligible for classification as investing activities. This seems to contradict IAS 7.39 because these transaction costs are expensed to profit or

loss in accordance with IFRS 3.53. In our view, classification as operating is preferred but classification as investing is considered acceptable. In either case, clear disclosure will be required.

Example – Acquisition of subsidiary

Entity D acquired a subsidiary on 1 October 20X1. Consideration of CU1,000,000 recognised at the date of acquisition consisted of:

cash - CU450,000

present value of deferred consideration payable in 6 months - CU225,000

fair value of contingent consideration - CU325,000. The actual amount payable depends on whether certain revenue and profit targets are met over the following year.

In addition, entity D paid CU25,000 acquisition costs. The identifiable net assets of the newly acquired subsidiary included cash and cash equivalents of CU140,000.

How is this acquisition reflected in the statement of cash flows for the year ended 31 December 20X1?

Analysis

within investing activities, a cash outflow of CU310,000 is reported, being the cash consideration paid of CU450,000 less the cash and cash equivalents acquired of CU140,000

the deferred and contingent consideration amounts of CU225,000 and CU325,000 are non-cash transactions, as no cash has yet been paid (see below). These amounts are excluded from the statement of cash flows but will be reported as part of the total consideration disclosure required by IAS 7.40

our preferred approach is to include the transaction costs of CU25,000 within operating cash flows

Example – Acquisition of subsidiary continued

During 20X2, Entity D

paid the deferred consideration CU225,000, plus interest of CU5,000

paid contingent consideration of CU375,000. This was a higher amount than recognised as consideration because the subsidiary's results exceeded expectations and included interest of CU15,000.

How are these payments reflected in the statement of cash flows for the year ended 31 December 20X2?

Analysis

Entity D has to make an accounting policy choice for the classification of each of these payments. If the disaggregation into three components approach is chosen:

the deferred payment of CU225,000 is classified as investing

the contingent consideration payment of CU375,000 is broken down into its component parts as follows:

CU325,000 initially recognised as consideration is classified as investing

CU15,000 interest is classified as below (either operating or financing)

the remaining CU35,000 relates to changes in circumstances since acquisition and is classified as operating

the total interest payment of CU20,000 (5,000+15,000) is classified as either operating or financing in accordance with the entity's normal policy choice.

Changes in non-controlling interests

Changes in ownership interests in a subsidiary that do not result in a loss of control are treated as equity transactions in accordance with IAS 27 *Consolidated and separate financial statements* and the cash flows arising from such changes are included within financing activities in accordance with IAS 7.42A.

Acquisitions and disposals of subsidiaries

When a subsidiary joins or leaves the group, its cash flows should be included in the consolidated statement of cash flows for the same period as the results are reported in the consolidated statement of comprehensive income. As noted previously, an entity presents separately within investing activities the aggregate cash flow arising from obtaining or losing control of a subsidiary (IAS 7.39). This aggregate cash flow includes any cash consideration paid or received and the amount of cash and cash equivalents in the subsidiary over which control is obtained or lost. IAS 7.42 requires the net of these two amounts to be included in investing activities.

Recording the cash consideration or proceeds net of any cash and cash equivalent balances transferred means that any property, plant and equipment, intangible assets and working capital (excluding cash and cash equivalents) of the subsidiary at the acquisition or disposal date would need to be eliminated from other cash flow headings so as to avoid double counting because the related amounts are already included within the investing activities figure. For example, when using the indirect method, the adjustments for changes in working capital between the opening and closing consolidated position are adjusted to eliminate the assets and liabilities acquired or disposed of. Any additions to property, plant and equipment and goodwill will not be separately reported within the statement of cash flows.

An example using the indirect method is set out overleaf. This example is intended to demonstrate the

mechanics of dealing with an acquisition or disposal of a subsidiary during the year in the statement of cash flows. A number of disclosure requirements have not been dealt with here but examples can be seen in the publication *Example consolidated financial statements*. For full details, refer to AASB 7 / IAS 7, AASB 3 / IFRS 3 and AASB 5 / IFRS 5.

Example – Subsidiary acquired in the year

Entity A acquires a subsidiary, entity B, during the year. Summarised information from the consolidated statements of comprehensive income and financial position is provided, together with some supplementary information, to demonstrate how the statement of cash flows under the indirect method is derived. Entity A has chosen to classify interest paid as a financing activity.

	20X2	
Consolidated statement of comprehensive income (extract)	CU	
Revenue		1,900
Cost of sales		<u>1,100</u>
Gross profit		800
Depreciation		(150)
Other operating expenses		(280)
Interest cost		<u>(20)</u>
Profit before taxation		350
Taxation		<u>(75)</u>
Profit after taxation		<u>275</u>
Consolidated statement of financial position (extract)	20X2	20X1
Assets	CU	CU
Cash and cash equivalents	40	25
Trade receivables	270	250
Inventories	150	175
Property, plant and equipment	800	400
Goodwill	<u>90</u>	<u>-</u>
Total assets	<u>1,350</u>	<u>850</u>
Liabilities	CU	CU
Trade payables	340	300
Income tax payable	60	55
Long term debt	<u>500</u>	<u>320</u>
Total liabilities	<u>900</u>	<u>675</u>
Net assets	<u>450</u>	<u>175</u>
Other information		
All of the shares of entity B were acquired for CU370 cash. The fair values of assets acquired and liabilities assumed were:		
		CU
Inventories		20
Trade receivables		40
Cash		10
Property, plant and equipment		550
Trade payables		(160)
Long term debt		(180)
Goodwill		<u>90</u>
Cash consideration paid		<u>370</u>
Analysis		
This information will be incorporated into the statement of cash flows as follows:		
Statement of cash flows for 20X2 (extract)	CU	CU
Profit before taxation		350
Adjustments for non-cash items		
Depreciation	150	
Decrease in inventories (150-175-20)	45	
Decrease in trade receivables (270-250-40)	20	
Decrease in trade payables (340-300-160)	(120)	
Interest paid included in financing activities	<u>20</u>	
		115
Taxation (60-55-75)		<u>(70)</u>
Net cash inflow from operating activities		395
Interest paid	(20)	
Net cash outflow from financing activities		(20)
Cash paid to acquire subsidiary (370-10)	(360)	
Net cash outflow from investing activities		<u>(360)</u>
Increase in cash and cash equivalents		15
Cash and cash equivalents, beginning of year		<u>25</u>
Cash and cash equivalents, end of year		<u>40</u>

Further Information

Example financial statements

- Home
- Publications
- Tools and resources
- Technical publications
- Financial Statements

The IFRS team at Grant Thornton International, of which Grant Thornton Australia Limited is a member, produces example financial statements to illustrate the application of the presentation and disclosure requirements of International Financial Reporting Standards (IFRS) which are consistent with Australian Accounting Standards (AASBs).

The preparation of financial statements in accordance with Australian Accounting Standards (AASBs) [Australian Equivalents to International Financial Reporting Standards (IFRS)] has been challenging over the last reporting season. The upcoming reporting season sees a period of consolidation and refinement, as there are minimal changes to the financial reporting requirements. However, preparers need to be wary of the next oncoming wave of changes as the various convergence projects between the International Accounting Standards Board (IASB)/Financial Accounting Standards Board (FASB) reach completion.

First-time adoption of IFRS

Example consolidated financial statements for first time adopters updated for 2011 changes.
Example interim consolidated financial statements.

Grant Thornton Australia has prepared Example Interim Financial Statements for December 2011, which have been tailored to suit a number of different scenarios. You can access them on the links below:

- Example interim consolidated financial statements

Grant Thornton Australia has prepared a number of Example Financial Statements for the year ended 31 December 2011, which have been tailored to suit a number of different scenarios. You can access them on the links below:

- Example consolidated financial statements for **large reporting entities**
- Example consolidated financial statements for **listed entities**
- Example consolidated financial statements for **those companies using the reduced disclosure regime**
- Example consolidated financial statements for **unlisted public companies**
- Example consolidated financial statements for **not-for-profit reporting entities**
- Example consolidated financial statements for **not-for-profit entities using the reduced disclosure regime**
- **Special purpose** example financial statements - single company

Should preparers like to discuss the recent developments within financial reporting and how these may impact upon your business, please contact your usual Grant Thornton Australia advisor, or the National Audit Support team on nationalaudit.support@au.gt.com. There are also various publications and alerts on the technical publications section of this website which provide an overview of these developments.

Example consolidated financial statements

Grant Thornton Australia has also prepared a number of Example Financial Statements for 2011, which have been tailored to suit a number of different scenarios. You can access them on the links below:

- Example consolidated financial statements for **large reporting entities**
- Example consolidated financial statements for **listed entities**
- Example consolidated financial statements for **those companies using the reduced disclosure regime**
- Example consolidated financial statements for **unlisted public companies**
- **Special purpose** example financial statements - single company
- Should preparers like to discuss the recent developments within financial reporting and how these may impact upon your business, please contact your usual Grant Thornton Australia advisor, or the National Audit Support team on nationalaudit.support@au.gt.com. There are also various publications and alerts on the technical publications section of this website which provide an overview of these developments.

New Zealand IFRS model financial statements

Illustrative example of general purpose financial statements for the year ended 30 June 2011 prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993, applying New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Example IFRS Financial Statements for the year ending 31 December 2010

These Example Financial Statements have been reviewed and updated to reflect changes in IFRSs that are effective for the year ending 31 December 2010.

For further information on these example financial statements, please contact Keith Reilly - National Head of Professional Standards at keith.reilly@au.gt.com, or a member of the National Audit Support team at nationalaudit.support@au.gt.com.

Example IFRS Financial Statements for the half year ending 30 June 2010

These Example Financial Statements have been reviewed and updated to reflect changes in IFRSs that are effective for the half year ended 30 June 2010.

In addition, Grant Thornton International has produced an alert on this topic, which you can access by [clicking here](#).

For further information on these example financial statements, please contact Keith Reilly - National Head of Professional Standards at keith.reilly@au.gt.com or a member of the National Audit Support team at nationalaudit.support@au.gt.com.

Example IFRS Financial Statements for the year ending 31 December 2009

These Example Financial Statements have been reviewed and updated to reflect changes in IFRSs that are effective for the year ending 31 December 2009.

For further information on these example financial statements, please contact Keith Reilly - National Head of Professional Standards at keith.reilly@au.gt.com or a member of the National Audit Support team at nationalaudit.support@au.gt.com.

Example IFRS Financial Statements for the half year ended 30 June 2009

This document illustrates a set of IFRS consolidated financial statements for the 6 month period ended 30 June 2009. This document illustrates the impact of the new standards which take effect in 2009 on interim reports in accordance with IAS 34 (AASB 134) Interim Financial Reports

For further information on these example financial statements, please contact Keith Reilly - National

Head of Professional Standards at keith.reilly@au.gt.com or a member of the National Audit Support team at nationalaudit.support@au.gt.com.

IFRS Example Financial Statements

This document illustrates a set of IFRS consolidated financial statements for the 12 month period ended 31 December 2008. This includes the early adoption of IAS 1 (AASB 101) Presentation of Financial Statements and IFRS 8 (AASB 8) Operating Segments.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at nationalaudit.support@au.gt.com.