

International Financial Reporting Standards (IFRSs) together with their accompanying documents are issued by the International Accounting Standards Board (IASB):

30 Cannon Street, London, EC4M 6XH, United Kingdom.

Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411

Email: info@ifrs.org Web: www.ifrs.org

Copyright © 2001 IFRS Foundation

IFRSs (which include International Accounting Standards and Interpretations) are copyright of the IFRS Foundation. The authoritative text of IFRSs is that issued by the IASB in the English language. Copies may be obtained from the IFRS Foundation Publications Department. Please address publication and copyright matters to:

IFRS Foundation Publications Department

30 Cannon Street, London, EC4M 6XH, United Kingdom.

Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749

Email: publications@ifrs.org Web: www.ifrs.org

All rights reserved. No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IFRS Foundation.



The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the 'Hexagon Device', 'IFRS Foundation', 'eIFRS', 'IAS', 'IASB', 'IASB Foundation', 'IASCF', 'IFRS for SMEs', 'IASS', 'IFRS', 'IFRSs', 'International Accounting Standards' and 'International Financial Reporting Standards' are Trade Marks of the IFRS Foundation

Basis for Conclusions on IAS 7 Statement of Cash Flows

This Basis for Conclusions accompanies, but is not part of, IAS 7.

- BC1 This Basis for Conclusions summarises the Board's considerations in reaching its conclusions on amending IAS 7 *Statement of Cash Flows* as part of *Improvements to IFRSs* issued in April 2009. Individual Board members gave greater weight to some factors than to others.
- BC2 IAS 7 was developed by the International Accounting Standards Committee in 1992 and did not include a Basis for Conclusions. This Basis refers to clarification of guidance on classification of cash flows from investing activities.

Classification of expenditures on unrecognised assets

- BC3 In 2008 the International Financial Reporting Interpretations Committee (IFRIC) reported to the Board that practice differed for the classification of cash flows for expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs. Some entities classified such expenditures as cash flows from operating activities and others classified them as investing activities. Examples of such expenditures are those for exploration and evaluation activities, which IFRS 6 *Exploration for and Evaluation of Mineral Resources* permits to be recognised as either an asset or an expense depending on the entity's previous accounting policies for those expenditures. Expenditures on advertising and promotional activities, staff training, and research and development could also raise the same issue.
- BC4 The IFRIC decided not to add this issue to its agenda but recommended that the Board amend IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activity.
- BC5 In 2008, as part of its annual improvements project, the IASB considered the principles in IAS 7, specifically guidance on the treatment of such expenditures in the statement of cash flows. The Board noted that even though paragraphs 14 and 16 of IAS 7 appear to be clear that only expenditure that results in the recognition of an asset should be classified as cash flows from investing activities, the wording is not definitive in this respect. Some might have misinterpreted the reference in paragraph 11 of IAS 7 for an entity to assess classification by activity that is most appropriate to its business to imply that the assessment is an accounting policy choice.
- BC6 Consequently, in *Improvements to IFRSs* issued in April 2009, the Board removed the potential misinterpretation by amending paragraph 16 of IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

- BC7 The Board concluded that this amendment better aligns the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position, reduces divergence in practice and, therefore, results in financial statements that are easier for users to understand.
- BC8 The Board also amended the Basis for Conclusions on IFRS 6 to clarify the Board's view that the exemption in IFRS 6 applies only to recognition and measurement of exploration and evaluation assets, not to the classification of related expenditures in the statement of cash flows, for the same reasons set out in paragraph BC7.

Illustrative examples

These illustrative examples accompany, but are not part of, IAS 7.

A Statement of cash flows for an entity other than a financial institution

- 1 The examples show only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements*.
- 2 Information from the statement of comprehensive income and statement of financial position is provided to show how the statements of cash flows under the direct method and indirect method have been derived. Neither the statement of comprehensive income nor the statement of financial position is presented in conformity with the disclosure and presentation requirements of other Standards.
- 3 The following additional information is also relevant for the preparation of the statements of cash flows:

- all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	100
Accounts receivable	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

- 250 was raised from the issue of share capital and a further 250 was raised from long-term borrowings.
- interest expense was 400, of which 170 was paid during the period. Also, 100 relating to interest expense of the prior period was paid during the period.
- dividends paid were 1,200.
- the liability for tax at the beginning and end of the period was 1,000 and 400 respectively. During the period, a further 200 tax was provided for. Withholding tax on dividends received amounted to 100.

- during the period, the group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.
- plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
- accounts receivable as at the end of 20X2 include 100 of interest receivable.

Consolidated statement of comprehensive income for the period ended 20X2^(a)

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Investment income	500
Foreign exchange loss	(40)
Profit before taxation	3,350
Taxes on income	(300)
Profit	3,050

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2.

Consolidated statement of financial position as at end of 20X2

	20X2	20X1
Assets		
Cash and cash equivalents	230	160
Accounts receivable	1,900	1,200
Inventory	1,000	1,950
Portfolio investments	2,500	2,500
Property, plant and equipment at	3,730	1910
Accumulated depreciation	(1,450)	(1,060)
Property, plant and equipment net	2,280	850
Total assets	7,910	6,660
Liabilities		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	400	1,000
Long-term debt	2,300	1,040
Total liabilities	3,180	4,030
Shareholders' Equity		
Share capital	1,500	1,250
Retained earnings	3,230	1,380
Total shareholders' equity	4,730	2,630
Total liabilities and shareholders' equity	7,910	6,660

Direct method statement of cash flows (paragraph 18(a))**20X2****Cash flows from operating activities**

Cash receipts from customers	30,150	
Cash paid to suppliers and employees	<u>(27,600)</u>	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	<u>(900)</u>	
<i>Net cash from operating activities</i>		1,380

Cash flows from investing activities

Acquisition of subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	<u>200</u>	
<i>Net cash used in investing activities</i>		(480)

Cash flows from financing activities

Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Dividends paid ^(a)	<u>(1,200)</u>	
<i>Net cash used in financing activities</i>		(790)

Net increase in cash and cash equivalents	<u>110</u>
--	------------

Cash and cash equivalents at beginning of period (Note C)	<u>120</u>
--	------------

Cash and cash equivalents at end of period (Note C)	<u><u>230</u></u>
--	-------------------

(a) This could also be shown as an operating cash flow.

Indirect method statement of cash flows (paragraph 18(b))**20X2****Cash flows from operating activities**

Profit before taxation	3,350	
Adjustments for:		
Depreciation	450	
Foreign exchange loss	40	
Investment income	(500)	
Interest expense	400	
	<u>3,740</u>	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	<u>(1,740)</u>	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	<u>(900)</u>	
<i>Net cash from operating activities</i>		1,380
Cash flows from investing activities		
Acquisition of subsidiary X net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	<u>200</u>	
<i>Net cash used in investing activities</i>		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Dividends paid ^(a)	<u>(1,200)</u>	
<i>Net cash used in financing activities</i>		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		<u>120</u>
Cash and cash equivalents at end of period (Note C)		<u><u>230</u></u>

(a) This could also be shown as an operating cash flow.

Notes to the statement of cash flows (direct method and indirect method)

A. Obtaining control of subsidiary

During the period the Group obtained control of subsidiary X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables`	(100)
Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of subsidiary X acquired	(40)
Cash paid to obtain control net of cash acquired	550

B. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.

C. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

	20X2	20X1
Cash on hand and balances with banks	40	25
Short-term investments	190	135
Cash and cash equivalents as previously reported	230	160
Effect of exchange rate changes	–	(40)
Cash and cash equivalents as restated	230	120

Cash and cash equivalents at the end of the period include deposits with banks of 100 held by a subsidiary which are not freely remissible to the holding company because of currency exchange restrictions.

IAS 7 IE

The Group has undrawn borrowing facilities of 2,000 of which 700 may be used only for future expansion.

D. Segment information

	Segment A	Segment B	Total
Cash flows from:			
Operating activities	1,520	(140)	1,380
Investing activities	(640)	160	(480)
Financing activities	(570)	(220)	(790)
	<u>310</u>	<u>(200)</u>	<u>110</u>

Alternative presentation (indirect method)

As an alternative, in an indirect method statement of cash flows, operating profit before working capital changes is sometimes presented as follows:

Revenues excluding investment income	30,650	
Operating expense excluding depreciation	<u>(26,910)</u>	
Operating profit before working capital changes		<u>3,740</u>

B Statement of cash flows for a financial institution

- 1 The example shows only current period amounts. Comparative amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements*.
- 2 The example is presented using the direct method.

20X2

Cash flows from operating activities

Interest and commission receipts	28,447
Interest payments	(23,463)
Recoveries on loans previously written off	237
Cash payments to employees and suppliers	(997)
	<u>4,224</u>

(Increase) decrease in operating assets:

Short-term funds	(650)
Deposits held for regulatory or monetary control purposes	234
Funds advanced to customers	(288)
Net increase in credit card receivables	(360)
Other short-term negotiable securities	(120)

Increase (decrease) in operating liabilities:

Deposits from customers	600
Negotiable certificates of deposit	(200)
Net cash from operating activities before income tax	3,440
Income taxes paid	<u>(100)</u>

Net cash from operating activities 3,340

continued...

IAS 7 IE

...continued

Cash flows from investing activities

Disposal of subsidiary Y	50	
Dividends received	200	
Interest received	300	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
<i>Net cash from investing activities</i>		650

Cash flows from financing activities

Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
<i>Net cash from financing activities</i>		200
Effects of exchange rate changes on cash and cash equivalents		600
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
Cash and cash equivalents at end of period		<u>8,840</u>