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IAS 7: Statement of Cash Flows

The Statement of Cash Flows is one of the primary statements that comprise a complete set of IFRS-compliant financial statements, as required by IAS 1: Presentation of Financial Statements.

This Statement classifies cash flows during a period separately into operating, investing and financing activities, and helps users to assess an entity's ability to **generate** cash and cash equivalents and how such cash flows are **utilised**.

Entities are required to disclose:

- **Cash and cash equivalents you started with at the beginning of the period**
- **Cash and cash equivalents you injected during the period**
- **What customers paid you**
- **What was spent on expenses in running the business**
- **What you received from selling items**
- **What was in spent in acquiring items**
- **Monies borrowed and/or repaid**
- **Investments made during the year**
- **Cash and cash equivalents you end up with at the end of the period**

A basic cash flow statement is represented as follows:

OPERATING ACTIVITIES	
• Cash receipts from the sale of goods and the rendering of services	XXX
• Cash payments to suppliers for goods and services	XXX
• Cash payments to and behalf of employees	XXX
• Cash receipts and payments from contracts held for dealing and trading purposes	XXX
Net cash inflows/(outflow) from operating activities	XXX

INVESTING ACTIVITIES	
• Cash receipts from the sales of property, plant and equipment	XXX
• Cash payments to acquire equity or debt instruments of other entities	XXX
• Cash advances and loans made to other parties	XXX
Net cash inflows/(outflow) from investing activities	XXX

FINANCING ACTIVITIES	
• Cash proceeds from issuing shares	XXX
• Cash proceeds from issuing debentures	XXX
• Cash repayments of amounts borrowed	XXX
• Cash receipts from a loan taken from the bank	XXX
Net cash inflows/(outflow) from financing activities	XXX

Sub Total:	Net increase/(decrease) in cash and cash equivalents	XXX
Add:	Cash and cash equivalents at the beginning of the year	XXX
TOTAL:	Cash and cash equivalents at the end of the year	XXX

1. Operating activities

The principal revenue-producing activities of the entity, and any other activities that are not investing or financing activities.

This section indicates whether or not a company has generated enough cash from its main operations to pay expenses, repay loans, make investments etc.

DIRECT METHOD:

Cash flows from operating activities	
Cash receipts from customers	20,000
Cash paid to suppliers & employees	(11,200)
Cash generated from operations	8,800
Interest paid	(200)
Income taxes paid	(300)
Net cash from operating activities	8,300

INDIRECT METHOD:

Cash flows from operating activities	
Profit before taxation	6,850
Adjusted for:	
Depreciation	200
Foreign exchange loss	50
Investment income	(300)
Interest expense	200
	7,000
(Increase)/Decrease in trade and other receivables	(1,000)
Increase/(Decrease) in trade and other payables	750
(Increase)/Decrease in inventories	2,050
Cash generated from operations	8,800
Interest paid	(200)
Income taxes paid	(300)
Net cash from operating activities	8,300

2. Investing activities

The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

This section allows users to determine how much cash has been spent on assets that will generate long-term future profits and cash flows.

NB!! Only expenditures that meet the definition of an "asset" (and is therefore recognised in the Statement of Financial Position) are eligible for classification as investing activities.

- Research and developments activities and advertising expenditure are required to be disclosed as operating activities.

Where an asset is acquired that will be used for *renting* to other parties, the cash flows on purchase (and subsequent sale) are deemed to be part of the OPERATING ACTIVITIES.

- **Asset to be used internally – INVESTING ACTIVITIES**
- **Asset held for rental to third parties – OPERATING ACTIVITIES**

3. Financing activities

Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

This section shows the share of cash that the providers of capital provided or claimed from the entity during the year.

4. Cash and cash equivalents

CASH

- Cash on hand and demand deposits.
- Actual cash held, and deposits where cash can be obtained immediately.
- Includes items of cash held in foreign currency.

CASH EQUIVALENTS

- Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- Investments in cash instruments that are not made for investment purposes, but as part of a cash management strategy.
- Defined by the Standard as having a short maturity if the maturity date is no longer than 3 months from date of acquisition.

BANK OVERDRAFTS

- In most countries it is commonplace for bank overdrafts to form part of cash and cash equivalents.
- These items are usually characterised by balances which fluctuate from being positive to overdrawn.

5. Other issues to be cognisant of

- ***Foreign currency***
  - cash flows arising from transactions in foreign currency must be recorded in an entity's **functional** currency
  - where the transactions take place in a foreign currency, they must be translated to the functional currency using the exchange rate at the date of the cash flow
- ***Interest and dividends***
  - cash flows from interest and dividends received and paid must be disclosed separately
- ***Taxation***
  - cash flows arising from taxes must be separately disclosed as operating activities (unless *specifically* identifiable with investing or financing activities)
- ***Business combinations***
  - where cash flows arise from obtaining or losing control of a subsidiary or other businesses, these must be separately disclosed as part of investing activities
  - the Standard requires disclosure of the following in the above scenario:
    - Total consideration paid or received
    - The portion of the consideration consisting of cash and cash equivalents
    - The amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost
    - The amount of the assets and liabilities other than cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category

- ***Finance leases***
  - finance leases give rise to an asset and a liability on the lessors statement of financial position on initial recognition of the transaction
  - these two transactions do not generate cash flows on initial recognition – only payments on the lease impact the statement of cash flows