

IAS 7

Statement of cash flows

1. Objective

The objective of IAS 7 is to specify the requirements entities must comply with when preparing information related to cash flows so as to allow the readers of their financial statements to understand the potential implications of incoming and outgoing cash flows and cash equivalents.

The Standard requires that a **statement of cash flows** be provided in the form of a **summary document**, giving users the possibility to:

- assess the **ability of the entity to generate cash and cash equivalents**;
- assess the entity's **financing requirements**;
- forecast the entity's **change in cash position**.
- improve the understanding of **how the entity generates and uses cash flows** for operating, investing and financing activities over the relevant period.

The statement of cash flows presents **inflows and outflows of cash** based on type (operating, investing and financing).

2. Scope

2.1 Introduction

Before dealing with requirements relating to the presentation of a statement of cash flows, the terms “cash” and “cash equivalents” need to be defined, which include the following items:

- **cash on hand and demand deposits**;
- **cash equivalents** readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, such as:
 - ✓ short-term investments,
 - ✓ liquid investments.

Cash and cash equivalents therefore may include the following:

- cash deposits;
- demand deposits;
- time deposits and related accrued interest not yet due, made less than three months before the end of the period and with a maturity of less than three months;
- risk-free investment securities;
- debit balances of bank accounts and related accrued interest not yet payable.

Cash and cash equivalents do not include:

- time deposits and related accrued interest not yet due, made more than three months before the end of the period and with a maturity of over three months;
- bonds with a maturity of over three months;
- equity investments, except if they are, in substance, cash equivalents;
- credit balances of bank accounts and other authorized overdrafts used for financing purposes;
- the share of loans and financial debts due within less than three months when originally contracted for a term of over three months.

2.2 Presentation of a Statement of cash flows

It is important to remember that IAS 7 categorises different types of cash flow depending on the activity which generated them: operating, investing or financing activities.

2.2.1 Cash flows from operating activities

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. They include operating cash flows corresponding to operating income and expenses, and other incoming and outgoing payments related to the company's business activities.

2.2.2 Cash flows from investing activities

Investing activities are defined as those related to the acquisition and disposal of long-term assets and other investments that are not included in cash equivalents.

In particular, investing activities include acquisitions and disposals of tangible and intangible fixed assets, acquisitions of interests in other entities, and other

financial fixed assets such as deposits and guarantees, and investment securities that are not recognized as cash.

2.2.3 Cash Flows from financing activities

Financing activities are activities that result in changes in the size and composition of the entity's financial resources in the form of equity and borrowings. The following are examples of items of cash flows from financing activities and which should be presented separately:

- increases in, or redemption of, share capital;
- borrowings which have been contracted or repaid;
- distribution of dividends.

It should be noted that the distribution of dividends may be presented either as a flow related to operating activities or as a flow related to financing activities depending on whether the dividend is considered to be a resource derived from operations or a return on capital invested.

2.3 Presentation of cash flows

2.3.1 Presentation of cash flows from operating activities

Two methods of presentation are allowed:

- the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed;
- the indirect method, whereby profit or loss is adjusted for the effects of:
 - ✓ transactions of a non-cash nature,
 - ✓ any deferrals or accruals of past or future operating cash receipts or payments,
 - ✓ items of income or expense associated with investing or financing cash flows.

Below is an example of an extract from a Statement of cash flows presented using the indirect method and showing the top part of the statement relating to cash flows from operating activities:

	Year N	Year N-1
Cash flows related to operating activities		
Net profit or loss before corporate income tax	25,000	15,000
Amortization/depreciation allowances	10,000	7,500
Depreciation of assets	3,500	7,000
Other items	1,500	1,500
Total cash flows from operating activities prior to change in WCR	40,000	31,000
Increase/Decrease of long-term receivables (beyond one year)	7,500	3,500
Increase/Decrease of customer receivables and other long-term assets	3,500	7,000
Decrease of debts with maturity of maximum one year	- 3,550	- 4,250
Change in Working Capital Requirements	7,450	6,250
Net cash flows from operating activities	47,450	37,250
Corporate income tax paid	3,800	2,400
Interest income received	1,500	750
Financing charges related to borrowings	- 3,500	- 4,000
Net change in cash flows from operating activities	49,250	36,400

2.3.2 Presentation of cash flows from investing activities

The following requirements apply here:

- only payments and receipts that result in the recognition or de-recognition of an asset in the Statement of financial position are eligible for classification as cash flows from investing activities;
- the main classes of incoming and outgoing gross cash flows are presented separately;
- the aggregate cash flows generated through the acquisition of subsidiaries, joint ventures and associates are classified as investments.

Below is a presentation of the section of the statement reporting this type of cash flow:

	Year N	Year N-1
Cash flows from investing activities		
Increase of intangible fixed assets	- 1,500	- 1,250
Increase of tangible fixed assets	- 30,000	- 25,000
Proceeds from disposal of tangible fixed assets	25,000	2,500
Proceeds from disposal of intangible fixed assets		750
Disposal of business activities		18,000
Other investments	5,000	- 1,500
Net change in cash flows from investing activities	- 1,500	- 6,500

2.3.3 Presentation of cash flows from financing activities

Cash flows from financing activities must be disclosed with the main classes of incoming and outgoing gross cash flows presented separately.

The following cash flows may be presented on a net basis:

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity;
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Information on the following changes in cash flows from financing activities must be disclosed:

- changes in cash flows used for financing activities
- changes of ownership interest leading to obtaining control or losing control of subsidiaries or other businesses
- effects of changes of foreign exchange rates
- changes in fair value
- other changes.

Below is a presentation of the section of the Statement of cash flows reporting cash flows from financing activities:

	Year N	Year N-1
Cash flows from financing activities		
Capital increase	10,000	
Borrowings contracted	50,000	15,000
Borrowings repaid	- 8,900	- 3,500
Dividends paid	- 2,500	- 1,250
Net change in cash flows from financing activities	48,600	10,250
Autres opérations d'investissement	5 000	- 1 500
Variation nette de la trésorerie liée aux opérations d'investissement	- 1 500	- 6 500

In this example, payment of dividends was considered as compensation to investors and recognized as part of financing activities.

2.4 Special Rules applicable to preparation of a Statement of cash flows

The following special rules apply to the preparation of a Statement of cash flows:

- interest is classified based on type - either from operating activities, investment activities or financing activities;
- cash flows related to corporate income tax are normally classified as cash flows from operating activities;
- cash flows denominated in foreign currencies are reported at the exchange rate in force on the date of the cash flow;
- when an investment in an entity is accounted for using the equity or cost method, an investor restricts its reporting in the Statement of cash flows to the cash

flows between itself and the investee.

As an example, the Statement of cash flows below presents all of the cash flows detailed above:

	Year N	Year N-1
Cash flows from operating activities		
Net profit before corporate income tax	25,000	15,000
Amortization/depreciation allowances	10,000	7,500
Depreciation of assets	3,500	7,000
Other items	1,500	1,500
Total cash flows from operating activities prior to change in WCR	40,000	31,000
Increase/Decrease of long-term receivables (beyond one year)	7,500	3,500
Increase/Decrease of customer receivables and other long-term assets	3,500	7,000
Decrease of debts with maturity of maximum one year	- 3,550	- 4,250
Change in Working Capital Requirements	7,450	6,250
Net cash flows from operating activities	47,450	37,250
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Interest income received	1,500	750
Financing charges related to borrowings	- 3,500	- 4,000
Net change in cash flows from operating activities	49,250	36,400
Cash flows from investing activities		
Increase of intangible fixed assets	- 1,500	- 1,250
Increase of tangible fixed assets	- 30,000	- 25,000
Proceeds from disposal of tangible fixed assets	25,000	2,500
Proceeds from disposal of intangible fixed assets		750
Disposal of business activities		18,000
Other investments	5,000	- 1,500
Net change in cash flows from investing activities	- 1,500	- 6,500
Cash flows from financing activities		
Capital increase	10,000	
Borrowings contracted	50,000	15,000
Borrowings repaid	- 8,900	- 3,500
Dividends paid	- 2,500	- 1,250
Net change in cash flows from financing activities	48,600	10,250
Net change in cash flows for the period	96,350	40,150