IFRS® Accounting

International Accounting Standards Board (IASB) meeting

Date **October 2025**

Project Statement of Cash Flows and Related Matters

Topic Examples of potential solutions

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Purpose of this paper

We share in this document examples of **potential** ways in which our recommendations in Agenda Paper 20A of this meeting might look like as disclosures in financial statements.

Our purpose is **only** to demonstrate that we think there are potential feasible ways in which the IASB would be able to respond to the information needs of users of financial statements.

That is, these examples are **not** recommended solutions. We will propose potential solutions in future IASB papers. Any potential solutions included in a future due process document might be different after further analysis and IASB discussion.

Question for the IASB

Do you have any questions or comments about the examples included in this document?

Background

We note:

- All amounts and effects of transactions are assumed.
- The illustrations should not be considered as an interpretation of applying IFRS Accounting Standards to specific facts and circumstances.
- The format we used in the examples are only one possible way in which items of information might be provided. Because some items of information overlap, other formats might also be possible.
- All the examples assume the information is disclosed in the notes to the financial statements.

Recommendation 1: Specify the content and location of information disclosed about the non-cash transactions within the scope of paragraphs 43–44 of IAS 7

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20. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS
G. Information about non-cash transactions

3 5

	Amounts presented in the statement of cash flows	Employee services received under equity-settled share-based payment	Payables included in supplier finance arrangements	Inception of new leases	Acquisition of business in exchange for own shares
Notes		15.B	12.C	8.B	2.A
2 **Line items presented in the statement of cash flows**					
Cash flows from operating activities					
4 Adjustments for:					
non-cash employee benefit expenses	30	(30)			
Increase in working capital	(690)		(100)		
Cash flows from investing activities					
Acquisition of Subsidiary X, net of cash acquired	(430)				(260)
Purchase of property, plant and equipment	(270)			(57)	
Cash flows from financing activities					
4 Proceeds from issue of share capital	250	30			260
Proceeds from borrowings	350		100		
Payment of lease liabilities	(90)			57	

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Notes

1. Non-cash transactions are only those within the scope of paragraphs 43–44 of IAS 7 *Statement of Cash Flows*.
2. We assume the entity reports cash flows from operating activities using the indirect method and that the statement of cash flows includes line items that are relatable to the types of non-cash transactions.
3. To demonstrate the effect of the non-cash transactions on an entity's activities, the table illustrates how both sides of a non-cash transaction would be classified in accordance with IAS 7 had it been a cash transaction.
4. There is an overlap of information about non-cash transactions in this table and other examples included in this paper. See the ‘combined example’ on slides 15–17.
5. We omitted a ‘total’ column from this illustration. A total by activity might be useful because it shows a ‘flow of funds’. However, there might be some questions about what a total by line-item means, particularly for the operating category in which not all non-cash transactions are included (only those that arise from investing and financing activities are included).

Recommendation 2: Disclose information about specified types of other non-cash changes in assets and liabilities that make up the components of working capital

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20. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS
F. Information about changes in working capital

	Notes	Current assets			Current liabilities	
		Inventories	Trade and other receivables	Other current financial assets	Trade payables	Other current financial liabilities
		(increase) / decrease			increase / (decrease)	
Changes in working capital reported in the statement of cash flows		**(168)**	**268**	**14**	**200**	**112**
2 Non-cash transactions	G					
Payables included in supplier finance arrangements	12.C				(100)	
Other non-cash changes						
(Acquired) / assumed in business combination	2.A	(40)	(56)	(5)	40	36
Other changes		12	(5)	(2)	6	(4)
3 **Change in balances reported in the statement of financial position**		**(196)**	**207**	**7**	**146**	**144**

Notes

1. IFRS Accounting Standards do not define working capital. We assume for simplicity an entity discloses ‘changes in working capital’ as a line item in its statement of cash flows. This might not always be the case. In some cases, entities present separately changes in inventory, trade and other receivables and trade and other payables.
2. There is an overlap of information between this table and the table we illustrate for non-cash transactions under Recommendation 1. See the ‘combined example’ on slides 15–17.
3. In this table we illustrate a reconciliation of the changes in working capital reported in the statement of cash flows and the changes in the related line items in the statement of financial position. This format focuses on the effects of specific types of non-cash changes investors seek information about and avoids information about direct cash flows.

Recommendation 3: Disclose cash receipts, cash payments and the related line items in the statement of cash flows as part of the reconciliation of changes in liabilities from financing activities

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20. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS
E. Reconciliation of liabilities arising from financing activities

	Notes	Liabilities from financing activities		
	3	Bank borrowings	Leases	Derivatives
Opening balance		**1,255**	**605**	**50**
Cash flows reported in the statement of cash flows				
1 Procceeds from		250		10
Payments of			(90)	(25)
Interest paid		(270)		
Non-cash transactions	20.F			
2 Payables included in supplier finance arrangements	12.C	100		
Inception of new leases	8.B		57	
Other non-cash changes				
Assumed in business combination	2.A	204		
Translation adjustment (OCI)		16		
Fair value gains				5
Interest expenses		400		
Closing balance		**1,955**	**572**	**40**
3 **Of which is:**				
Non-current		1,800	550	10
Current		155	22	30

Notes

1. Paragraph 44B(a) of IAS 7 refers to ‘changes from financing cash flows’. Recommendation 3 would require this reconciling item to be linked to the amount(s) and line item(s) presented in the statement of cash flows.
2. There is an overlap of information between this table and the table we illustrate for non-cash transactions under Recommendation 1. See the ‘combined example’ on slides 15–17.
3. Our research provides evidence that entities currently provide information in the reconciliation in a way that enables investors to link the information to the line items in the statement of financial position. We assume this practice in this example.

Combined example

20. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS
G. Information about operating, investing and financing activities

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	Notes	Operating activities				Investing activities		Liabilities from financing activities			Contributed equity
		Operating profit before changes in working capital	Changes in inventories	Changes in trade and other receivables	Changes in trade and other payables	Acquisition of Subsidiary X	Purchase of long-term assets	Changes in bank borrowings	Changes in lease liabilities	Changes in derivatives	Changes in equity
inflow / (outflow)											
Amounts reported in the statement of cash flows		**3,770**	**(168)**	**282**	**312**	**(430)**	**(270)**	**(20)**	**(90)**	**(15)**	**250**
Non-cash transactions	G										
1 Employee services received under equity-settled share-based payment	15.B	(30)									30
Payables included in supplier finance arrangements	12.C				(100)			100			
Inception of new leases	8.B						(57)		57		
Acquisition of business in exchange for own shares	2.A					(260)					260
3		**3,740**	**(168)**	**282**	**212**	**(690)**	**(327)**	**80**	**(33)**	**(15)**	**540**
Other non-cash changes											
(Acquired) / assumed in business combination	2.A		(40)	(61)	76			204			
4 Accrued interest								400			
Translation adjustment (OCI)								16			
Other changes			12	(7)	2					5	
Change in balances reported in the statement of financial position			**(196)**	**214**	**290**			**700**	**(33)**	**(10)**	

Notes

1. Information about non-cash transactions potentially provides a link that could be used to connect different pieces of information in a single note—those items already required and any new items of information the IASB develops.
2. A combined note has the benefit of having information connected in a single location but might be complex to understand.
3. We would need to develop a label for this total that faithfully represents the characteristics of that total.
4. Our illustration does not suggest that the IASB needs to develop requirements to disclose a reconciliation of all changes in all line items in the statement of financial position. This is why we illustrate that information about other non-cash changes are only provided for specific assets and liabilities.

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