

## International Accounting Standard 7

# Statement of Cash Flows

*This version includes amendments resulting from IFRSs issued up to 31 December 2008.*

IAS 7 *Cash Flow Statements* was issued by the International Accounting Standards Committee in December 1992. It replaced IAS 7 *Statement of Changes in Financial Position* (issued in October 1977).

In April 2001 the International Accounting Standards Board resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

Since then, IAS 7 and its accompanying documents have been amended by the following IFRSs:

- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2003)
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in December 2003)
- IFRS 8 *Operating Segments* (issued November 2006)\*
- IAS 23 *Borrowing Costs* (as revised in March 2007)\*
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)\*
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008)†
- *Improvements to IFRSs* (issued May 2008).\*

As a result of the changes in terminology made by IAS 1 in 2007, the title of IAS 7 was changed to *Statement of Cash Flows*.

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\* effective date 1 January 2009

† effective date 1 July 2009

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*paragraphs*

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#### **APPENDICES**

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

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International Accounting Standard 7 *Statement of Cash Flows* (IAS 7) is set out in paragraphs 1–55. All the paragraphs have equal authority but retain the IASB format of the Standard when it was adopted by the IASB. IAS 7 should be read in the context of its objective, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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## **International Accounting Standard 7**

### ***Statement of Cash Flows***<sup>\*</sup>

#### **Objective**

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Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity 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 entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

#### **Scope**

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- 1 **An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall 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 entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities 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 entities to present a statement of cash flows.

#### **Benefits of cash flow information**

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- 4 A statement of cash flows, 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 entity, 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 entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the

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<sup>\*</sup> In September 2007 the IASB amended the title of IAS 7 from *Cash Flow Statements* to *Statement of Cash Flows* as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007.

future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities 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

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- 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.**

**Operating activities are the principal revenue-producing activities of the entity 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 contributed equity and borrowings of the entity.**

## 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 entity'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 entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

## Presentation of a statement of cash flows

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- 10** The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.
- 11** An entity 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 entity 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 entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, 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 entity. Therefore, they generally result from the transactions and other events that enter into the determination of 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;
  - (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 entity 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 that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

- 15 An entity 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 entity.

### **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 entities 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 entities 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.