STAFF PAPER

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IASB Meeting

Project	**Primary Financial Statements**
Paper topic	Classification of interest and dividends in the statement of cash flows

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Purpose of paper

1. Paragraphs 33 and 34 of IAS 7 *Statement of Cash Flows* allow entities to choose how to present cash flows arising from interest and dividends as the table below shows. The staff have observed significant diversity in practice in the presentation of these line items (see agenda paper 21A from the November 2016 Board meeting).

Cash flow item	IFRS classification
Interest paid	Operating or financing
Dividends paid	Operating or financing
Interest received	Operating or investing
Dividends received	Operating or investing

2. This paper explores the removal of options for the classification of interest/dividends paid and interest/dividends received in the statement of cash flows by prescribing a single classification for each of these items.

3. This paper does not address the classification of interest/dividends paid or interest/dividends received for financial institutions and other entities providing financing services, or for conglomerate entities. We would like the Board to focus on determining a suitable approach for a straightforward non-financial entity first. We will consider at a future meeting how this approach could be applied or adapted to more complex scenarios.

Summary of staff recommendations

4. The staff recommend that the Board:

   (a) removes the existing options for classification of interest/dividends paid and of interest/dividends received and prescribes a single classification for these items;

   (b) focuses on the nature of interest paid and of interest and dividends received to determine whether these cash flows are operating in nature.

5. The staff also recommend that the Board clarifies that:

   (a) cash flows arising from interest incurred on financing activities should be classified as financing cash flows;

   (b) cash flows arising from interest paid that is capitalised as part of the cost of an asset should be classified as financing cash flows; and

   (c) dividends paid should be classified as financing cash flows.

6. We also recommend the Board amends the definition of 'investing activities' in IAS 7 to clarify that interest/dividends received should be classified as investing cash flows (but noting that we may reconsider this classification for dividends received from investments in associates/joint ventures when we discuss whether the profit or loss of *integral* associates/joint ventures should be part of the income/expenses from investments in the statement(s) of financial performance). We propose that this definition be amended as follows (proposed amendments have been underlined):

   > Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents~~.~~ <u>and the receipt of interest and dividends.</u>

Structure of paper

7. The paper is structured as follows:

   (a) Current IFRS requirements (paragraphs 8–11);

   (b) What is the problem? (paragraphs 12–13);

(c) Views from users and members of formal advisory bodies (paragraph 14);

(d) UK FRC's research on the statement of cash flows (paragraphs 15–17); and

(e) Staff analysis (paragraphs 18–59).

Current IFRS requirements

8. Relevant paragraphs of IAS 7 and of other relevant IFRS Standards are reproduced in Appendix A.

9. Paragraph 31 of IAS 7 requires an entity to disclose separately cash flows from interest and dividends (paid and received), and states that their classification as operating, investing or financing activities should be applied in a consistent manner from period to period.

10. Paragraph 33 of IAS 7[1] notes that there is no consensus on the classification of cash flows for non-financial entities and allows:

    (a) interest paid to be classified as either an operating or a financing cash flow;

    (b) interest/dividends received to be classified as either operating or investing cash flows; and

    (c) dividends paid to be classified as either an operating cash flow or a financing cash flow.

11. Notwithstanding this choice, paragraph 6 of IAS 7 defines 'operating', 'investing' and 'financing' activities[2].

What is the problem?

12. Our review of a sample of 25 financial statements[3] evidenced the existence of diversity in practice in the classification of interest and dividends in the statement of cash flows. Entities presented these line items in different locations within the

[1] Refer to paragraph A2 in Appendix A.

[2] Refer to paragraph A3 in Appendix A

[3] This analysis was presented in paragraph 60 of Agenda Paper 21A of November 2016.

statement of cash flows. The choice in classification appeared consistent among some entities in the same industry. However, in many cases, entities in the same industry made different choices.

13. The most common locations that entities in our sample used were:

(a) interest paid – even split between operating and financing.

(b) interest received – a majority classified interest received as operating rather than investing.

(c) dividends received – even split between operating and investing.

(d) dividends paid – a majority classified dividends paid as financing rather than operating.

Views from users and members of formal advisory bodies

14. We learned that many users and members of formal advisory bodies (except for one member of the Accounting Standards Advisory Forum (ASAF)[4]) support the removal of options for presenting cash flows arising from interest paid/received and dividends paid/received in the statement of cash flows. They mentioned that variation among entities is often not meaningful (i.e. does not reflect differences in business model) and only makes comparative analysis difficult. They particularly expressed a desire for consistency in the presentation of interest paid. However, they did not reach a consensus as to whether interest paid should be presented as an operating or financing cash flow. Many of them, however, leaned towards the financing cash flow option. Some were also of the view that dividends paid should be a financing cash flow. A few users made some comments regarding the classification of interest received and dividends received but there was no consensus.

[4] Refer to ASAF meeting from March 2017, paragraph 67. The representative from the Asian-Oceanian Standard-Setters Group (AOSSG) supported maintaining the options for classifying interest and dividends in the statement of cash flows.

UK FRC's research on the statement of cash flows

15. Section 2 of the FRC Discussion Paper (refer to paragraphs 2.20 –2.34) sets out some suggestions for the classification of interest/dividends paid and of interest/dividends received.

16. The FRC Discussion Paper suggested that:

    (a) interest paid should be reported in the financing category of the cash flow statement, as 'all cash payments to lenders are simply fulfilment of contractual promises made to the holders of the debt';

    (b) cash received from customers (including any amount treated as interest income in the statement of profit or loss) should be reported within cash flow from operating activities;

    (c) dividends paid should be reported as financing cash flows because dividends are paid to providers of capital; and

    (d) dividends received should be reported as cash flows from investing activities as they are payments received from investments.

17. The FRC Feedback Statement reported[5] that a majority of respondents consider that all cash flows relating to financing liabilities (i.e. including interest payments) should be reported in the financing category of the statement of cash flows with a few suggesting that interest payments should be presented separately from the repayment of principal. A few respondents commented on the classification of dividends paid and these respondents observed that dividends paid should be classified as financing cash flows. The Feedback Statement did not report back comments on the classification of dividends received. One respondent observed that interest received on cash that is included as part of an entity's net debt position should be classified as financing cash flows.

[5] Refer to paragraph 14 of the FRC Feedback Statement.

Staff analysis

18. We have split our analysis into the following topics:

    (a) Issue 1. Why should the Board remove the options for classifying cash flows from interest and dividends?

    (b) Issue 2. If the Board decides to remove the options for classifying cash flows from interest and dividends, where should these items be classified?

Issue 1. Why should the Board remove the options for classifying cash flows from interest and dividends?

19. Having options in the classification of cash flows arising from interest and dividends can make the information presented less comparable and many users told us that they would prefer not to have to spend as much time searching for or making the information more comparable (refer to paragraph 14). Likewise, options can reduce the comparability of the subtotals in the statement of cash flows (i.e. operating, investing and financing cash flow subtotals).

20. We think that a way to address the concerns expressed by users would be to consider prescribing a single classification for these items for non-financial entities. We observe the following advantages of requiring a single classification:

    (a) it will reduce diversity in practice for presentation of cash flows that do not appear to differ in nature from entity to entity (ignoring for the moment financial services companies), making them easier to find within the statement of cash flows; and

    (b) it will make the statement of cash flows from different entities more comparable, making it easier for users to perform comparative analyses.

21. The main disadvantage of this approach is that it removes flexibility that may allow preparers to better reflect the way they manage the cash flows relating to their business activities. However, feedback from users suggests that reducing diversity in practice, in the statement of cash flows, is more important than allowing preparers the flexibility to reflect how they manage their cash flows. This is also the approach we

have taken for the related profit and loss items in the statement(s) of financial performance, and for similar reasons.

Issue 1—Question to the Board
1. Does the Board agree with our recommendation to remove the existing options for classification of interest/dividends paid and of interest/dividends received and prescribe a single classification for these items?

Issue 2. If the Board decides to remove the options for classifying cash flows from interest and dividends, how should these items be classified?

22. This section explores the removal of options for the classification of interest and dividends in the statement of cash flows and recommends a single classification for these items. In doing so, the staff focuses on analysing the nature of the cash flow in accordance with the existing definitions in IAS 7 of ‘operating’, ‘investing’ and ‘financing’ activities to determine the most appropriate classification.

23. We also address whether the staff’s proposed classification in accordance with the requirements of IAS 7 would be consistent with the staff proposals regarding the classification of related income/expense items in the statement(s) of financial performance. We have based this analysis on the Board’s recent discussions about subtotals as well as the introduction of an income/expenses from investments category[6].

24. We have split our analysis into the following sub-sections:

    (a) Issue 2A. Problems with the current IAS 7 rationale for classifying interest paid and interest/dividends received as operating activities (paragraphs 25–27);

    (b) Issue 2B. Classification of interest paid (paragraphs 28–34);

    (c) Issue 2C. Classification of interest paid that is capitalised (paragraphs 35–40);

[6] See Agenda Papers 21A –21B for the November 2017 Board meeting.

(d) Issue 2D. Classification of dividends paid (paragraphs 41–45); and

(e) Issue 2E. Classification of interest received and dividends received (paragraphs 46–59).

***Issue 2A*. Problems with the current IAS 7 rationale for classifying interest paid and interest and dividends received as operating activities**

25. Paragraph 33 of IAS 7 allows an entity to classify interest paid and interest and dividends received as operating cash flows because ‘they enter into the determination of profit or loss’. This rationale is based on paragraph 14 of IAS 7, which states that cash flows from operating activities ‘generally result from the transactions and other events that enter into the determination of profit or loss’. More specifically, because the accrual-basis equivalent of interest paid and interest and dividends received enters into the determination of profit or loss.

26. The staff think that the rationale used in paragraph 33 of IAS 7 for classifying interest paid and interest and dividends received as part of operating activities disregards the nature of those cash flows, and makes the cash flow statement less useful than it could be. This is because most profit-related accrual-based items enter into the determination of profit or loss (except for other comprehensive income items), and applying the rationale provided in paragraph 33 of IAS 7 would lead an entity to classify most of its cash flows that relate to income statement flows as part of operating activities, irrespective of their ‘true’ nature as operating, investing or financing cash flows.

27. In our view, interest paid and interest and dividends received should be considered ‘operating’ if they are cash flows derived from the principal revenue-producing activities of the entity and/or if they do not meet the definition of ‘investing’ or ‘financing’ cash flows; this also accords with the definition of ‘operating activities’ in paragraph 6 of IAS 7. Consequently, in our analysis of the nature of interest paid (refer to Issue 2B) and of interest and dividends received (refer to Issue 2E) we have focused on the definitions of operating, investing and financing activities in IAS 7 and the proposals we have made for the statement(s) of financial performance, rather than the rationale used in paragraph 33 of IAS 7 for classifying interest and dividends as operating cash flows.

Issue 2A—Question to the Board

1. Does the Board agree with the staff recommendation to focus on the nature of interest paid and of interest and dividends received to determine whether these cash flows are operating in nature and not on whether their accrual-based equivalent enters into the determination of profit or loss?

Issue 2B. Classification of interest paid

28. Paragraph 33 of IAS 7 allows a non-financial entity to classify interest paid as:

    (a) a financing cash flow, because it represents a cost of obtaining financial resources; or alternatively, as

    (b) an operating cash flow.

Why do we think that interest paid is a financing cash flow?

29. Paragraph 6 of IAS 7 defines 'financing activities' as those that 'result in changes in the size and composition of the contributed equity and borrowings of the entity'.

30. At its November 2017 meeting, the Board tentatively decided to clarify the definition of financing activities. Applying that clarification, a financing activity involves:

    (a) the receipt or use of a resource from a provider of finance (or provision of credit).

    (b) the expectation that the resource will be returned to the provider of finance.

    (c) the expectation that the provider of finance will be appropriately compensated through the payment of a finance charge. The finance charge is dependent on both the amount of the credit and its duration[7].

31. The staff observe that interest paid forms part of the third component (i.e. paragraph 30(c))— that is, interest paid is part of the compensation that an entity pays to the provider of finance.

[7] Refer to *IASB Update* of November 2017.

32. Consequently, for non-financial entities, interest paid on borrowings is a financing outflow because it:

    (a) results from a decision to finance an entity with debt;

    (b) it is incurred for the use of debt capital; and

    (c) represents a cost of obtaining financial resources.

33. At the November 2017 meeting the Board tentatively agreed with some examples of liabilities that could be considered ‘borrowings’ for straightforward non-financial entities and that would meet the Board’s proposed definition of ‘financing activities’. These include debentures, loans, notes, bonds and mortgages, lease liabilities, as well as trade payables negotiated on extended credit terms.[8]

Staff recommendation

34. On the basis of our analysis above, we recommend that interest paid on financing activities (ie on borrowing activities) is a financing cash flow in the statement of cash flows.

Issue 2B—Question to the Board
1. Does the Board agree that cash flows arising from interest incurred on financing activities (as defined and clarified in paragraphs 29-30) should be classified as financing cash flows?

***Issue 2C*. Classification of interest paid that is capitalised**

Is interest paid that is capitalised a financing activity, investing activity or an operating activity?

35. Paragraph 32 of IAS 7 states that the total amount of interest paid is included in the statement of cash flows whether or not that interest is capitalised. However, IAS 7 does not specify whether capitalised interest should be classified in the same way as interest that is not capitalised.

[8] Refer to paragraph 42 of agenda paper 21B of November 2017.

36. Interest paid that is capitalised into the cost of an asset is potentially eligible for classification as an investing activity in accordance with paragraph 16 of IAS 7, as it results in a recognised asset in the statement of financial position[9]. However, this might seem inconsistent with paragraphs 32–33 of IAS 7 which appear to require interest paid to be classified *only* as an operating or a financing cash flow. We think that having these options is unhelpful and suggest that IAS 7 should specify how capitalised interest paid should be classified, including whether that is different from non-capitalised interest.

37. The IFRS Interpretations Committee discussed the classification of interest cash flows that are capitalised and proposed that the Board amend IAS 7 to clarify that the classification of this type of payment should follow the same classification as the underlying asset into which those payments were capitalised. So if interest has been capitalised as part of operating assets (such as inventory), the related interest cash flow would be classified as operating; or if interest has been capitalised as part of investing assets (such as property, plant and equipment) the related cash flows would be classified as investing.

38. A majority of respondents supported the amendment. However, the IFRS Interpretations Committee recommended that the Board did not proceed with the proposed amendment due to the concerns raised by some respondents that it would involve arbitrary allocations in determining how much of the interest capitalised has been paid to acquire underlying assets (operating and/or investing assets)[10].

39. We think that the Interpretations Committee's proposal is consistent with the rationale in paragraph 16 of IAS 7, as the classification of interest paid that is capitalised follows the nature of the related cash flows of the underlying asset. However, we acknowledge that there might be implementation issues when introducing this classification, in particular, identifying a direct relationship between specific borrowings and a qualifying asset, which is a difficulty that has been flagged already

[9] Refer to paragraph A4 in Appendix A

[10] Refer to Exposure Draft (ED) on Annual Improvements to IFRSs 2010 –2012 cycle (ED/2012/1) published in May 2012, the analysis of the feedback received on the proposed amendment in agenda paper 9C of the March 2013 Interpretations Committee meeting and the IFRIC *Update* from March 2013.

by paragraph 11 of IAS 23 *Borrowing Costs*[11]. We consequently are of the view that to avoid arbitrary allocations the Board should propose that the nature of interest paid (whether capitalised or not) is always financing. In addition, we think that our proposal would make it easier for users to identify the total cash interest paid during the period, which is a figure they are keen to identify.

Staff recommendation

40. On the basis of our analysis above, we recommend that the cash flow arising from interest paid that is capitalised as part of the cost of an asset should be a financing cash flow, consistently with non-capitalised interest paid.

Issue 2C. Question to the Board
1. Does the Board agree that the cash flow arising from interest paid that is capitalised as part of the cost of an asset should be classified as a financing cash flow?

Issue 2D. Classification of dividends paid

41. Paragraph 34 of IAS 7 allows a non-financial entity to classify dividends paid as:

(a) a financing cash flow, because it represents a cost of obtaining financial resources; or alternatively,

(b) an operating cash flow as this classification assists users to determine the ability of an entity to pay dividends out of operating cash flows.

Why do we believe dividends paid are financing cash flows?

42. Similar to interest paid, cash flows resulting from dividends paid arise from decisions about the capital structure of the entity because they:

(a) result from a decision to finance an entity with equity; and

(b) are incurred to pay for the use of equity capital (ie a cost of obtaining financial resources).

[11] Refer to paragraph A6 in Appendix A.

43. Consequently, we think that dividends paid should be considered financing cash flows.

Why do we disagree with the rationale used in IAS 7 for classifying dividends paid as operating cash flows?

44. Paragraph 34 of IAS 7 states that classifying dividends paid as operating cash flows assists users to determine the ability of an entity to pay dividends out of operating cash flows. We disagree with this rationale because:

(a) it ignores the 'true' nature of the cash flow (i.e. the cash flow is financing in nature);

(b) entities do not pay out dividends solely from an entity's operating cash flows in a particular year; rather, entities pay dividends out of cumulative retained earnings, and users tend to use other measures when assessing cash flow availability to pay dividends, for example by reference to free cash flow;

(c) users would not lose information as the cash flows on dividends paid would still be shown elsewhere in the cash flow statement.

Staff recommendation

45. On the basis of our analysis, we recommend the Board clarifies that dividends paid are financing cash flows.

Issue 2D—Question to the Board
1. Does the Board agree that dividends paid should be classified as financing cash flows?

Issue 2E. Classification of interest received and dividends received

46. The issue of interest and dividends received in relation to the cash flow statement is more problematic. Paragraph 33 of IAS 7 allows a non-financial entity to classify interest received and dividends received as:

(a) investing cash flows, because they represent a return *on* investments; or alternatively, as

(b) operating cash flows because they enter into the determination of profit or loss.

Problems with the rationale used in IAS 7 for classifying interest received and dividends received as investing cash flows

47. The rationale used in paragraph 33 of IAS 7 for classifying interest and dividends received as investing activities (i.e. that interest/dividends received are 'returns *on* investments') appears to contradict the definition of investing activities given in paragraph 6 of IAS 7. Paragraph 6 refers to returns *of* investments (i.e. cash flows derived from the acquisition and disposal of long-term assets and other investments not included in cash equivalents) rather than returns *on* investments (i.e. the returns that the investment generates separately from its capital value).

48. The returns *on* investments in other items classified as investing in the cash flow statement, for example purchases and sales of property, plant and equipment and intangible assets, are typically presented in the operating category of the cash flow statement. This would imply that interest received and dividends received do not meet the definition of investing and so, absent the requirements in paragraph 33 of IAS 7, would be classified as operating cash flows.

49. However, the staff do not think that interest received and dividends received are operating cash flows. We think that they should be treated as investing cash flows as their nature is 'investing'. The staff have identified two different ways in which we could achieve this classification, by either:

(a) Approach A: amending the existing definition of investing to include interest and dividends received.

(b) Approach B: aligning the definition of investing with the definition the Board has tentatively approved for the 'income/expenses from investments' category in the statement(s) of financial performance at its November 2017 meeting.

50. Under Approach A, the definition of 'investing activities' in paragraph 6 of IAS 7 would be amended to clarify that the receipt of interest and dividends are investing activities. A potential amendment to this definition could be as follows (proposed amendments have been underlined):

> Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents~~,~~ and the receipt of interest and dividends.

51. An advantage of this approach is that it would not represent a significant change to the notion of 'investing activities' as it would just clarify that interest and dividends received meet the definition of cash flows from investing activities.

52. Under Approach B, the definition of 'investing activities' in paragraph 6 of IAS 7 would be replaced by the definition of 'income/expenses from investments' tentatively approved by the Board at its November 2017 meeting. At that meeting, the Board tentatively decided to define the 'income/expenses from investments' category as: 'income/expenses from assets that generate a return for the entity individually and largely independently from other resources held by the entity'[12].

53. An advantage of aligning the definition of 'investing' in both primary financial statements is that this would promote consistency in the classification of related items in the statement of cash flows and in the statement(s) of performance because:

(a) interest received from cash and cash equivalents would be classified as a financing activity;

(b) interest received from other types of short or long-term investments would be classified as an investing activity; and

(c) dividends received would be considered an investing activity.

54. However, Approach B would lead to significant changes in the classification of an entity's cash flows. For example, cash flows relating to the acquisition or disposal of long term operating assets such as property, plant and equipment would no longer be classified as 'investing'.

[12] Refer to the IASB *Update* from November 2017.

Staff recommendation

55. The staff believes that the lack of clarity around the investing category in IAS 7 is unhelpful. Moreover, if we are trying to narrow the number of options for classification of interest and dividend cash flows, we think we should consider amending IAS 7 to remove the existing options and make the classification clearer.

56. At the November 2017 Board meeting, some Board members expressed reservations about changing the definition of 'investing activities' in IAS 7 as this definition is well-established and has a different objective from the 'income/expenses from investments' category in the statement(s) of financial performance[13]. The staff note that Approach B would require a much more in-depth revision of IAS 7 than Approach A. For example, we would need to consider whether the investing category should include cash flows from the acquisition and disposal of property, plant and equipment, or whether these cash flows should be presented in a separate category. Consequently, the staff support Approach A as it would not result in significant changes to the current definition of 'investing activities' in IAS 7.

Issue 2E—Question to the Board
1. Does the Board agree that interest received and dividends received should be classified as investing cash flows (except as explained in paragraphs 57-59)? If so, does the Board agree that the definition of 'investing activities' should be amended to clarify that the receipt of interest and dividends are investing activities (Approach A)?

Cash flows associated with investments in associates and joint ventures

57. IAS 7 does not prescribe a particular classification for cash flows from investments in associates and joint ventures and distributions and other payments or receipts between the entity and those investees (refer to paragraph 38 of IAS 7[14]).

58. The staff observe that at the November 2017 Board meeting, the Board did not reach a decision on whether the share of the profit or loss of *all* associates and joint ventures accounted for using the equity method (ie including integral joint ventures or

[13] Refer to Agenda Paper 21A of November 2017.

[14] Refer to paragraph A5 in Appendix A.

associates) should be part of the investing category. Consequently, it would be difficult at this stage to determine the best location for the cash flow effects of investments in associates or joint ventures (ie dividends received).

59. If the Board has a further discussion of the classification of the share of profit or loss of associates and joint ventures, the staff will also analyse the classification of dividends received from investments in associates or joint ventures and ask the Board to confirm whether these cash inflows should be classified as part of an entity's investing and/or operating activities.

Appendix A—Relevant guidance in IFRS Standards

A1. We reproduce below some paragraphs from IAS 7 *Statement of Cash Flows* and IAS 23 *Borrowing Costs* that are relevant for our discussion in this paper.

A2. Paragraphs 31–34 of IAS 7 are reproduced below:

> 31 Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall 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 statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with 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 entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of 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 entity to pay dividends out of operating cash flows.

A3. Operating, investing and financing activities are defined in paragraph 6 as follows:

> *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.

A4. An extract of paragraph 16 in IAS 7, which contains a description of 'investing activities' is reproduced below:

> 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. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. 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)...

A5. Paragraph 38 of IAS 7 is reproduced below:

An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

A6. Paragraph 11 of IAS 23 is reproduced below:

It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.