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This document has been prepared using materials issued by the International Accounting Standards Board (IASB). The IASB publishes its suite of Standards in three volumes:

- **Volume A** contains the core Standard and the IASB’s Board Approvals;
- **Volume B** contains Illustrative Examples and Implementation Guidance; and
- **Volume C** contains Basis for Conclusions and Dissenting Opinions.

Accordingly, this combined document may include references to “*this volume*”, *Part A, B or C*, or “*this edition*”. Any page references relate to the IASB’s published suite of Standards, not to this combined document.

The wording of the core Standard as issued by the IASB is not reproduced in this document.

Approval by the Board of *Disclosure Initiative* (Amendments to IAS 7) issued in January 2016

Disclosure Initiative (Amendments to IAS 7) was approved for issue by thirteen of the fourteen members of the International Accounting Standards Board. Mr Ochi dissented. His dissenting opinion is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
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Mary Tokar	
Wei-Guo Zhang	

IAS 7

Approval by the IASB of *Supplier Finance Arrangements* issued in May 2023

Supplier Finance Arrangements, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*, was approved for issue by 12 of 14 members of the International Accounting Standards Board (IASB). Mr Esterer and Ms Keren abstained from voting in view of their recent appointment to the IASB.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
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Rika Suzuki	
Ann Tarca	
Robert Uhl	

IASB documents published to accompany

IAS 7

Statement of Cash Flows

The text of the unaccompanied standard, IAS 7, is contained in Part A of this edition. Its effective date when issued was 1 January 1994. The text of the Accompanying Guidance on IAS 7 is contained in Part B of this edition. This part presents the following documents:

BASIS FOR CONCLUSIONS

DISSENTING OPINION

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 considerations of the International Accounting Standards Board 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 was not accompanied by 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 should 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 Board 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.

Investments in subsidiaries, associates and joint ventures

- BC8A In July 2024, the IASB issued *Annual Improvements to IFRS Accounting Standards – Volume 11*, which amended paragraph 37 of IAS 7 to replace the term 'cost method' with 'at cost'. The IASB had removed the definition of 'cost method' from IFRS Accounting Standards in May 2008 when it issued *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. However, at that time, the IASB had not amended paragraph 37 of IAS 7.

Changes in liabilities arising from financing activities (paragraphs 44A–44E)

Background to the January 2016 Amendments

- BC9 In January 2016 the Board amended IAS 7 to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments were in response to requests from users, including those received at the Board's *Financial Reporting Disclosure Discussion Forum* in January 2013 and reflected in the resulting Feedback Statement ('the Feedback Statement'), which was issued in May 2013. Users highlighted that understanding an entity's cash flows is critical to their analysis and that there is a need for improved disclosures about an entity's debt, including changes in debt during the reporting period. The Feedback Statement noted that users had been consistently asking for the Board to introduce a requirement for entities to disclose and explain a net debt reconciliation.
- BC10 In early 2014, to understand the reasons for their requests for more disclosure about net debt, the Board undertook a survey of investors. The survey sought information about why investors seek to understand the changes in debt between the beginning and the end of a reporting period. The survey also sought input on disclosures about cash and cash equivalents. On the basis of the survey, the Board identified that investors use a net debt reconciliation in their analysis of the entity:
- (a) to check their understanding of the entity's cash flows, because it provides a reconciliation between the statement of financial position and the statement of cash flows;

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- (b) to improve their confidence in forecasting the entity's future cash flows when they can use a reconciliation to check their understanding of the entity's cash flows;
- (c) to provide information about the entity's sources of finance and how those sources have been used over time; and
- (d) to help them understand the entity's exposure to risks associated with financing.

BC11 The survey helped the Board to understand why investors were calling for improved disclosures about changes in debt during the reporting period. The Board noted that one challenge in responding to this need was that debt is not defined or required to be disclosed in current IFRS Standards. The Board noted that finding a commonly agreed definition of debt would be difficult. However, the Board decided that it could use the definition of financing activities in IAS 7. It therefore decided to propose a requirement to disclose a reconciliation between the amounts in the opening and the amounts in the closing statements of financial position for liabilities for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows.

BC12 IAS 7 defines financing activities as activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. The Board proposed that a reconciliation of liabilities arising from financing activities would provide the information about debt that users of financial statements were requesting.

BC13 In December 2014 the Board published an Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) ('the 2014 Exposure Draft') seeking views on the proposals for a reconciliation of liabilities arising from financing activities.

Feedback on the proposals set out in the Exposure Draft

BC14 The feedback received on the 2014 Exposure Draft provided evidence that the disclosure would provide users of financial statements with the information they were seeking in order to analyse an entity's cash flows. The Board decided to finalise the amendments to IAS 7 ('the 2016 Amendments'); paragraphs BC15–BC24 set out how the Board responded to the feedback received on the 2014 Exposure Draft.

The objective of the disclosure

BC15 Feedback on the 2014 Exposure Draft noted that the proposal did not set out a disclosure objective, and consequently it was not sufficiently clear how entities would determine the most appropriate way to provide the required disclosure. The Board agreed with this feedback and included an objective within the requirement set out in paragraph 44A of the 2016 Amendments.

BC16 In setting the disclosure objective the Board decided the objective should reflect the needs of the users of financial statements, including those summarised in paragraph BC10.

Application of the 2016 Amendments to financial institutions

- BC17 Some respondents to the 2014 Exposure Draft from financial institutions stated that the proposals would provide little or no relevant information to users of their financial statements because:
- (a) only some of the sources of finance for a financial institution are classified as 'financing activities' (for example, deposits from customers provide finance but in practice the resulting cash flows are typically classified as operating cash flows). A reconciliation may therefore provide an incomplete picture of the changes in the financing structure of a financial institution; and
 - (b) other disclosure requirements (for example, comprehensive regulatory disclosure requirements) may already result in sufficient disclosure about an entity's financing structure.
- BC18 After taking into consideration the feedback from respondents from financial institutions, the Board decided that the disclosure requirement could be satisfied in various ways, and not only by providing a reconciliation. The Board noted that when an entity is considering whether it has fulfilled the disclosure requirement, it should take into consideration:
- (a) the extent to which information about changes in liabilities arising from financing activities provides relevant information to its users, considering the needs of users summarised in paragraph BC10; and
 - (b) whether the entity is satisfying the disclosure requirement through other disclosures included in the financial statements.
- BC19 The Board therefore decided that a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is one way to fulfil the disclosure requirement but should not be a mandatory format.

Information that supplements the disclosures

- BC20 Some respondents to the 2014 Exposure Draft expressed a concern that the proposals in the Exposure Draft were too restrictive because, in their view:
- (a) the proposed disclosure would not include liabilities that an entity considers to be sources of finance although the entity does not classify them as financing activities (for example, pension liabilities); and
 - (b) entities that already provided a net debt reconciliation (a reconciliation of movements in a net balance comprising debt less cash and cash equivalents) would be prevented from providing such a reconciliation, even if users would find it useful.
- BC21 The Board did not intend to prevent entities from providing information required by paragraph 44A in a format that combines it with information about changes in other assets and liabilities. For example, an entity could provide that information as part of a net debt reconciliation, as described in paragraph BC20(b). To ensure users can identify the information required by paragraph 44A, the format selected needs to distinguish that information

from information about changes in other assets and liabilities. In finalising the 2016 Amendments, the Board clarified these points in paragraph 44E.

Financial assets

- BC22 Some respondents to the 2014 Exposure Draft asked the Board to clarify whether changes in financial assets held to hedge financial liabilities could also be included in the disclosure required by the 2016 Amendments. The Board noted that paragraph G.2 of the Guidance on implementing IFRS 9 *Financial Instruments* states that cash flows arising from a hedging instrument are classified as operating, investing or financing activities, on the basis of the classification of the cash flows arising from the hedged item. Consequently, the Board clarified in paragraph 44C that changes in financial assets held to hedge financial liabilities are included in the disclosure required by paragraph 44A.

Cost-benefit considerations

- BC23 The Board considered the feedback received on perceived costs and benefits in finalising the 2016 Amendments. The Board noted that there will be initial costs for preparers to update information technology systems to enable changes in liabilities arising from financing activities to be tracked and collated. The Board also acknowledged that disclosing additional information could result in costs relating to extending the existing internal controls and audit processes of the entity. However, the Board noted that much of the information is already available to preparers. It also noted that the 2016 Amendments do not change the recognition or measurement for liabilities arising from financing activities; instead, they track changes in those items. Consequently, the Board concluded that it does not foresee any significant ongoing cost related to providing this information, and that the informational benefits to users of financial statements would outweigh the costs.

Illustrative example

- BC24 Some respondents to the 2014 Exposure Draft stated that the example proposed within the Exposure Draft was too simplistic and might not help preparers in disclosing relevant information, because in practice the reconciliation would be more detailed. To address this feedback, the Board inserted a further example in the illustrative examples accompanying IAS 7.

Other disclosures

- BC25 To supplement the current disclosure requirements in paragraph 48 of IAS 7 the 2014 Exposure Draft proposed additional disclosure requirements about an entity's liquidity such as restrictions that affect an entity's decision to use cash and cash equivalent balances. However, in the light of the responses, the Board decided that further work is needed before it can determine whether and how to finalise requirements arising from that proposal. The Board decided to continue that work without delaying the improvements to financial reporting that it expects will result from adding paragraphs 44A–44E to IAS 7. The Board may also, in due course, consider adding to its technical work programme a project that would look at liquidity disclosures more broadly.

Transition and effective date

Amendments to IAS 7

- BC26 The Board concluded that timely application of the 2016 Amendments would respond to a long-standing request from users of financial statements. Thus, the Board decided that the 2016 Amendments should be applied for annual reporting periods beginning on or after 1 January 2017, with early application permitted.
- BC27 Because the 2016 Amendments were issued in January 2016, which is less than one year before the beginning of the period when some entities could be required to apply them, the Board exempted entities from providing comparative information when they first apply the amendments.

Supplier Finance Arrangements (paragraphs 44F–44H)

Background to the 2023 amendments

- BC28 In May 2023 the IASB issued *Supplier Finance Arrangements* ('the 2023 Amendments'), which amended IAS 7 to require an entity to provide additional disclosures about its supplier finance arrangements. The Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* (published in December 2020 by the IFRS Interpretations Committee) sets out the requirements in IFRS Accounting Standards that were applicable to supplier finance arrangements prior to the 2023 Amendments. The amendments complement the disclosure requirements set out in the Agenda Decision in response to feedback from users of financial statements about the limitations of those requirements. These targeted amendments are intended to enable users to obtain from financial statements information they need to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another.

Disclosure objectives (paragraph 44F)

- BC29 The IASB developed the two disclosure objectives in paragraph 44F of IAS 7 to meet particular information needs of users of financial statements, namely to provide users of financial statements with information to enable them:
- (a) to assess how supplier finance arrangements affect an entity's liabilities and cash flows; and
 - (b) to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- BC30 Some respondents to the IASB's November 2021 Exposure Draft *Supplier Finance Arrangements* ('the 2021 Exposure Draft') asked the IASB to require an entity to calculate and disclose particular effects of its supplier finance arrangements rather than to provide information that users of financial statements would then use to assess the effects. However, other stakeholders informed the IASB that users of financial statements employ various models

when assessing the effects of these arrangements and, therefore, users of financial statements need information to make their own calculations. The IASB concluded that users of financial statements would derive greater benefit from making their own calculations, using information an entity discloses, even if those users might incur costs in doing so.

Scope of the 2023 Amendments (paragraph 44G)

BC31 In developing the requirements, the IASB considered various types of supplier finance arrangements and noted that an entity might enter into arrangements with varying structures and for various reasons. For example:

- (a) an entity obtains extended payment terms from the finance providers. The finance providers pay suppliers the amount they are due on the invoice due date, while the entity pays the finance providers an amount greater than the invoice amount, at a date later than the related invoice date.
- (b) an entity does not obtain extended payment terms from the finance providers, but the entity might have negotiated extended payment terms with its suppliers in the light of supplier finance arrangements being in place. Suppliers that are part of the supplier finance arrangement can choose to be paid a discounted amount by the finance providers earlier than the invoice due date.

BC32 The IASB decided to use the term 'supplier finance arrangements' to refer to the type of arrangements to which the amendments apply and developed the scope of the requirements:

- (a) to capture all supplier finance arrangements, irrespective of:
 - (i) the reason an entity entered into those arrangements;
 - (ii) the form or labelling of the arrangements; or
 - (iii) where and how an entity presents the related liabilities and cash flows in its statement of financial position and statement of cash flows.
- (b) to remain operable as new practices and arrangements evolve and develop.
- (c) to confine the scope to arrangements that finance 'amounts an entity owes its suppliers' (see paragraph 44G of IAS 7). The 2023 Amendments therefore do not apply to an entity's arrangements that finance receivables or inventory. In the IASB's view, a wider scope might have unduly delayed the needed improvements to the disclosures about supplier finance arrangements. The IASB's decisions also mean that an entity is not required to identify other actions its suppliers might have taken to finance their receivables (for example, factoring of receivables).

BC33 The scope excludes finance arrangements that might have some but not all the characteristics of supplier finance arrangements as described in paragraph 44G of IAS 7. This is because it is the characteristics of supplier finance arrangements (as described in paragraph 44G of IAS 7) that give rise to the particular information needs set out in paragraph BC29. Accordingly, arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, an entity uses a credit card to settle the amount owed to a supplier and will instead have an obligation to pay the issuing bank) are not supplier finance arrangements.

Disclosure requirements (paragraph 44H)

BC34 The IASB developed the disclosure requirements in paragraph 44H of IAS 7 to achieve the disclosure objectives in paragraph 44F of IAS 7. An entity is required to disclose:

- (a) the terms and conditions of its supplier finance arrangements. This disclosure is to inform users of financial statements that such arrangements are in place and to explain their nature.
- (b) the carrying amounts of financial liabilities, and associated line items, as required by paragraph 44H(b)(i) of IAS 7. This disclosure is to show the size of the entity's supplier finance arrangements and the line items in which the financial liabilities that are part of those arrangements are presented.
- (c) the carrying amounts of financial liabilities, and associated line items, for which suppliers have already received payment from the finance providers, as required by paragraph 44H(b)(ii) of IAS 7. This disclosure is to enable users of financial statements:
 - (i) to analyse the entity's liabilities and their effects on operating and financing cash flows; and
 - (ii) to understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- (d) the range of payment due dates of: financial liabilities that are part of a supplier finance arrangement; and comparable trade payables of the entity that are not part of such an arrangement. This disclosure is to enable users of financial statements to assess how these arrangements affect the entity's cash flows. In response to feedback on the 2021 Exposure Draft, the IASB decided to clarify that for this disclosure, trade payables of the entity that are not part of a supplier finance arrangement need to be comparable to the financial liabilities that are part of such an arrangement.

- (e) information required by paragraph 44H(b) of IAS 7 as at the beginning and end of each reporting period. This disclosure is to enable users of financial statements to assess changes during the period in the financial liabilities that are part of a supplier finance arrangement and to understand how these changes affect the entity's cash flows.

Aggregated information

BC35 The 2023 Amendments require an entity to aggregate the information it provides about its supplier finance arrangements. The 2021 Exposure Draft proposed that an entity be permitted to aggregate the information disclosed about supplier finance arrangements only when the terms and conditions of those arrangements are similar. In addition, an entity would have been required to disclose additional information about its supplier finance arrangements if necessary to meet the disclosure objectives.

BC36 After considering feedback on the 2021 Exposure Draft, the IASB decided that, in most cases, aggregated information about an entity's supplier finance arrangements will satisfy the information needs of users of financial statements. This is because supplier finance arrangements share the characteristics described in paragraph 44G of IAS 7, and it is those characteristics that give rise to the information needs of users of financial statements. Therefore, information about each individual supplier finance arrangement is not needed to provide useful information to users of financial statements. However, to avoid material information being omitted or obscured when aggregated, the 2023 Amendments require an entity to disclose:

- (a) separately the terms and conditions of arrangements that have dissimilar terms and conditions. Disaggregated information—if required—enables users of financial statements to assess the different types of arrangements an entity has entered into.
- (b) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under paragraph 44H(b)(i) of IAS 7. These non-cash changes are those that prevent the carrying amounts at the beginning of the reporting period and the carrying amounts at the end of the reporting period from being comparable to each other. These non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents. (See paragraph BC37 for further discussion of non-cash changes.)
- (c) explanatory information about the ranges of payment due dates, or additional ranges, if those ranges are wide. The additional information—if required—is necessary to enable users of financial statements to assess the effect of arrangements on an entity's cash flows.

BC37 As described in paragraph BC36(b), paragraph 44H(c) of IAS 7 requires the disclosure of non-cash changes in the carrying amounts of the financial liabilities disclosed under paragraph 44H(b)(i) of IAS 7. In the IASB's view, it was necessary to highlight these non-cash changes in response to feedback

from users of financial statements that these non-cash changes might not be apparent without additional disclosure. Disclosure of this information enables users of financial statements to assess the carrying amounts of financial liabilities on a more comparable basis from one reporting period to the next and to understand how these non-cash changes affect the entity's cash flows. For example, when an entity buys goods and services from suppliers, it would typically classify the cash outflows to settle amounts owed to its suppliers as a cash flow from operating activities. When an amount the entity owes its suppliers becomes part of a supplier finance arrangement, the entity—having considered the terms and conditions of the arrangement—might classify the cash outflow to settle the amount owed as a cash flow from financing activities. In such a circumstance, the entity might not have reported any cash inflow from financing activities, resulting in a non-cash change in liabilities arising from financing activities. The requirement in paragraph 44H(c) of IAS 7 does not alter the requirement in paragraph 44A of IAS 7 for an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

BC38 The IASB noted that paragraphs 29–31 of IAS 1 *Presentation of Financial Statements*¹ require an entity to apply its judgement to determine whether and, if so, how it aggregates (or disaggregates) information in its financial statements to avoid omitting or obscuring material information. Accordingly, the IASB decided it was unnecessary to develop disaggregation requirements in addition to those described in paragraph BC36. For example, the IASB did not develop additional requirements to assist an entity in determining whether the terms and conditions of its supplier finance arrangements are dissimilar.

Costs of complying with the disclosure requirements

BC39 In responding to the 2021 Exposure Draft, stakeholders informed the IASB that the information an entity is required to disclose in applying paragraphs 44H(a), 44H(b)(i) and 44H(b)(iii) of IAS 7 is generally available to entities. The IASB was therefore of the view that an entity's application of these requirements would not result in substantial costs for that entity. However, some stakeholders informed the IASB that the information an entity is required to disclose in applying paragraph 44H(b)(ii) of IAS 7—the carrying amounts, and associated line items, of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers—might not be readily available. Some entities might have to incur costs to produce this disclosure, for example, by amending contractual terms and conditions to access the required information. Other stakeholders, particularly users of financial statements, informed the IASB that without this disclosure, the information provided would be incomplete and would fail to satisfy user information needs (see paragraph BC34(c)). The IASB evaluated the costs and benefits for preparers

¹ In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaced IAS 1 *Presentation of Financial Statements*. Paragraphs 29–31 of IAS 1 have been replaced by paragraphs 19–20 and 41–43 of IFRS 18.

and users of financial statements and concluded that the benefits of requiring disclosure of this information outweigh the costs.

Effective date and transition of the 2023 Amendments (paragraphs 62–63)

- BC40 The IASB decided to require an entity to apply the amendments for annual reporting periods beginning on or after 1 January 2024. The IASB set the effective date and developed the transition requirements described in paragraph 63 of IAS 7 to achieve a balance between providing sufficient time for jurisdictions and entities to prepare for the implementation of the new disclosure requirements and meeting the information needs of users of financial statements (as described in paragraph BC29) on a timely basis.
- BC41 In reaching its decisions, the IASB considered:
- (a) the time needed by jurisdictions to incorporate the new requirements into their legal systems. The IASB was informed that jurisdictions expect to have completed their endorsement processes by 31 December 2024, but some jurisdictions might be unable to do so in time for interim reporting deadlines during 2024.
 - (b) the time needed by entities to develop processes and controls to collect and validate information to be disclosed and the time needed by audit firms to audit the information—particularly for the information required by paragraph 44H(b)(ii)–(iii) of IAS 7. Entities will need time to develop processes and controls to collect and validate information by the beginning of the annual reporting period in which an entity first applies the amendments. If an entity were to develop such processes and controls after the beginning of the first annual reporting period, it might not be possible to use those processes and controls, with the necessary reliability, on a retrospective basis.
 - (c) the nature of the amendments. The amendments do not change recognition or measurement requirements.
 - (d) the time needed for translation. Translation into other languages is not expected to take substantial time and effort because the amendments do not add a large amount of text to the requirements.
- BC42 The IASB concluded that the effective date and transition requirements also meet the information needs of users of financial statements on a timely basis because the disclosure requirements in IFRS Accounting Standards that are already in effect provide users of financial statements with some information about an entity's supplier finance arrangements (as set out in the Agenda Decision (see paragraph BC28)). The IASB also noted that paragraphs 30–31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* require an entity to provide disclosures when new requirements in IFRS Accounting Standards have been issued but are not yet effective and the entity has not yet applied those new requirements.

- BC43 The IASB did not change any disclosure requirements applicable to an entity's interim financial reports on an ongoing basis; an entity applies the requirements in IAS 34 *Interim Financial Reporting*. The IASB developed the transition relief in paragraph 63(c) of IAS 7 considering the time needed by jurisdictions and entities to prepare for the implementation of the new disclosure requirements (as described in paragraph BC41).
- BC44 The IASB also decided not to provide specific transition requirements for first-time adopters (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*) because of the disclosure-only nature of the amendments.

Starting point for the indirect method and the classification of interest and dividends

Background to the 2024 amendments

- BC45 When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB also amended IAS 7:
- (a) to require entities to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities; and
 - (b) to introduce new requirements for the classification of interest and dividend cash flows in the statement of cash flows.
- BC46 The amendments were made in response to requests from users of financial statements for requirements that would improve the comparability of one entity's statement of cash flows with those of others by reducing ways in which the statement may be presented.

Starting point for the indirect method

- BC47 The IASB decided to require all entities to use the same starting point for the indirect method because diversity in practice reduces comparability between entities, and so makes analysis by users of financial statements more difficult. The IASB decided to use operating profit or loss, a subtotal in the statement of profit or loss that is required by IFRS 18, as the starting point because:
- (a) an entity using operating profit or loss needs to present fewer adjustments to the starting point, which simplifies the presentation of the operating cash flows category. Fewer adjustments are needed because, compared to profit or loss, operating profit or loss includes fewer items of income and expenses for which the cash effects are classified as investing or financing cash flows. For example, operating profit or loss does not include the share of profit or loss of associates and joint ventures accounted for using the equity method.
 - (b) the difference between cash flows from operating activities and operating profit or loss provides a measure of operating accruals. Some users of financial statements find such a measure useful because it helps them understand how operating profit or loss is converted into

cash flows. The IASB acknowledged that the cash conversion analysis may not be as effective given that the operating category as defined in IFRS 18 differs in composition from operating activities as defined in IAS 7.

Classification of interest and dividend cash flows

BC48 Prior to the amendments in 2024, IAS 7 permitted an entity to choose to classify interest and dividend cash flows as operating, investing or financing activities in its statement of cash flows. As a result, classification varied, even among entities in the same industry. The IASB decided to remove the classification choice for most entities, because users of financial statements indicated that diversity in the classification between entities in the same industry:

- (a) reduces comparability, making their analyses more difficult; and
- (b) is often not meaningful—that is, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in an entity’s business activities.

Dividends paid

BC49 The IASB decided to require all entities to classify dividends paid as cash flows from financing activities because dividends paid are a cost of obtaining financing. Before the amendments, IAS 7 explained that classifying dividends paid as cash flows from operating activities may assist users of financial statements in determining an entity’s ability to pay dividends out of operating cash flows. However, although this treatment has some merit, the IASB decided there is greater benefit in no longer allowing classification of dividends paid as cash flows from operating activities because:

- (a) classifying dividends paid as a cash flow from operating activities does not provide a faithful representation of the operating cash flows. Dividend payments are financing in nature.
- (b) when assessing cash flows available to pay dividends, users tend to use other measures, such as free cash flow, which take into account cash needed for capital expenditure.
- (c) users can continue to compare dividends paid with cash flows from operating activities if they wish, because paragraph 31 of IAS 7 requires the separate presentation of dividends paid.

Dividends received and interest paid and received

BC50 The IASB decided to adopt a single category approach to classifying dividends received and interest paid and received. This approach generally seeks to align the classification in the statement of profit or loss with the classification in the statement of cash flows. Consequently, the classification of dividends received and interest paid and received depends on the entity’s main business activities (as determined in accordance with IFRS 18).

- BC51 When alignment can be achieved, it can increase the understandability of the resulting information. However, the IASB did not seek full alignment between the categories in the statement of profit or loss and the activities in the statement of cash flows. The IASB instead focused on requiring an entity to provide information in the statement of profit or loss that meets the needs of users for that statement. The IASB concluded that classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than full alignment between the two statements.
- BC52 Consistent with the classification of income and expenses in the statement of profit or loss, the IASB distinguished between the following types of entities in the requirements for the statement of cash flows:
- (a) entities that invest in assets or provide financing to customers as a main business activity (see paragraphs BC55–BC57); and
 - (b) entities whose main business activities do not include any of those described in (a) (see paragraphs BC53–BC54).
- BC53 The IASB decided to require entities described in paragraph BC52(b) to classify:
- (a) cash receipts from interest and dividends as cash flows from investing activities because, in most cases, the related income is expected to be classified in the investing category in the statement of profit or loss.
 - (b) cash payments arising from interest incurred as cash flows from financing activities because interest paid represents the cost of obtaining financing. The related interest expenses are classified in the financing category in the statement of profit or loss by such entities.
 - (c) cash payments arising from interest capitalised in accordance with IAS 23 *Borrowing Costs* as cash flows from financing activities. The IASB decided on this classification to avoid requiring potentially arbitrary allocations between operating and investing activities and because this approach would result in the consistent classification of interest paid, regardless of whether it has been capitalised.
- BC54 The IASB concluded that classifying interest and dividends in the statement of cash flows as described in paragraph BC53 will align with the classification in the statement of profit or loss in most cases. However, it does not achieve full alignment. For example:
- (a) interest expenses not arising from transactions that involve only the raising of finance, for example the unwinding of the discount of pension liabilities will be classified in the financing category in the statement of profit or loss but the contribution paid to the pension plan is generally classified as cash flows arising from operating activities in the statement of cash flows; and
 - (b) interest capitalised as part of the cost of an item of property, plant and equipment would be recognised in profit or loss as part of depreciation expenses, which would be classified in the operating category in the statement of profit or loss; whereas capitalised interest paid would be

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classified as cash flows from financing activities in the statement of cash flows.

- BC55 The IASB decided to require entities described in paragraph BC52(a) to classify the total of each type of cash flows (dividends received, interest paid and interest received) in a single category of the statement of cash flows, even if the associated income and expenses are classified in more than one category in the statement of profit or loss. The IASB concluded that classification in a single category is:
- (a) more useful than alignment with classification in the statement of profit or loss; and
 - (b) simpler to apply in practice.
- BC56 The IASB expects that, in most cases, an entity applying the requirement described in paragraph BC55 will classify interest payments in the same activity of the statement of cash flows as repayment of the principal. Consequently, the IASB decided to delete the example in paragraph 12 of IAS 7 that illustrated when an entity might classify cash flows from a single transaction in multiple activities in the statement of cash flows.
- BC57 The IASB considered, but decided against, an alternative requirement for the entities described in paragraph BC52(a). The rejected proposal would have required such entities to classify dividends received and interest paid and received in multiple activities of the statement of cash flows when the associated income and expenses were classified in multiple categories of the statement of profit or loss. The IASB decided against this approach because it may be costly for entities to split dividends received and interest paid and received between different activities of the statement of cash flows when the associated income and expenses are classified in multiple categories of the statement of profit or loss. The IASB also understands that some users of financial statements question the usefulness of the statement of cash flows for entities of the type described in paragraph BC52(a) and, therefore, the benefits of such an approach may not outweigh the costs.
- BC58 The IASB also considered requiring all entities to classify dividends received, interest paid and interest received as operating cash flows. This approach would have had some advantages:
- (a) it would have achieved the IASB's objective of eliminating options for the classification of interest and dividend cash flows.
 - (b) it would have allowed users of financial statements easily to identify where in the statement of cash flows dividends received and interest received and paid had been classified because they would all have been classified as operating cash flows. This would have been particularly beneficial to users of financial statements comparing a large number of companies using electronic reports.
 - (c) it would have been consistent with the principle in IAS 7 that cash flows from operating activities generally result from the transactions and other events that enter into the determination of profit or loss.

- (d) unlike the approach that the IASB finally decided upon, it would not have required amending the definition of investing activities to include the receipt of interest and dividends.
- (e) it would have been less costly for preparers of financial statements to apply because:
 - (i) classifying these cash flows would have been less complex than applying the IASB's final approach; and
 - (ii) for many entities this approach would not have resulted in a change to existing practice.

BC59 However, the IASB decided against the approach described in paragraph BC58 because:

- (a) the approach would be inconsistent with the definition of financing activities in IAS 7. The definition in IAS 7 captures interest paid, but in applying this approach interest paid would be classified as cash flows from operating activities.
- (b) the approach would result in less alignment of operating profit or loss with cash flows from operating activities of the statement of cash flows (see paragraph BC51). As a consequence, the difference between cash flows from operating activities and operating profit or loss would be a poorer measure of operating accruals than the difference that would result from applying the approach that the IASB finally decided upon (see paragraph BC47(b)).

BC60 The IASB decided to require an entity to classify dividends received from associates and joint ventures in the statement of cash flows in accordance with the requirements described in paragraphs BC50–BC56. The IASB concluded:

- (a) the measurement basis adopted for associates and joint ventures has no influence on dividends received; and
- (b) there is no reason to require entities that invest in financial assets as a main business activity to classify dividends received from associates and joint ventures that are accounted for using the equity method differently from dividends received from associates and joint ventures that are measured at fair value through profit or loss.

Dissenting opinion

Dissent of Mr Takatsugu Ochi from *Disclosure Initiative* (Amendments to IAS 7)

- DO1 Mr Ochi voted against the publication of *Disclosure Initiative* (Amendments to IAS 7) (the 2016 Amendments). The reasons for his dissent are set out below.
- DO2 Mr Ochi believes that financial statements that reflect the 2016 Amendments may provide incomplete information about an entity's management of liquidity. The objective of the 2016 Amendments is to require disclosures that enable users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. However, Mr Ochi thinks that users of financial statements are seeking clearer information about entities' management of liquidity risk. Consequently, he thinks that the information provided by the 2016 Amendments will not meet users' needs. Mr Ochi thinks that the Board has issued these amendments without setting a clear vision of overall improvements to the disclosure about an entity's liquidity risk management. He thinks that this could confuse and mislead users of financial statements.
- DO3 The objective mentioned in paragraph DO2 refers to liabilities arising from financing activities. Paragraph 44C specifies that those liabilities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. However, Mr Ochi thinks that specifying the scope of the disclosure requirement in this way does not capture the information that users need. This is because changes in liabilities arising from financing activities are different from the information used to assess liquidity risk management. Because IAS 7 permits an entity to classify some cash flows (such as interest payments) as either operating or financing, the understanding of what constitutes changes in liabilities arising from financing activities may vary among preparers. In Mr Ochi's view, preparers may have a more precise understanding about what constitutes information on liquidity risk than simply understanding changes in liabilities arising from financing activities.
- DO4 Mr Ochi also thinks that if an entity provides the disclosures required by paragraph 44A in combination with disclosure of changes in the amount of cash and cash equivalents and does not disclose information about the location and availability of the cash and cash equivalents, the disclosure is sometimes irrelevant to how an entity manages liquidity. If users expect to obtain a full picture of an entity's liquidity risk management as a result of the 2016 Amendments, they may be confused and misled.
- DO5 Mr Ochi thinks that providing the disclosure may require excessive work and hence may be inefficient from a preparer's point of view. He notes that the Board may conduct research regarding the effectiveness of IAS 7. Because he regards IAS 7 as having some significant shortcomings, he believes that issuing amendments based on the existing statement of cash flows is not a worthwhile endeavour. He also thinks that it could reduce the clarity of the statement of cash flows.

D06 Mr Ochi also has a significant concern regarding the costs required to prepare the disclosure. Although the 2016 Amendments are disclosure-only amendments, all reporting entities will need to consider providing this disclosure. For this disclosure, an entity may be required to adjust items already presented as operating and financing activities in a statement of cash flows (for example, interest payments that are classified as operating activities), which may require system changes. Concurrently, an entity may also have to initiate system changes to prepare for applying IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* (both effective on 1 January 2018) as well as IFRS 16 *Leases* (effective on 1 January 2019). Mr Ochi believes that the costs that will be incurred by entities as a consequence of those other changes will be considerable and he thinks that this fact is not reflected in the conclusion the Board had reached as a consequence of its assessment of costs pertaining to this disclosure. Taking these matters into consideration, Mr Ochi believes that the costs of the 2016 Amendments will outweigh the benefits.

IASB documents published to accompany

IAS 7

Statement of Cash Flows

The text of the unaccompanied standard, IAS 7, is contained in Part A of this edition. Its effective date when issued was 1 January 1994. The text of the Basis for Conclusions on IAS 7 is contained in Part C of this edition. This part presents the following documents:

ILLUSTRATIVE EXAMPLES

A Statement of cash flows for an entity that does not invest in assets or provide financing to customers as a main business activity

B Statement of cash flows for an entity that invests in assets or provides financing to customers as a main business activity

C Reconciliation of liabilities arising from financing activities

Illustrative Examples

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

A Statement of cash flows for an entity that does not invest in assets or provide financing to customers as a main business activity

- 1 The examples show only current period amounts. Comparative information for the preceding period is required to be presented in accordance with IFRS 18 *Presentation and Disclosure in 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
Trade and other receivables	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 and right-of-use assets relating to property, plant and equipment with an aggregate cost of 1,250, of which 900 related to right-of-use assets. Cash payments of 350 were made to purchase property, plant and equipment.

- depreciation on property, plant and equipment and amortisation of intangible assets for the period amounted to 350 and 100 respectively.
- plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
- trade and other receivables 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	(26,450)
Gross profit	<u>4,200</u>
Selling expenses	(600)
General and administrative expenses	(310)
Operating profit	<u>3,290</u>
Share of profit or loss of associates and joint ventures	50
Investment income	450
Foreign exchange loss	(40)
Profit before financing and income taxes	<u>3,750</u>
Interest expenses	(400)
Profit before income taxes	<u>3,350</u>
Income tax expense	(300)
Profit/total comprehensive income	<u><u>3,050</u></u>

(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		
Current assets		
Cash and cash equivalents	230	160
Trade and other receivables	1,900	1,200
Inventories	1,000	1,950
Non-current assets		
Investments in associates and joint ventures	500	450
Investments in other financial instruments	2,000	2,050
Property, plant and equipment	1,880	350
Intangible assets	400	500
Total assets	<u>7,910</u>	<u>6,660</u>
Liabilities		
Current liabilities		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	400	1,000
Non-current liabilities		
Long-term debt	2,300	1,040
Total liabilities	<u>3,180</u>	<u>4,030</u>
Equity		
Share capital	1,500	1,250
Retained earnings	3,230	1,380
Total equity	<u>4,730</u>	<u>2,630</u>
Total liabilities and equity	<u>7,910</u>	<u>6,660</u>

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	(27,600)
Cash from operating activities before income taxes	2,550
Income taxes paid	(900)
<i>Net cash from operating activities</i>	1,650
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	200
<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 lease liabilities	(90)
Interest paid	(270)
Dividends paid	(1,200)
<i>Net cash used in financing activities</i>	(1,060)
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of period (Note C)	120
Cash and cash equivalents at end of period (Note C)	230

Indirect method statement of cash flows (paragraph 18(b))

	20X2
Cash flows from operating activities	
Operating profit	3,290
Adjustments for:	
Depreciation	350
Amortisation	100
Operating profit before depreciation and amortisation	3,740
Increase in trade receivables	(500)
Decrease in inventories	1,050
Decrease in trade payables	(1,740)
Cash from operating activities before income taxes	2,550
Income taxes paid	(900)
<i>Net cash from operating activities</i>	1,650
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	200
<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 lease liabilities	(90)
Interest paid	(270)
Dividends paid	(1,200)
<i>Net cash used in financing activities</i>	(1,060)
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of period (Note C)	120
Cash and cash equivalents at end of period (Note C)	230

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
Trade and other receivables	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	<u>590</u>
Less: Cash of Subsidiary X acquired	<u>(40)</u>
Cash paid to obtain control net of cash acquired	<u><u>550</u></u>

B. Property, plant and equipment

During the period, the Group acquired property, plant and equipment and right-of-use assets relating to property, plant and equipment with an aggregate cost of 1,250, of which 900 related to right-of-use assets. 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	<u>230</u>	<u>160</u>
Effect of exchange rate changes	–	(40)
Cash and cash equivalents as restated	<u><u>230</u></u>	<u><u>120</u></u>

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.

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	1,720	(70)	1,650
Investing activities	(640)	160	(480)
Financing activities	(770)	(290)	(1,060)
	310	(200)	110
	310	(200)	110

E. Reconciliation of liabilities arising from financing activities

	20X1	Cash flows	Non-cash changes			20X2
			Interest expenses	Acquisition	New leases	
Long-term borrowings	1,040	250	–	200	–	1,490
Lease liabilities	–	(90)	–	–	900	810
Long-term debt	1,040	160	–	200	900	2,300
Interest payable	100	(270)	400	–	–	230
	1,140	(110)	400	200	900	2,530
	1,140	(110)	400	200	900	2,530

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:

Sales	30,650
Cost of sales	(26,000)
Selling expenses	(600)
General and administrative expenses	(310)
	3,740
Operating profit before depreciation and amortisation	3,740

B Statement of cash flows for an entity that invests in assets or provides financing to customers as a main business activity

- The example shows only current period amounts. Comparative information for the preceding period is required to be presented in accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*.
- The example is presented using the direct method.

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

Interest ^(a) and commission receipts	28,747	
Interest payments ^(a)	(23,463)	
Dividends received ^(a)	200	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
<i>(Increase) decrease in operating assets:</i>		
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)	
<i>Increase (decrease) in operating liabilities:</i>		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
Net cash from operating activities before income taxes	3,940	
Income taxes paid	(100)	
<i>Net cash from operating activities</i>		3,840

Cash flows from investing activities

Disposal of Subsidiary Y	50	
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>		150

continued...

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Direct method statement of cash flows (paragraph 18(a))

	20X2
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	8,840

(a) An entity classifies each of these cash flows in a single category.

C Reconciliation of liabilities arising from financing activities

- 1 This example illustrates one possible way of providing the disclosures required by paragraphs 44A–44E.
- 2 The example shows only current period amounts. Comparative information for the preceding period is required to be presented in accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*.

	20X1	Cash flows	Non-cash changes			20X2
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	22,000	(1,000)	–	–	–	21,000
Short-term borrowings	10,000	(500)	–	200	–	9,700
Lease liabilities	4,000	(800)	300	–	–	3,500
Assets held to hedge long-term borrowings	(675)	150	–	–	(25)	(550)
Total liabilities from financing activities	35,325	(2,150)	300	200	(25)	33,650