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## APPENDIX

**Amendments to Other Pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

- A1. In IAS 14 *Segment Reporting*, paragraph 22 is amended to read as follows:
22. Some guidance for cost allocation can be found in other Standards. For example, paragraphs 11-20 of IAS 2 *Inventories* (as revised in 2003) provide guidance on attributing and allocating costs to inventories, and paragraphs 16-21 of IAS 11 *Construction Contracts* provide guidance on attributing and allocating costs to contracts. That guidance may be useful in attributing or allocating costs to segments.
- A2. [Amendment not applicable to bare Standards]
- A3. [Amendment not applicable to bare Standards]

▼ **B****INTERNATIONAL ACCOUNTING STANDARD IAS 7****(REVISED 1992)****Cash flow statements**

This revised International Accounting Standard supersedes IAS 7, statement of changes in financial position, approved by the board in October 1977. The revision became effective for financial statements covering periods beginning on or after 1 January 1994.

## CONTENTS

	Paragraphs
Objective	
Scope	1-3
Benefits of cash flow information	4-5
Definitions	6-9
Cash and cash equivalents	7-9
Presentation of a cash flow statement	10-17
Operating activities	13-15
Investing activities	16
Financing activities	17
Reporting cash flows from operating activities	18-20
Reporting cash flows from investing and financing activities	21
Reporting cash flows on a net basis	22-24
Foreign currency cash flows	25-28
Extraordinary items	29-30
Interest and dividends	31-34
Taxes on income	35-36
Investments in subsidiaries, associates and joint ventures	37-38
Acquisitions and disposals of subsidiaries and other business units	39-42
Non-cash transactions	43-44
Components of cash and cash equivalents	45-47
Other disclosures	48-52
Effective date	53

**▼B**

The standards, which have been set in bold italic type should be read in the context of the background material and implementation guidance in this Standard, and in the context of the 'Preface to International Accounting Standards'. International Accounting Standards are not intended to apply to immaterial items (see paragraph 12 of the Preface).

**OBJECTIVE**

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

**SCOPE**

1. **An enterprise should prepare a cash flow statement in accordance with the requirements of this Standard and should present it as an integral part of its financial statements for each period for which financial statements are presented.**
2. This Standard supersedes IAS 7, statement of changes in financial position, approved in July 1977.
3. Users of an enterprise's financial statements are interested in how the enterprise generates and uses cash and cash equivalents. This is the case regardless of the nature of the enterprise's activities and irrespective of whether cash can be viewed as the product of the enterprise, as may be the case with a financial institution. Enterprises need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all enterprises to present a cash flow statement.

**BENEFITS OF CASH FLOW INFORMATION**

4. A cash flow statement, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises. It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.
5. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

**DEFINITIONS**

6. **The following terms are used in this Standard with the meanings specified:**

**Cash comprises cash on hand and demand deposits.**

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

**Cash flows are inflows and outflows of cash and cash equivalents.**

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**Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.**

**Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.**

**Financing activities are activities that result in changes in the size and composition of the equity capital and borrowings of the enterprise.**

*Cash and cash equivalents*

7. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.
8. Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an enterprise's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
9. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

## PRESENTATION OF A CASH FLOW STATEMENT

10. **The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.**
11. An enterprise presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.
12. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

*Operating activities*

13. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to repay loans, maintain the operating capability of the enterprise, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
14. Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss. Examples of cash flows from operating activities are:
  - (a) cash receipts from the sale of goods and the rendering of services;
  - (b) cash receipts from royalties, fees, commissions and other revenue;

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- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits;
- (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
- (g) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

15. An enterprise may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that enterprise.

*Investing activities*

16. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:
- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
  - (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
  - (c) cash payments to acquire equity or debt instruments of other enterprises and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
  - (d) cash receipts from sales of equity or debt instruments of other enterprises and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
  - (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
  - (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
  - (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
  - (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

*Financing activities*

17. The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are:

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- (a) cash proceeds from issuing shares or other equity instruments;
- (b) cash payments to owners to acquire or redeem the enterprise's shares;
- (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
- (d) cash repayments of amounts borrowed; and
- (e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

## REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

18. **An enterprise should report cash flows from operating activities using either:**

- (a) **the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**
- (b) **the indirect method, whereby net 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, and items of income or expense associated with investing or financing cash flows.**

19. Enterprises are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) from the accounting records of the enterprise; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the income statement for:
  - (i) changes during the period in inventories and operating receivables and payables;
  - (ii) other non-cash items; and
  - (iii) other items for which the cash effects are investing or financing cash flows.

20. Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, undistributed profits of associates, and minority interests; and
- (c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the income statement and the changes during the period in inventories and operating receivables and payables.

## REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

21. **An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.**

## REPORTING CASH FLOWS ON A NET BASIS

22. **Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**

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- (a) **cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and**
  - (b) **cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**
23. Examples of cash receipts and payments referred to in paragraph 22(a) are:
- (a) the acceptance and repayment of demand deposits of a bank;
  - (b) funds held for customers by an investment enterprise; and
  - (c) rents collected on behalf of, and paid over to, the owners of properties.
- Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:
- (a) principal amounts relating to credit card customers;
  - (b) the purchase and sale of investments; and
  - (c) other short-term borrowings, for example, those which have a maturity period of three months or less.
24. **Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:**
- (a) **cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**
  - (b) **the placement of deposits with and withdrawal of deposits from other financial institutions; and**
  - (c) **cash advances and loans made to customers and the repayment of those advances and loans.**

## FOREIGN CURRENCY CASH FLOWS

25. **Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.**
26. **The cash flows of a foreign subsidiary should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows.**
27. Cash flows denominated in a foreign currency are reported in a manner consistent with IAS 21, accounting for the effects of changes in foreign exchange rates. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, IAS 21 does not permit use of the exchange rate at the balance sheet date when translating the cash flows of a foreign subsidiary.
28. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

## EXTRAORDINARY ITEMS

29. **The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.**
30. The cash flows associated with extraordinary items are disclosed separately as arising from operating, investing or financing activities in the cash flow statement, to enable users to understand their nature and effect on the present and future cash flows of the enterprise. These disclosures

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are in addition to the separate disclosures of the nature and amount of extraordinary items required by IAS 8, net profit or loss for the period, fundamental errors and changes in accounting policies.

## INTEREST AND DIVIDENDS

31. **Cash flows from interest and dividends received and paid should each be disclosed separately. Each should be classified in a consistent manner from period to period as either operating, investing or financing activities.**
32. The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the income statement or capitalised in accordance with the allowed alternative treatment in IAS 23, borrowing costs.
33. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other enterprises. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
34. Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an enterprise to pay dividends out of operating cash flows.

## TAXES ON INCOME

35. **Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.**
36. Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

## INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

37. When accounting for an investment in an associate or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends and advances.
38. An enterprise which reports its interest in a jointly controlled entity (see IAS 31, financial reporting of interests in joint ventures) using proportionate consolidation, includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows. An enterprise which reports such an interest using the equity method includes in its cash flow statement the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND OTHER BUSINESS UNITS

39. **The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.**

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40. **An enterprise should disclose, in aggregate, in respect of both acquisitions and disposals of subsidiaries or other business units during the period each of the following:**
- (a) **the total purchase or disposal consideration;**
  - (b) **the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;**
  - (c) **the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of; and**
  - (d) **the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category.**
41. The separate presentation of the cash flow effects of acquisitions and disposals of subsidiaries and other business units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those of acquisitions.
42. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

## NON-CASH TRANSACTIONS

43. **Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**
44. Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an enterprise. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
  - (b) the acquisition of an enterprise by means of an equity issue; and
  - (c) the conversion of debt to equity.

## COMPONENTS OF CASH AND CASH EQUIVALENTS

45. **An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.**
46. In view of the variety of cash management practices and banking arrangements around the world and in order to comply with IAS 1, presentation of financial statements, an enterprise discloses the policy which it adopts in determining the composition of cash and cash equivalents.
47. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an enterprise's investment portfolio, is reported in accordance with IAS 8, net profit or loss for the period, fundamental errors and changes in accounting policies.

## OTHER DISCLOSURES

48. **An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the group.**



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49. There are various circumstances in which cash and cash equivalent balances held by an enterprise are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.
50. Additional information may be relevant to users in understanding the financial position and liquidity of an enterprise. Disclosure of this information, together with a commentary by management, is encouraged and may include:
- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
  - (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;
  - (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
  - (d) the amount of the cash flows arising from the operating, investing and financing activities of each reported industry and geographical segment (see IAS 14, segment reporting).
51. The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the enterprise is investing adequately in the maintenance of its operating capacity. An enterprise that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.
52. The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

## EFFECTIVE DATE

53. **This International Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 1994.**

**▼ M5***INTERNATIONAL ACCOUNTING STANDARD 8***Accounting Policies, Changes in Accounting Estimates and Errors**

## SUMMARY

	Paragraphs
Objective	1-2
Scope	3-4
Definitions	5-6
Accounting Policies	7-31
Selection and Application of Accounting Policies	7-12
Consistency of Accounting Policies	13
Changes in Accounting Policies	14-31
Applying Changes in Accounting Policies	19-27
Retrospective application	22
Limitations on retrospective application	23-27
Disclosure	28-31
Changes in accounting estimates	32-40