

LKAS 07
Statement of Cash Flows

Objective

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 utilize 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 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

An entity shall prepare a statement of cash flow 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.

Definitions

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

Presentation of a statement of cash flows

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

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 premium 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.

Investing activities

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 rising 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 capitalized 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 purpose);

- 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 purpose);
- 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 future contracts, forward contracts, option contracts and swap contracts excepts 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 excepts when the contracts are held for dealing or trading purposes, or the receipts are classified as financial activities.

Financing activities

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 entity.

Examples of cash flows arising from financing activities are:

- a) Cash proceeds from issuing shares or other equity instruments;
- b) Cash payments to owners to acquire or redeem the entity'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 to a finance lease.

Reporting cash flows from operating activities

An entity shall report cash flows from operating activities using either:

The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed;

Or

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, and items of income or expense associated with investing or financing cash flows.

Foreign currency cash flows

Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Non cash transactions

Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

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 entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows 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 fiancé lease;
- b) The acquisition of an entity by means of an equity issue; and
- c) The conversion of debt to equity.

Other disclosures

An entity shall disclose, together with a commentary by management, the amount of significant cash equivalent balances held by the entity that are not available for use by the group.

Additional information may be relevant to users in understanding the financial position and liquidity of an entity. 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 and 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 cash flows arising from the operating, investing and financing activities of each reportable segment (see SLFRS 8 operating segments)