IFRS Accounting

Educational Module 7
Statement of Cash Flows

IFRS for SMEs®

Accounting Standard

Third Edition

International Accounting Standards Board

IFRS® Foundation
Supporting Material for the
IFRS for SMEs® Accounting Standard

including the full text of
Section 7 *Statement of Cash Flows*
of the *IFRS for SMEs* Accounting Standard issued by
the International Accounting Standards Board in February 2025

with extensive explanations, self-assessment questions and case studies

Contents

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The requirements of Section 7 *Statement of Cash Flows* of the *IFRS for SMEs* Accounting Standard are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs* Accounting Standard contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 7.

This module has been prepared by the International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs* Accounting Standard and have not been approved by the IASB.

INTRODUCTION

IFRS for SMEs® Accounting Standard

The *IFRS for SMEs* Accounting Standard (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities* of the Standard).

The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: www.ifrs.org.

This module

This educational module supports the requirements for presenting a statement of cash flows in accordance with Section 7 *Statement of Cash Flows* of the Standard. The module:

- provides explanations and examples to improve understanding of the requirements in Section 7;
- identifies the significant judgements required in presenting a statement of cash flows;
- includes questions designed to test your understanding of the requirements in Section 7; and
- includes case studies that provide a practical opportunity to apply the Section 7 requirements.

After completing the module, you should be able:

- to explain the purpose of the statement of cash flows;
- to understand the requirements for presenting the statement of cash flows;
- to distinguish cash equivalents from other financial assets;
- to identify the cash flows from operating, investing and financing activities;
- to prepare the statement of cash flows using both the indirect method and the direct method; and
- to prepare notes to financial statements and commentary by management in accordance with Section 7.

Which version of the Standard does the module refer to?

Any reference in this module to 'the *IFRS for SMEs* Accounting Standard' is to the third edition of the Standard, issued February 2025.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity that is useful to existing and potential investors, lenders and other creditors when making decisions relating to providing resources to the entity.

Section 3 *Financial Statement Presentation* of the Standard prescribes general requirements for the presentation of financial statements and specifies that a statement of cash flows is required in a complete set of financial statements. Section 7 specifies requirements for presenting a statement of cash flows.

Financial statements provide information about an entity's economic resources and claims against the entity to help existing and potential investors, lenders and other creditors to assess an entity's future cash flows. Financial statements also show how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources. This information helps users of financial statements to assess management's stewardship of those resources.

Information about an SME's cash flows helps users to assess the ability of the SME to generate future cash flows. The information also helps users to assess management's stewardship of the entity's economic resources and explains how an SME has obtained and spent cash, including information about its borrowings, repayments of debt, dividends and other factors that affect liquidity and solvency.

The majority of users of SMEs' financial statements—including lenders and short-term creditors—who communicated with the IASB when it first developed the Standard said that the statement of cash flows is useful to them. Consequently, the IASB decided to require SMEs to prepare a statement of cash flows. During the second comprehensive review of the Standard, users of SMEs' financial statements affirmed that they find information about short-term cash flows useful (see paragraph BC31(a) of the *Basis for Conclusions on the* IFRS for SMEs *Accounting Standard*). Such information includes information about liquidity, including the SME's ability to repay its debts. Accordingly, the IASB added new disclosure requirements to Section 7 relating to changes in liabilities arising from financing activities and to supplier finance arrangements.

What has changed in the third edition of the Standard?

The IASB changed Section 7 in the third edition of the Standard by adding:

- a requirement to disclose a reconciliation of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash flows (see paragraph 7.19A of the Standard); and
- requirements to disclose information about supplier finance arrangements (see paragraphs 7.19B–7.19C of the Standard).

Transition requirements for these changes are explained on page 63 of this educational module.

REQUIREMENTS AND EXAMPLES

Scope of this section

7.1 This section sets out the information that is to be presented in a **statement of cash flows** and how to present it. The statement of cash flows provides information about the changes in **cash** and **cash equivalents** of an entity for a **reporting period**, showing separately changes from **operating activities**, **investing activities** and **financing activities**.

Educational notes

Presentation of a statement of cash flows is important because users of financial statements make decisions relating to providing resources to an entity by assessing its ability to generate cash and cash equivalents and the timing and certainty of cash flows. Information about priorities and payment requirements of existing claims helps users to predict how future cash flows will be applied to those claims.

Cash is defined as 'cash on hand and demand deposits' (see the Glossary). Demand deposits include deposits with financial institutions payable on demand and available immediately without penalty (such as a typical current account with a commercial bank). Cash also includes foreign bank notes on hand and foreign demand deposits denominated in a foreign currency. Cash equivalents are described in paragraph 7.2 of the Standard.

If an entity's cash and cash equivalents increase by CU200 in the reporting period, its statement of cash flows would show the cash inflows and outflows that resulted in that cash and cash equivalents balance increasing by CU200 in the period.[1] Presenting those cash flows by classifying them as operating, investing and financing activities (see paragraphs 7.3–7.6 of the Standard) improves the relevance of the information provided. In order to assess properly both the prospects for future net cash inflows to the entity and management's stewardship of the entity's economic resources, users need to be able to identify why and how those resources have changed.

For many SMEs, cash and cash equivalents are the balance in their demand deposit bank account. In such cases, the statement of cash flows can be prepared by analysing the SME's bank account or its cash book (which records the amounts that flow through its bank account).

1 In this example and in all other examples in this module monetary amounts in the entity's domestic currency are denominated in currency units (CU) and monetary amounts in another currency are denominated in foreign currency units (FCU).

Examples—Cash

Ex 1 **An SME has CU1,000 and FCU500 cash on hand.**

Both the CU1,000 and the FCU500 amounts are cash.

Ex 2 **An SME's current account with a commercial bank has a balance of CU2,000. The balance is payable on demand and is available immediately without penalty.**

The CU2,000 in the current account is cash—it is a demand deposit.

Cash equivalents

7.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, 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. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Educational notes

The statement of cash flows presents changes in both cash and cash equivalents in the reporting period. Most SMEs have easily identifiable items of cash and cash equivalents. Consequently, identifying cash and cash equivalents should be straightforward. Some SMEs might have items that are more difficult to identify as cash equivalents.

If an entity needs to use its judgement to determine whether some items meet the definition of cash equivalents, the entity could develop an accounting policy to help the entity to exercise that judgement consistently in accordance with the definition of cash equivalents and with the requirements in paragraph 7.2 of the Standard. Paragraph 8.6 of the Standard requires an entity to disclose the judgements that have the most significant effect on the amounts it recognised in the financial statements.

The Glossary states that a cash equivalent is:

- short-term;
- highly liquid;
- readily convertible to known amounts of cash; and
- subject to an insignificant risk of changes in value.

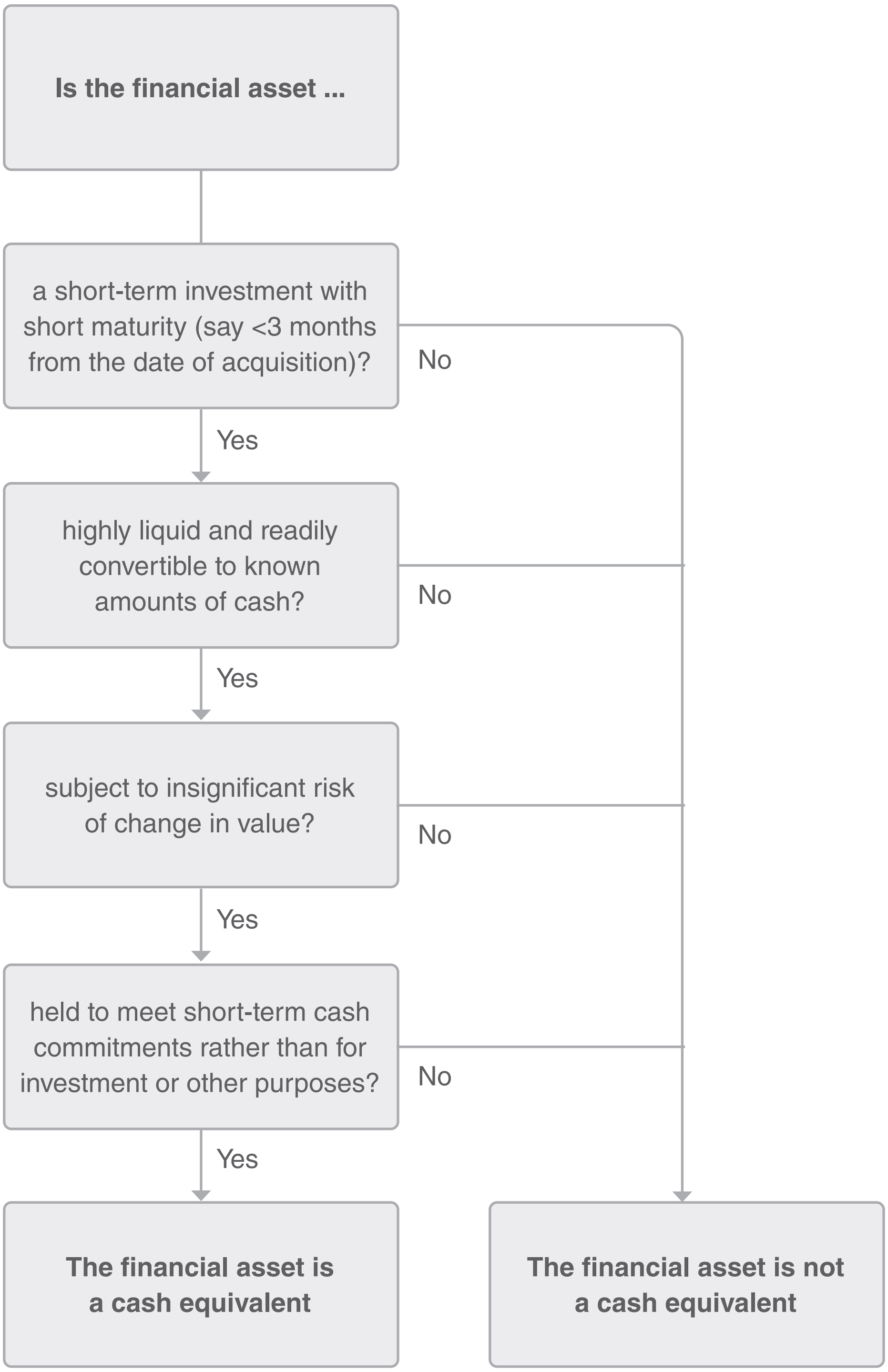
Cash equivalents are held to meet short-term cash commitments instead of for investment or other purposes. It follows that cash equivalents might include investments with financial institutions, certificates of deposit, money market instruments and highly liquid investments, provided they are 'near to cash' (that is, short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value) and are held to meet short-term cash commitments and not for investment or other purposes.

For example, in setting its accounting policy to identify cash and cash equivalents, an entity might decide that the short maturity threshold is for a period of 90 days or less from the date of acquisition of an instrument. Such instruments cannot be classified as cash equivalents unless they are highly liquid investments that are readily convertible to known amounts of cash and are subject to only an insignificant risk of change in value in response to market risks (for example, changes in interest rates). Instruments acquired by the entity to meet short-term cash commitments with a remaining maturity period of more than 90 days do not become cash equivalents when their remaining maturity period, measured from a subsequent reporting date, becomes 90 days or less.

Cash equivalents can be denominated in a foreign currency.

Figure 1 illustrates how an entity could use its judgement to classify a financial asset as a cash equivalent.

Figure 1—Decision tree: Cash equivalent classification



Cash flows exclude transfers between items that constitute cash or cash equivalents because these components are part of an entity's cash management and not part of its operating, investing or financing activities. Cash management includes the investment of excess cash in, for example, a bank account, which is a cash equivalent.

Examples—Cash equivalents

Ex 3 An SME has cash on a two-month fixed rate (5% per year) deposit with a commercial bank. If the SME withdraws the deposit before it matures, it forgoes an insignificant portion of the interest. On maturity the SME expects to use the proceeds to settle with its trade creditors.

The fixed deposit is a cash equivalent—it is short-term (two months from inception), highly liquid (can be withdrawn at any time), readily convertible into a known amount of cash (deposit plus specified accrued interest) and subject to an insignificant risk of change in value (a fixed-rate instrument with a two-month maturity is unlikely to change significantly in value in response to changes in market interest rates and the penalty for early redemption is insignificant). The deposit is also intended to be used to meet short-term cash commitments (to settle with trade creditors).

Ex 4 An SME acquires a three-year fixed-rate (5% per year) government bond in an active market, two months before the bond's maturity date. On maturity the SME expects to use the proceeds to settle with its trade creditors. The government debt is AAA credit-rated.

The AAA credit-rated government bond is a financial asset and a cash equivalent—it is short-term (it was acquired two months before its maturity date), highly liquid (it can be traded in an active market) and is readily convertible into a known amount of cash (capital plus specified accrued interest on maturity in two months or before due date at the market price because the instrument has fixed contractual cash flows that are close to maturity and the government debt is AAA credit-rated). The variability in the fair value of the instrument is likely to be insignificant and to be subject to an insignificant risk of change in value (a fixed-rate instrument with a two-month maturity is unlikely to change significantly in value in response to changes in market interest rates and the penalty for early redemption is usually insignificant). The government bond is also intended to be used to meet short-term cash commitments (to settle with trade creditors).

Ex 5 An SME's current account with a commercial bank fluctuates between having a positive balance and being in overdraft in accordance with the SME's cash receipts and payments cycle. The overdraft is repayable on demand.

The bank overdraft is a cash equivalent—it is short-term (repayable on demand) and forms an integral part of the SME's cash management.

Examples—Neither cash nor a cash equivalent

Ex 6 An SME has two gold bars on hand.

Irrespective of the purpose for which gold bars are held, they are not cash because they are not cash on hand or demand deposits and they are not cash equivalents because they are not readily convertible to known amounts of cash and could be subject to a significant risk of changes in value.

Ex 7 **An SME has a pre-approved credit line (overdraft) with a bank of up to CU10,000. Because the SME has never used the overdraft the account balance is nil.**

Because the bank overdraft facility has never been used by the SME, it does not appear to form an integral part of the SME's cash management, even though it is available. It is neither cash nor a cash equivalent.

Ex 8 **An SME acquires a three-year fixed-rate (5% per year) government bond in an active market, two months before the bond's maturity date. The SME holds the instrument to speculate on changes in market interest rates.**

Because the investment is held for speculative purposes (and not to meet short-term cash commitments) it is neither cash nor a cash equivalent.

Ex 9 **An SME has cash on a five-year fixed-rate (5% per year) deposit with a commercial bank. At the reporting date the fixed-rate deposit is two months from maturity. If the SME withdraws the deposit before maturity, it forgoes all interest. On maturity the SME expects to use the proceeds to settle with its trade creditors.**

The investment is neither cash nor a cash equivalent because the SME made the deposit nearly five years ago (that is, it is not short term).

It is irrelevant that at the reporting date the deposit is only two months from maturity.

Information to be presented in the statement of cash flows

7.3 An entity shall present a statement of cash flows that presents **cash flows** for a reporting period classified by operating activities, investing activities and financing activities.

Educational notes

The presentation and classification of cash flows by activity (operating, investing or financing) provides relevant information to users. Classifying information by activity provides information that enables users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. Such information may also be used to evaluate the relationships among those activities.

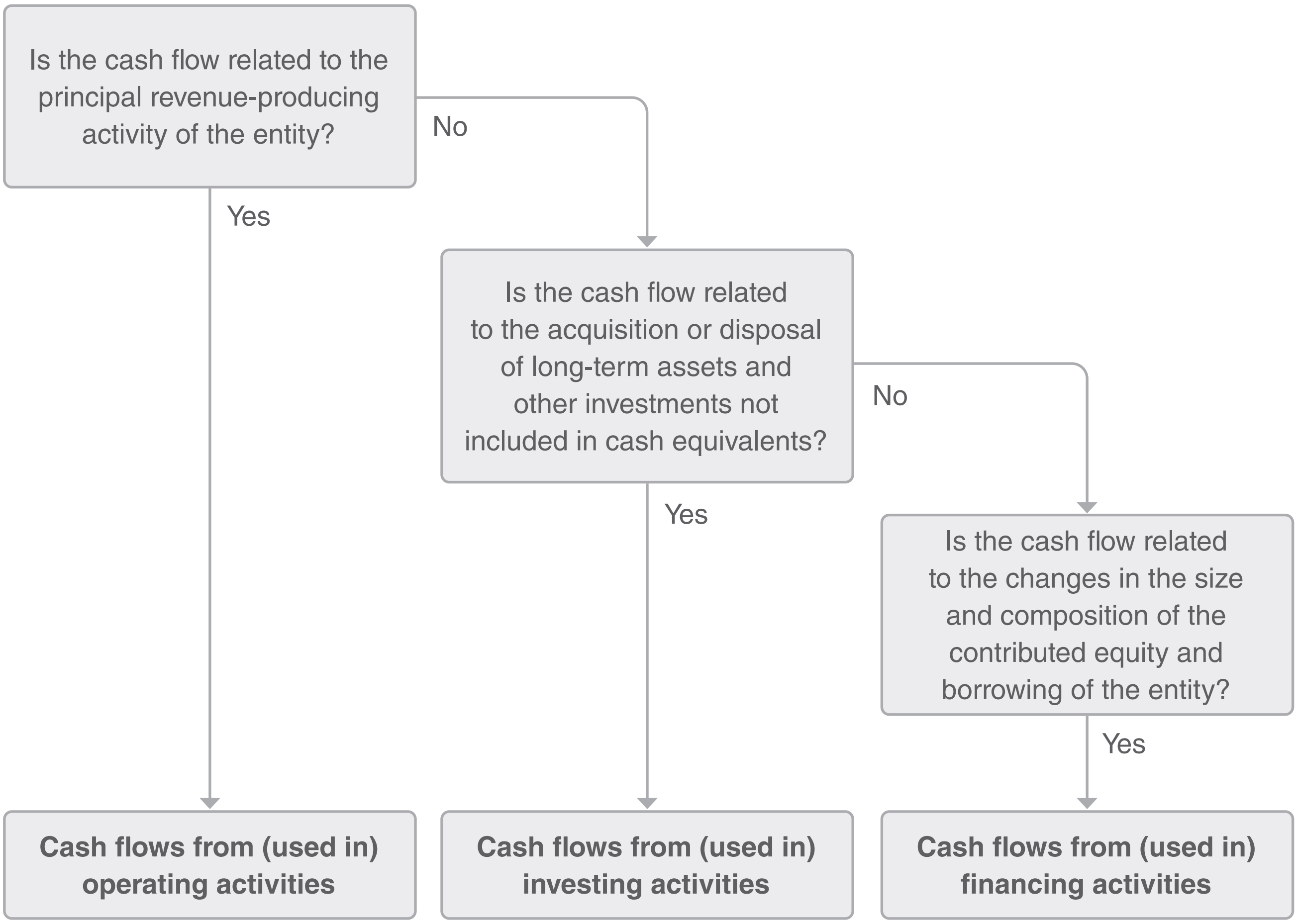
Paragraphs 3.11–3.13 of the Standard require an entity to present information consistently over time.

An entity might need to use its judgement to classify cash flows as operating, investing or financing activities. In applying its judgement, an entity considers the substance of the transaction that underlies the cash flow (instead of its legal form) to decide how to classify the cash flows. In many circumstances, the substance of the transaction and its legal form are the same. If they are not the same, information about the legal form would not, by itself, faithfully represent the classification of cash flows.

In the absence of explicit guidance in the Standard, an entity can, in accordance with paragraph 10.6 of the Standard, consider the requirements and guidance in full IFRS Accounting Standards. For example, IAS 7 *Statement of Cash Flows*, on which Section 7 is based, states that only an expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities (see paragraph 16 of IAS 7).

Figure 2 illustrates how an entity might classify cash flows into operating, investing and financing activities.

Figure 2—Decision tree: Classification of cash flows into activities



Cash flows are ‘inflows and outflows of cash and cash equivalents’ (see the Glossary).

Operating activities

7.4 Operating activities are the principal revenue-producing activities of the entity. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions 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 payments or refunds of income tax, unless they can be specifically identified with financing and investing activities; and

(f) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to **inventory** acquired specifically for resale.

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

Educational notes

Operating activities are an entity's principal revenue-producing activities. Revenue is the 'income arising in the course of an entity's ordinary activities' (see the Glossary).

The amount of cash flows arising from operating activities provides information on an entity's ability to generate cash flows to repay loans, maintain the entity's operating capability, pay dividends and make new investments without the need for external sources of financing.

Information about the specific components of operating cash flows, in conjunction with other information, is useful to users estimating the entity's future operating cash flows.

Examples—Cash flow from operating activities

Ex 10 **A school charges its students an annual registration fee plus a monthly tuition fee. Students must wear the school's uniform, which is available to buy either from the school's uniform store or at independent stores located in the neighbourhood. Additionally, students are not allowed to leave the school's building at lunchtime. Consequently, students either bring lunch from home or buy it in the school's cafeteria.**

In the current year the school sold a printer that had been used by its administration staff.

The school would classify the cash flows from the annual registration fee, the monthly tuition fee, the uniforms sold and the lunches sold as operating activities.

Although the gain or loss on the sale of the printer (an item of property, plant and equipment) is included in profit or loss, the school would classify the cash flow from the sale of the printer as investing activities (because the school's ordinary activities do not include the sale of printers).

Ex 11 **An SME that manufactures textiles expands its operations by leasing a machine from a machine manufacturer under an operating lease agreement in exchange for monthly payments of CU500.**

In accordance with Section 20 *Leases* of the Standard, the SME does not recognise an asset for its right to use the machine under an operating lease. It presents the lease payment cash outflows of CU500 per month in the operating activities section of its statement of cash flows.

Ex 12 **An SME that rents cars to customers under operating leases renews its rental fleet within 18 months from the date of acquisition. Consequently, in its statement of comprehensive income the SME recognises rental income as revenue.**

In the current year the SME collected money from:

- **car rentals (CU130,000);**
- **sale of used rental cars (CU100,000); and**
- **sale of used computer equipment (CU8,000).**

Car rentals are the principal revenue-producing activities of the SME. Therefore, car rentals cash flows are presented in operating activities (see paragraph 7.4(a) of the Standard).

The gain on the sale of used rental cars is presented outside revenue in the statement of comprehensive income (see paragraph 17.28 of the Standard), and the SME classifies the proceeds from the sale of used rental cars as a cash flow from investing activities (see paragraph 7.5(b) of the Standard).

The gain on the sale of the computer equipment is presented outside revenue in the statement of comprehensive income, and the SME classifies the proceeds from the sale of the computer equipment as a cash flow from investing activities (because the SME's ordinary activities do not include computer equipment sales).

Ex 13 An SME that trades antiques bought antiques for trading purposes for CU75,000 and sold them for CU110,000.

A principal revenue-producing activity of the SME is trading (buying and selling) antiques. Consequently, the SME classifies cash flows from the purchase and sale of those antiques as operating activities (that is, the SME presents the CU110,000 cash inflow from customers and the CU75,000 cash outflow to suppliers in operating activities in the statement of cash flows).

Investing activities

7.5 Investing activities are the acquisition and disposal of long-term **assets** and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire **property, plant and equipment** (including self-constructed property, plant and equipment), **intangible assets** and other long-term assets;

(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 (other than payments for those instruments classified as cash equivalents or held for dealing or trading);

(d) cash receipts from sales of equity or debt instruments of other entities (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);

(e) cash advances and loans made to other parties;

(f) cash receipts from the repayment of advances and loans made to other parties;

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, 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, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Part II of Section 11 *Financial Instruments*), an entity shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Educational notes

Separate presentation of cash flows from investing activities is important because the cash flows represent the extent to which an entity has made expenditures for resources intended to generate future income and cash flows. As explained in 'Information to be presented in the statement of cash flows' on page 13, only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.

In some circumstances the entity will need to use its judgement to decide whether a cash flow is an operating or investing activity. In such cases, the entity might develop and consistently apply an accounting policy for classifying cash flows.

Example—Cash flow from investing activities

Ex 14 **A pharmaceutical producer started its operations in 20X0. In 20X0 the SME's cash outflows included:**

- **start-up costs (CU10,000);**
- **machinery acquisition (CU30,000);**
- **machinery installation (CU2,200);**
- **staff training (CU4,000);**
- **advertising and promotional activities (CU18,450);**
- **internally generated brands (CU6,900); and**
- **internally generated customer lists (CU870).**

In the pharmaceutical producers' statement of cash flows for the year ended 31 December 20X0 the SME classifies the CU32,200 cash outflow from the acquisition of property, plant and equipment (CU30,000 machinery acquisition + CU2,200 machinery installation) as an investing activity because it is for the acquisition of a long-term asset (property, plant and equipment cost; see paragraph 17.10(b) of the Standard).

Because the other cash flows are not for the acquisition of a recognised long-term asset, the SME does not classify them as cash flows from investing activities. The SME classifies as operating activities the cash outflows for start-up costs, staff training, advertising and promotional activities, internally generated brands and internally generated customer lists. The SME does not recognise those items as long-term assets in its statement of financial position. Instead, the SME recognises them as expenses in profit or loss in the period in which the SME incurred them (see paragraphs 17.11 and 18.14–18.15 of the Standard).

Example—Not cash flow from investing activities

Ex 15 **A producer of seasonal fruit juice invests cash collected from its customers, which is in excess of the SME's immediate cash payments, in short-term highly liquid investments. The invested cash is expected to be used to meet short-term cash commitments as they fall due.**

The short-term highly liquid investments are cash equivalents. The SME does not classify them as investing activities.

Suppose the SME's opening cash and cash equivalents balance is CU100,000. The SME then invests CU85,000 in short-term highly liquid investments that are classified as cash equivalents. The closing balance of cash and cash equivalents of CU100,000 is unchanged. Consequently, the SME recognises no cash flow in the statement of cash flows for the CU85,000 investment because it is a transfer within cash and cash equivalent balance.

Financing activities

7.6 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an 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-term 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**.

Educational notes

Presenting cash flows from financing activities separately provides information that helps users to predict claims on the entity's future cash flows by providers of capital (equity and borrowings) to the entity.

Cash flows from financing activities include cash flows related to borrowings from lenders (including repayments) and contributed equity by shareholders of the entity.

Example—Cash flow from financing activities

Ex 16 An SME that manufactures textiles increased its equity by CU1,000 by issuing shares to its owner-managers and raised CU2,000 from short-term borrowings. The SME repaid CU500 of long-term debt and paid a cash dividend of CU300.

The SME obtained a new machine to expand its operations by entering into a finance lease agreement that specifies monthly payments of CU10.

The proceeds of the short-term borrowing is a cash flow from financing activities—it increased the size of the SME's borrowings.

The settlement of the long-term borrowing is a cash outflow from financing activities—it decreased the size of the SME's borrowings.

Paragraph 7.16 of the Standard permits an SME to make an accounting policy choice when classifying the dividends paid (that is, as part of operating activities or financing activities).

Section 20 *Leases* of the Standard requires a lessee to apportion the lease payments between a finance charge and the reduction of the outstanding liability (see paragraph 20.11 of the Standard). Paragraph 7.15 of the Standard permits an SME to make an accounting policy choice when classifying interest paid (that is, as part of operating activities or financing activities).

The SME presents the part of the lease payments that is accounted for as a reduction of the liability as a cash outflow from financing activities because it decreased the size of the SME's borrowings.

Reporting cash flows from operating activities

7.7 An entity shall present cash flows from operating activities using either:

(a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, 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; or

(b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Educational notes

The direct method presents an entity's cash flows directly (as a summary of the operating cash flows that flowed in and out of the entity's cash and cash equivalents in the reporting period). The indirect method determines the entity's net cash flow from operating activities indirectly by adjusting it from profit or loss for all accruals, adjustments that affect the working capital and all cash flows that are presented outside of operating activities (that is, investing or financing activities).

The direct method is easy to understand—it displays an entity's main operating cash flows presenting major classes of gross cash receipts and gross cash payments and thereby provides more detailed information for projecting the entity's future operating cash flows.

The indirect method presents a reconciliation of profit or loss and cash flow from operating activities. Entities use different profit or loss line items as their 'starting point'—some entities use 'profit after tax' and other entities use 'profit before tax'.

Indirect method

7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting 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 tax**, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, and undistributed profits of **associates**; and

(c) all other items for which the cash effects relate to investing or financing.

Example—The indirect method

Ex 17 An SME that presents its statement of cash flows using the indirect method recognised CU7,000 profit for the year ended 31 December 20X8. Its income in 20X8 comprises CU100,000 revenue from the sale of goods, a gain of CU750 on the sale of an item of property, plant and equipment and an increase of CU250 in the fair value of its investment property. Its expenses in 20X8 comprise CU50,000 in cost of goods sold, CU42,600 in staff costs, CU800 in depreciation of its office equipment, CU100 amortisation of its intangible assets and a decrease of CU500 in the fair value of its investment in the publicly traded shares of another entity.

The SME's statement of financial position at 31 December 20X8 includes CU1,700 trade receivables (20X7: CU1,000), CU1,200 inventories (20X7: CU2,200) and CU2,000 trade payables (20X7: CU2,400).

Extract from the SME's statement of cash flows for the year ended 31 December 20X8

	CU
Cash flows from operating activities	
Profit for the year	7,000
Adjustments for:	
Increase in the fair value of investment property	(250)
Decrease in the fair value of investment in publicly traded shares	500
Depreciation expense	800
Amortisation expense	100
Gain on sale of property, plant and equipment	(750)
Changes in operating assets and liabilities:	
Increase in trade receivables	(700)
Decrease in inventories	1,000
Decrease in trade payables	(400)
Net cash from operating activities	7,300

Direct method

7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

(a) from the accounting records of the entity; or

(b) by adjusting sales, cost of sales and other items in the **statement of comprehensive income** (or the **income statement**, if presented) 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.

Examples—Cash flows from operating activities using the direct method

Ex 18 The facts are the same as in Example 17. However, in this example, the SME presents the statement of cash flows using the direct method.

Extract from the SME's statement of cash flows for the year ended 31 December 20X8

	CU
Cash flows from operating activities	
Cash receipts from customers	99,300[(a)]
Cash paid to suppliers and employees	(92,000)[(b)]
Net cash flow from operating activities	7,300[(c)]
…	

Notes that do not form part of the SME's statement of cash flows:

(a) Extracted directly from the SME's accounting records (analysis of its cash receipts in 20X8) or indirectly: CU1,000 trade receivable that arose in 20X7 and assumed paid in 20X8 + CU100,000 revenue from the sale of goods in 20X8 – the CU1,700 receivable at 31 December 20X8 = CU99,300.

(b) Extracted directly from the SME's accounting records (analysis of its cash payments in 20X8) or indirectly: CU2,400 trade payable that arose in 20X7 and assumed paid in 20X8 + CU50,000 cost of goods sold – CU1,000 decrease in inventories in 20X8 – CU2,000 trade payables at 31 December 20X8 + CU42,600 staff costs paid in 20X8 = CU92,000.

(c) The cash received from the sale of the SME's item of property, plant and equipment is not included in the SME's cash flows from operating activities because it is presented as a cash flow from investing activities.

Ex 19 Selected financial information of an SME for 20X4 and 20X3 is:

Income and expenses for the year ended 31 December 20X4 (in CU)

• revenue	35,960,000
• cost of sales	15,789,500
• wages and salaries expense	10,220,000
• other expenses (services received)	4,956,500
• finance costs (interest expense)	456,452
• income tax expense	1,360,000

Statement of financial position accounts (in CU)

	Account balance at 31.12.20X3	*Account balance at 31.12.20X4*	*Change in account balances from 20X3 to 20X4*
• trade receivables	1,752,000	2,150,000	398,000
• trade payables	2,125,000	3,050,000	925,000
• prepayments (services received)	345,000	–	(345,000)
• other payables (services received)	–	496,000	496,000
• wages and salaries payable			535,000
• interest payable (interest expense)			7,800
• current tax payable			(235,000)
• deferred tax asset			380,000

Extract from the SME's statement of cash flows for the year ended 31 December 20X4
(in thousands of CU)

		20X4
Cash flows from operating activities		
Cash receipts from customers		35,562[(a)]
Payments to suppliers of goods	(14,865)[(c)]	
Payments to suppliers of services	(4,116)[(d)]	
Payments to employees	(9,685)[(e)]	
Cash paid to suppliers and employees		(28,665)[(b)]
Cash generated from operations		6,897
Finance costs paid in cash		(449)[(f)]
Income taxes paid in cash		(1,975)[(g)]
Net cash from operating activities		4,473

...

Alternatively, the SME is permitted to present payments to suppliers of goods and payments to suppliers of services together.

Notes that do not form part of the SME's statement of cash flows:

(a) *Receipts from customers* = CU35,960,000 sales revenue + CU1,752,000 beginning balance of accounts receivable – CU2,150,000 ending balance of accounts receivable = CU35,562,000.

(b) *Cash paid to suppliers and employees* = CU14,864,500[(c)] payments to suppliers + CU4,115,500[(d)] payments to suppliers of services + CU9,685,000[(e)] payments to employees = CU28,665,000.

(c) *Payments to suppliers of goods* = CU15,789,500 cost of goods sold + CU2,125,000 beginning balance of accounts payable – CU3,050,000 ending balance of accounts payable = CU14,864,500. (Note: At the beginning and at the end of the year the SME has no inventory.)

(d) *Payments to suppliers of services* = CU4,956,500 other expenses – CU345,000 decrease in prepayments – CU496,000 increase in other payables = CU4,115,500.

(e) *Payments to employees* = CU10,220,000 wages and salaries expense – CU535,000 increase in wages and salaries payable = CU9,685,000.

(f) *Finance cost paid* = CU456,452 interest expense – CU7,800 increase in accrued interest = CU448,652.

(g) *Income taxes - current* = CU1,360,000 income tax expense + CU380,000 increase in deferred tax asset = CU1,740,000. Income taxes paid = CU1,740,000 income taxes—current + CU235,000 decrease in current tax payable = CU1,975,000.

Reporting cash flows from investing and financing activities

7.10 An entity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of **subsidiaries** or other business units shall be presented separately and classified as investing activities.

Educational notes

An entity uses its judgement in identifying and determining a class of gross cash receipts and gross cash payments arising from investing and financing activities to provide users with useful information.

If an entity has cash flows arising from acquisitions and disposals of items of property, plant and equipment during the reporting period, the entity presents them separately under cash flows from investing activities. Similarly, the entity presents proceeds and repayments of borrowings under cash flows separately from financing activities.

The entity presents cash paid as consideration to acquire a subsidiary under cash flows from investing activities (see paragraph 7.5 of the Standard). The entity presents aggregate amounts of the cash paid as consideration to acquire a subsidiary in the statement of cash flows net of cash and cash equivalents acquired as part of such transactions. The entity treats changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, as transactions with owners in their capacity as owners (see paragraph 9.20A of the Standard). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 7.6 of the Standard.

Example—Cash flows from investing and financing activities

Ex 20 **Group A (a parent and its subsidiaries) presents cash flows from investing and financing activities in its consolidated statement of cash flows as follows:**

Extract from Group A's consolidated statement of cash flows for the year ended 31 December 20X4 (in thousands of CU)

...	*20X4*
Cash flows from investing activities	
Amount paid for the acquisition of Subsidiary X (net of cash acquired)	(875)
Amount paid for purchase of property, plant and equipment	(560)
Proceeds from sale of equipment	20
Proceeds from sale of interests in Associate Y	1,200
Interest received[(a)]	150
Dividends received[(a)]	400
Net cash from investing activities	**335**
Cash flows from financing activities	
Proceeds from issue of share capital	500
Proceeds from issue of preference shares	250
Proceeds from issue of long-term borrowings	300
Payment of treasury shares	(110)
Payment of finance lease liabilities	(190)
Dividends paid[(b)]	(1,200)
Net cash used in financing activities	**(450)**
...	

(a) Alternatively, Group A could present interest and dividends received as operating cash flows (see paragraph 7.15 of the Standard).

(b) Alternatively, Group A could present dividends paid as an operating cash flow (see paragraph 7.16 of the Standard).

Foreign currency cash flows

7.11 An entity shall record cash flows arising from transactions in a foreign currency in the 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.

Educational notes

An entity is required to measure its financial performance and financial position in its functional currency, which is 'the currency of the primary economic environment in which the entity operates' (see the Glossary). An entity determines its functional currency by applying the guidance provided in paragraphs 30.3–30.5 of the Standard.

A foreign currency is a currency other than the functional currency of the entity. If an entity enters directly into foreign currency transactions, it is exposed to changes in the value of the foreign currency in relation to the functional currency. In accordance with the Standard, an entity converts a foreign currency item into its functional currency the first time it recognises the item by measuring the foreign currency amount at the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Paragraph 30.9 of the Standard requires an entity at the end of each reporting period to translate:

- foreign currency monetary items using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency using the exchange rates at the date when the fair value was determined.

If an entity uses the direct method of presenting operating cash flows, few complications arise from foreign currency transactions because the entity determines cash flows directly and does not make adjustments for unrealised foreign exchange gains and losses. If an entity uses the indirect method, it discloses unrealised foreign exchange gains and losses separately in the reconciliation between profit for the year and net cash flow from operating activities (see Example 21) unless the entity also includes the unrealised foreign exchange gains in changes in operating assets and liabilities (see Example 25).

Examples—Transactions in foreign currencies

In Examples 21–26:

- **the functional currency of the SME is 'CU'. From the SME's perspective, the local currency of Country B (LCB) and local currency of Country R (LCR) are foreign currencies.**
- **the reporting date is 31 December.**
- **the SME uses the following exchange rates:**
  - **1 January 20X0: LCB1 = CU2;**
  - **10 December 20X0: LCB1 = CU2;**

- **14 December 20X0: LCB1 = CU2.05;**
- **20 December 20X0: LCB1 = CU2.08;**
- **28 December 20X0: LCR1 = CU1.4;**
- **weighted average for the year ended 31 December 20X0: LCB1 = CU2.04; and**
- **31 December 20X0: LCB1 = CU2.10; LCR1 = CU1.3.**

Ex 21 **On 1 January 20X0 the SME received LCB100,000 from a bank in exchange for a promise to pay the bank LCB110,000 on 1 January 20X1. The LCB100,000 was converted to CU200,000 at the time of receipt.**

The SME uses the following exchange rates:

- **1 January 20X0: LCB1 = CU2;**
- **weighted average for the year ended 31 December 20X0: LCB1 = CU2.04; and**
- **31 December 20X0: LCB1 = CU2.10.**

The SME presents the CU200,000 cash inflow as 'proceeds from the issue of loan' in the financing section of its statement of cash flows for the year ended 31 December 20X0 (that is, LCB100,000 foreign currency amount × CU2 (the exchange rate on the date of the cash flow) = CU200,000).

If the SME presents cash flows using the indirect method, it adjusts for the effective interest (finance expense) and the effect of the change in the exchange rates on the monetary value of the liability in the operating section of its statement of cash flows for the year ended 31 December 20X0.

The SME records the resulting transactions in its functional currency as follows:

1 January 20X0

Dr Cash (asset)	CU200,000[(a)]	
Cr Bank loan (liability)		CU200,000

To recognise the proceeds of the foreign currency denominated bank loan.

31 December 20X0

Dr Profit or loss (finance cost)	CU20,400[(b)]	
Cr Bank loan (liability)		CU20,400

To recognise the interest for 20X0.

Dr	Profit or loss (unrealised foreign exchange loss)	CU10,600[c]	
	Cr Bank loan (liability)		CU10,600

To recognise the exchange difference at 31 December 20X0.

(a) LCB100,000 foreign currency amount × CU2 (the exchange rate on the date of the cash flow) = CU200,000.

(b) Amount borrowed LCB100,000 - amount to be repaid LCB110,000 = LCB10,000 finance cost (see Section 11 of the Standard) × CU2.04 (the weighted average exchange rate for the year ended 31 December 20X0) = CU20,400 finance cost accrued.

(c) CU231,000 foreign bank loan at 31 December 20X0 (that is, LCB110,000 × CU2.1 (the exchange rate on 31 December)) - CU200,000 foreign bank loan received on 1 January 20X0 (that is, LCB100,000 × CU2 (the exchange rate on 1 January 20X0)) - CU20,400 finance cost accrued = CU10,600 unrealised foreign exchange loss.

Presentation

If the SME uses the direct method to present cash flows from operating activities in its statement of cash flows for the year ended 31 December 20X0, it will present the transaction in Example 21 as follows (amounts in CU):

	20X0
Cash flows from financing activities	
Proceeds of loan	200,000[a]
Net cash from financing activities	200,000
...	
Net increase in cash and cash equivalents	200,000
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	200,000

(a) LCB100,000 foreign currency amount × CU2 (the exchange rate on the date of the cash flow) = CU200,000

If the SME uses the indirect method to present cash flows from operating activities in its statement of cash flows for the year ended 31 December 20X0, it will present the transaction in Example 21 as follows (amounts in CU):

	20X0
Cash flows from operating activities	
Loss for the year	(31,000)[a]
Adjustment for non-cash expense	
Accrued finance cost	20,400[b]
Unrealised foreign exchange loss	10,600[c]
Net cash from operating activities	–

Cash flows from financing activities	
Proceeds of loan	200,000[(d)]
Net cash from financing activities	200,000
Net increase in cash and cash equivalents	200,000
Cash and cash equivalents at the beginning of the year	–
Cash and cash equivalents at the end of the year	200,000

(a) CU20,400[(b)] finance cost + CU10,600[(c)] unrealised foreign exchange loss = CU31,000.

(b) LCB10,000 finance cost (see Section 11of the Standard) × CU2.04 (the weighted average exchange rate for the year ended 31 December 20X0) = CU20,400 finance cost accrued.

(c) CU231,000 foreign bank loan at 31 December 20X0 (that is, LCB110,000 × CU2.1 (the exchange rate on 31 December)) – CU200,000 foreign bank loan received on 1 January 20X0 (that is, LCB100,000 × CU2 (the exchange rate on 1 January 20X0)) – CU20,400[(b)] finance cost accrued = CU10,600 unrealised foreign exchange loss.

(d) LCB100,000 foreign currency amount × CU2 (the exchange rate on the date of the cash flow) = CU200,000.

Ex 22 **On 10 December 20X0 the SME entered into a contract for the import of inventory for LCB100,000. The transaction is denominated in the supplier's functional currency 'LCB'.**

On 20 December 20X0 the risk and rewards of ownership of the goods transferred from the supplier to the SME when the SME received the goods in good order. On the same date, the SME settled the liability to the supplier.

The SME uses the following exchange rates:

- **10 December 20X0: LCB1 = CU2; and**
- **20 December 20X0: LCB1 = CU2.08.**

The SME records the cash outflow 'cash paid to supplier' at CU208,000 (that is, LCB100,000 foreign currency amount × CU2.08 (the exchange rate on the date of the cash flow)).

The SME records the transaction as follows:

20 December 20X0

Dr Inventory (asset)	CU208,000[(a)]	
Cr Cash		CU208,000

To recognise the purchase of inventory and the payment to the supplier.

(a) LCB100,000 × CU2.08 = CU208,000.

Ex 23 **The facts are the same as in Example 22. On 28 December 20X0 the SME sold 80% of the imported goods to a customer for LCR300,000. The transaction is denominated in the customer's functional currency 'LCR'. On 28 December 20X0 (the time of receipt of payment) the SME converted the LCR300,000 received from its customer to CU420,000 (that is, LCR300,000 × CU1.4 (the exchange rate at the date of the cash flow)).**

In accordance with paragraph 7.11 of the Standard, the SME records the cash flow arising from the foreign currency denominated sale of goods as a cash inflow 'cash receipt from customer' at CU420,000 (that is, LCR300,000 foreign currency amount × CU1.4 (the exchange rate on the date of the cash flow)).

The SME records the sale of 80% of the inventory for LCR300,000 and the receipt of LCR300,000 in settlement of the sale transaction as follows:

28 December 20X0

Dr Cash	CU420,000[(a)]	
Cr Revenue (profit or loss)		CU420,000[(b)]
To recognise the sale of goods.		
Dr Cost of goods sold (profit or loss)	CU166,400[(c)]	
Cr Inventory		CU166,400
To recognise the cost of goods sold.		

(a) In accordance with paragraph 7.11 of the Standard: LCR300,000 cash received × CU1.4 (the exchange rate at the date of the cash flow) = CU420,000.

(b) In accordance with paragraph 30.7 of the Standard: LCR300,000 revenue from the sale × CU1.4 (the exchange rate at the date of the sale) = CU420,000.

(c) CU208,000 × 80% = CU166,400.

At 28 December 20X0 the SME continues to measure at cost the remaining inventory it holds (a non-monetary asset) as CU41,600 (that is, CU208,000 × 20%).

Ex 24 The facts are the same as in Examples 22–23. Furthermore, on 31 December 20X0 the SME declared and paid a dividend of CU58,000. Half of the SME's shareholders are citizens of Country R with LCR denominated bank accounts. All dividends are deposited by the SME into its shareholders' bank accounts.

Because the dividend is denominated in CU, the cash flow is CU58,000 cash outflow. From the SME's perspective no currency translation is needed for the dividend distribution.

Presentation

If the SME uses the direct method to present its cash flows from operating activities in its statement of cash flows for the year ended 31 December 20X0, it will present the transactions in Examples 22–24 as follows (amounts in CU):

	20X0
Cash flows from operating activities	
Cash received from customers	420,000[(a)]
Cash paid to suppliers	(208,000)[(b)]
Net cash from operating activities	212,000
Cash flows from financing activities	
Dividends paid	(58,000)
Net cash used in financing activities	(58,000)
Net increase in cash and cash equivalents	154,000
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	154,000

(a) LCR300,000 × CU1.4 = CU420,000.

(b) LCB100,000 × CU2.08 = CU208,000.

If the SME uses the indirect method to present its cash flows from operating activities in its statement of cash flows for the year ended 31 December 20X0, it will present the transactions in Examples 22–24 as follows (amounts in CU):

	20X0
Cash flows from operating activities	
Profit for the year	253,600[(a)]
Changes in operating assets and liabilities:	
Increase in inventories	(41,600)[(b)]
Net cash from operating activities	212,000

Cash flows from financing activities	
Dividends paid	(58,000)
Net cash used in financing activities	(58,000)
Net increase in cash and cash equivalents	154,000
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	154,000

(a) CU420,000 revenue from the sale of goods – CU166,400 cost of goods sold = CU253,600.

(b) CU41,600 inventory at the end of the period – CU0 inventories at the beginning of the period = CU41,600 (that is, 20% × CU208,000).

Ex 25 The facts are the same as in Examples 22–24. However, in this example the SME made both purchase from the supplier and the sale to the customer on credit. At 31 December 20X0 the full amount of both the foreign debtor's debt and the foreign creditor's credit was outstanding.

The SME's only cash flow for the year ended 31 December 20X0 is the CU-denominated dividend paid.

The SME uses the following exchange rates:

- **31 December 20X0: LCB1 = CU2.10; and**
- **31 December 20X0: LCR1 = CU1.30.**

Presentation

If the SME uses the direct method to present cash flows from operating activities in its statement of cash flows for the year ended 31 December 20X0, it will present the transaction in Example 25 as follows (amounts in CU):

	20X0
There are no cash flows from operating and investing activities	
Cash flows from financing activities	
Dividends paid	(58,000)
Net cash used in financing activities	(58,000)
Net decrease in cash and cash equivalents	(58,000)
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	(58,000)[(a)]

(a) The SME assumes that the bank overdraft qualifies for classification as a component of cash and cash equivalents (see paragraph 7.2 of the Standard).

If the SME uses the indirect method to present cash flows from operating activities in its statement of cash flows for the year ended 31 December 20X0, it will present the transactions in Example 25 as follows (amounts in CU):

	20X0
Cash flows from operating activities	
Profit for the year	221,600[a]
Changes in operating assets and liabilities:	
Increase in inventories	(41,600)[b]
Increase in trade payables	210,000[c]
Increase in trade receivables	(390,000)[d]
Net cash from operating activities	–
Cash flows from financing activities	
Dividends paid	(58,000)
Net cash used in financing activities	(58,000)
Net decrease in cash and cash equivalents	(58,000)
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	(58,000)[e]

(a) CU420,000 revenue from the sale of goods – CU166,400 cost of goods sold – CU2,000[f] unrealised foreign exchange loss on foreign creditor – CU30,000[g] unrealised foreign exchange loss on foreign debtor = CU221,600.

(b) CU41,600 inventory at the end of the period – CU0 inventories at the beginning of the period = CU41,600 (that is, 20% × CU208,000) increase in inventories.

(c) CU210,000 trade payables at 31 December 20X0 (that is, LCB100,000 × CU2.1 (the exchange rate on 31 December)) – CU0 trade payables at the beginning of the period = CU210,000 increase in trade payables.

(d) CU390,000 foreign debtor at 31 December 20X0 (that is, LCR300,000 × CU1.3 (the exchange rate on 31 December)) – CU0 foreign debtor at the beginning of the period = CU390,000 increase in trade receivables.

(e) A qualifying bank overdraft (see paragraph 7.2 of the Standard).

(f) CU210,000 trade payables at 31 December 20X0 (that is, LCB100,000 × CU2.1 (the exchange rate on 31 December)) – CU208,000 trade payables at 20 December 20X0 (that is, LCB100,000 × CU2.08 (the exchange rate on 31 December)) = CU 2,000 foreign exchange loss.

(g) CU390,000 foreign debtor at 31 December 20X0 (that is, LCR300,000 × CU1.3 (the exchange rate on 31 December)) – CU420,000 foreign debtor at 28 December 20X0 (that is, LCR300,000 × CU1.4 (the exchange rate on 28 December)) = CU30,000.

Ex 26 **The facts are the same as in Example 24. On 15 February 20X1 the SME paid CU200,000 to settle the amount owed to the foreign creditor. On 28 February 20X1 the SME received CU400,000 from the foreign debtor as settlement of the amount outstanding.**

The SME used the exchange rate:

31 December 20X0: LCB1 = CU2.10; LCR1 = CU1.3.

The SME records the cash outflow 'cash payment to supplier' at CU200,000 using the exchange rate on 15 February 20X1 (the date of the cash flow).

The SME records the cash inflow 'cash receipt from customer' at CU400,000 using the exchange rate on 28 February 20X1 (the date of the cash flow).

Presentation

If the SME uses the direct method to present cash flows from operating activities in its statement of cash flows for the period ended 28 February 20X1, it will present the transactions in Example 25 as follows (amounts in CU):

	20X1
Cash flows from operating activities	
Cash received from customers	400,000
Cash paid to suppliers	(200,000)
Net cash from operating activities	(200,000)
There are no cash flows from financing and investing activities	
Net increase in cash and cash equivalents	200,000
Cash and cash equivalents at beginning of year	(58,000)[(a)]
Cash and cash equivalents at end of year	142,000

(a) A qualifying bank overdraft (see paragraph 7.2 of the Standard).

If the SME uses the indirect method to present cash flows from operating activities in its statement of cash flows for the period ended 28 February 20X1, it will present the transactions in Example 25 as follows (amounts in CU):

	20X1
Cash flows from operating activities	
Profit for the year	20,000[(a)]
Changes in operating assets and liabilities:	
Decrease in trade payables	(210,000)[(b)]
Decrease in trade receivables	390,000[(c)]
Net cash from operating activities	200,000

There are no cash flows from financing activities	
Net increase in cash and cash equivalents	200,000
Cash and cash equivalents at beginning of year	(58,000)[(d)]
Cash and cash equivalents at end of year	142,000

(a) CU10,000[(e)] realised foreign exchange gain on foreign creditor + CU10,000[(f)] realised foreign exchange gain on foreign debtor = CU20,000 profit for the year.

(b) CU0 trade payables at the end of the period – CU210,000 trade payables at 31 December 20X0 (that is, LCB100,000 × CU2.1 (the exchange rate on 31 December 20X0)) = CU210,000 decrease in trade payables.

(c) CU0 foreign debtor at the end of the period – CU390,000 foreign debtor at 31 December 20X0 (that is, LCR300,000 × CU1.3 (the exchange rate on 31 December)) = CU390,000 decrease in trade receivables.

(d) A qualifying bank overdraft (see paragraph 7.2 of the Standard).

(e) CU200,000 paid in settlement – CU210,000 foreign creditor at 31 December 20X0 (that is, LCB100,000 × CU2.1 (the exchange rate on 31 December)) = CU10,000 realised foreign exchange gain.

(f) CU400,000 received as settlement – CU390,000 foreign debtor at 31 December 20X0 (that is, LCR300,000 × CU1.3 (the exchange rate on 31 December)) = CU10,000 realised foreign exchange gain.

7.12 The entity shall translate cash flows of a foreign subsidiary at the exchange rates between the entity's functional currency and the foreign currency at the dates of the cash flows.

7.12A Paragraph 30.19 explains when an exchange rate that approximates the actual rate can be used.

Example—Translating cash flows of a foreign subsidiary

Ex 27 On 1 December 20X0 an SME whose functional currency and presentation currency is CU acquired a foreign subsidiary whose functional currency is FCU. At the date of acquisition the foreign subsidiary's only asset was FCU1,000 inventory (its share capital at the date of acquisition was also FCU1,000). The subsidiary entered into two transactions in December 20X0. Specifically:

- **on 10 December the subsidiary sold half its inventory for FCU700 cash; and**
- **on 20 December the subsidiary paid FCU100 rent.**

Other information:

- **the reporting date of the parent entity is 31 December; and**
- **the subsidiary used the following exchange rates:**
  - **1 December 20X0: FCU1 = CU2;**
  - **10 December 20X0: FCU1 = CU2.1;**
  - **20 December 20X0: FCU1 = CU2.2; and**
  - **31 December 20X0: FCU1 = CU2.15.**

To prepare the group's consolidated statement of cash flows for the year ended 31 December 20X0, the group would first translate the subsidiary's cash flows into the group's presentation currency (using the direct method for presenting cash flows from operating activities).

	A	B	C = A x B
	FCU	*Rate*	*CU*
Cash flows from operating activities			
Cash received from customers	700	2.1	1,470
Cash paid to suppliers	(100)	2.2	(220)
Net cash from operating activities	600		1,250
Net increase in cash and cash equivalents	600		1,250
Cash and cash equivalents at beginning of year	–		–
Unrealised foreign exchange loss in cash and cash equivalents			40[(a)]
Cash and cash equivalents at end of year	600	2.15	1,290

(a) Balancing figure, which is the difference between the value of cash and cash equivalents, translated at 31 December exchange rate of CU1,290 (that is, FCU600 x CU2.15) – CU1,250 net increase in cash and cash equivalents = CU40. For further explanation, see IFRS for SMEs Accounting Standard—Educational Module 30 *Foreign Currency Translation*.

Note: From the subsidiary's perspective, there are no cash flows from investing and financing activities.

7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the statement of cash flows. Consequently, the entity shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The entity shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Example—Gains and losses on translating foreign cash and cash equivalents

Ex 28 On 10 December 20X0 the SME received FCU1,000 from a customer in settlement of a CU2,000 receivable.

The SME held the FCU1,000 in its safe until it deposited the cash in the SME's CU-denominated bank account on 5 January 20X1. Additionally:

- **the SME's functional currency and presentation currency is CU;**
- **the reporting date is 31 December; and**
- **the SME uses the following exchange rates:**
  - **10 December 20X0: FCU1 = CU2; and**
  - **31 December 20X0: FCU1 = CU2.1.**

The SME records the cash inflow 'cash received from customer' at CU2,000 (that is, at the exchange rate on 10 December 20X0 (the rate on the date of the cash flow—see paragraph 7.11 of the Standard)) and derecognises the receivable.

If the SME uses the direct method to present cash flows from operating activities in its statement of cash flows for the period ended 31 December 20X0, it will present the transactions in Example 28 as follows (amounts in CU):

	20X0
Cash flows from operating activities	
Cash received from customers	2,000
Net cash from operating activities	2,000
There are no cash flows from investing and financing activities	
Net increase in cash and cash equivalents	2,000
Cash and cash equivalents at beginning of year	–
Unrealised foreign exchange gain in cash and cash equivalents	(100)[(a)]
Cash and cash equivalents at end of year	2,100

(a) CU2,100 value of FCU1,000 at 31 December 20X0 (that is, FCU1,000 at 31 December 20X0 × CU2.1 (the exchange rate on 31 December)) – CU2,000 received from trade debtor = CU100 unrealised foreign exchange gain.

If the SME uses the indirect method to present cash flows from operating activities in its statement of cash flows for the period ended 31 December 20X0, it will present the transactions in Example 27 as follows (amounts in CU):

	20X0
Cash flows from operating activities	
Profit for the year	100[(a)]
Adjustment for non-cash income—unrealised foreign exchange gain	(100)[(a)]
Changes in operating assets and liabilities—decrease in trade receivables	2,000
Net cash from operating activities	2,000
There are no cash flows from investing and financing activities	
Net increase in cash and cash equivalents	2,000
Cash and cash equivalents at beginning of year	–
Unrealised foreign exchange gain in cash and cash equivalents	(100)[(a)]
Cash and cash equivalents at end of year	2,100

(a) CU2,100 value of FCU1,000 at 31 December 20X0 (that is, FCU1,000 at 31 December 20X0 × CU2.1 (the exchange rate on 31 December)) – CU2,000 received from trade debtor = CU100 unrealised foreign exchange gain.

Interest and dividends

7.14 An entity shall present separately cash flows from interest and dividends received and paid. The entity shall classify cash flows consistently from period to period as operating, investing or financing activities.

Educational notes

An entity would change the presentation or classification of interest and dividends received and paid in its statement of cash flows only if the change provides information that is reliable and more relevant to users of the financial statements (see paragraph 10.8(b) of the Standard) and the revised classification is likely to continue, so that comparability over time is not impaired. In accordance with paragraph 3.11 of the Standard, an entity can make such a change in classification only after a significant change in the entity's operations or a review of its financial statements.

In accordance with paragraph 3.12 of the Standard, if an entity changes the presentation or classification of dividend or interest cash flows, the entity reclassifies comparative amounts and discloses the nature of the reclassification and the amount of each item or class of items that is reclassified.

7.15	An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Educational notes

An entity uses judgement to decide on the classification of interest paid and interest and dividends received that it considers will provide the most relevant information to users of its financial statements.

Examples—Classification of interest paid, interest and dividends received

In Examples 29–30, the SME uses the direct method to present its cash flows from operating activities.

Ex 29 In the year ended 31 December 20X0 an SME received interest from its interest-bearing investments of CU650, paid CU1,400 interest on long-term debt and received dividends from its other investments (that is, not controlled, associated or jointly controlled entities) of CU230. The cash and cash equivalents in the statement of cash flows comprise cash and bank overdrafts.

The SME classifies interest paid and interest and dividends received as operating cash flows.

Extract from statement of cash flows for the year ended 31 December 20X0

	CU
Cash flows from operating activities	
Cash receipts from customers	X
Payments to suppliers and employees	(X)
Interest received	650
Interest paid	(1,400)
Dividends received	230
Net cash from operating activities	**X**
Cash flows from investing activities	
Proceeds from sale of equipment	X
Purchases of equipment	(X)
Net cash used in investing activities	**X**

Cash flows from financing activities	
Payment of finance lease liabilities	(X)
Repayment of borrowings	(X)
Net cash used in financing activities	**(X)**
Net increase in cash and cash equivalents	**X**
Cash and cash equivalents at beginning of year	X
Cash and cash equivalents at end of year	**X**

Ex 30 **The facts are the same as in Example 29. However, in this example, the SME chooses to classify interest paid as financing cash flows and interest and dividends received as investing cash flows. The cash and cash equivalents in the statement of cash flows comprise cash, short-term investments and bank overdrafts.**

Extract from statement of cash flows for the year ended 31 December 20X0

	CU
Cash flows from operating activities	
Cash receipts from customers	X
Payments to suppliers and employees	(X)
Net cash from operating activities	**X**
Cash flows from investing activities	
Proceeds from sale of equipment	X
Purchases of equipment	(X)
Interest received	650
Dividends received	230
Net cash used in investing activities	**X**
Cash flows from financing activities	
Payment of finance lease liabilities	(X)
Repayment of borrowings	(X)
Interest paid	(1,400)
Net cash used in financing activities	**(X)**

Net increase in cash and cash equivalents	**X**
Cash and cash equivalents at beginning of year	X
Cash and cash equivalents at end of year	**X**

7.16 An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.

Educational notes

An entity is permitted to classify dividends paid as operating or financing activities, provided that the entity applies the presentation choice consistently from one period to the next (see paragraph 3.11 of the Standard).

Presenting dividend payments in operating activities displays the extent to which dividends are paid out of operating cash flows. For example, in some cases dividends are distributed to the owners in proportion to the volume of their transactions with the entity during the reporting period instead of in proportion to the relative interests that the owners hold in the entity's contributed capital. This way of dividend payments is used by some rural co-operatives in some jurisdictions. Classifying dividends paid as cash flows used in operating activities might be more appropriate in these cases.

Examples—Classification of dividends paid

Ex 31 The facts are the same as in Example 29. However, in this example the SME paid dividends of CU2,000 to its shareholders and chooses to classify dividends paid as cash flows from financing activities.

Extract from statement of cash flows for the year ended 31 December 20X0

	CU
Cash flows from operating activities	
Cash receipts from customers	X
Payments to suppliers and employees	(X)
Interest received	650
Interest paid	(1,400)
Dividends received	230
Net cash from operating activities	**X**

Cash flows from investing activities	
Proceeds from sale of equipment	X
Purchases of equipment	(X)
Net cash used in investing activities	**X**
Cash flows from financing activities	
Payment of finance lease liabilities	(X)
Repayment of borrowings	(X)
Dividends paid	(2,000)
Net cash used in financing activities	**(X)**
Net increase in cash and cash equivalents	**X**
Cash and cash equivalents at beginning of year	X
Cash and cash equivalents at end of year	**X**

Ex 32 **The facts are the same as in Example 29. However, in this example, the SME chooses to classify dividends paid as operating cash flows.**

Extract from statement of cash flows for the year ended 31 December 20X0

	CU
Cash flows from operating activities	
Cash receipts from customers	X
Payments to suppliers and employees	(X)
Interest received	650
Interest paid	(1,400)
Dividends received	230
Dividends paid	(2,000)
Net cash from operating activities	**X**
Cash flows from investing activities	
Proceeds from sale of equipment	X
Purchases of equipment	(X)
Net cash used in investing activities	**X**

Cash flows from financing activities	
Payment of finance lease liabilities	(X)
Repayment of borrowings	(X)
Net cash used in financing activities	**(X)**
Net increase in cash and cash equivalents	**X**
Cash and cash equivalents at beginning of year	X
Cash and cash equivalents at end of year	**X**

Income tax

7.17 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Educational notes

Taxes on income arise on transactions and give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. Although tax expense might be readily identifiable with investing or financing activities, it is often difficult to identify the related tax cash flows and they might arise in a different period than the cash flows of the underlying transaction. Consequently, taxes paid are usually classified as cash flows from operating activities. However, if an entity can identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the entity classifies the tax cash flow as an investing or financing activity, as appropriate and to the extent that it can be allocated reliably. If the entity allocates the tax cash flows to more than one class of activity (for example, to operating, financing and investing activities), the entity discloses the total amount of taxes paid. Such a disclosure is useful to users of financial statements when combined with information disclosed in accordance with Section 29 *Income Tax*.

Examples—Classification of income taxes paid

Ex 33 In its first year of operations (20X1) a service provider incurred CU2,000 income tax expense (CU1,800 current tax and CU200 deferred tax). The SME's reported profit for the year ended 31 December 20X1 is CU4,000 (that is, CU6,000 profit before tax minus CU2,000 income tax expense). The SME will pay the CU1,800 current tax incurred in 20X2. It expects the temporary difference that gave rise to the deferred tax liability to reverse in 20X5.

In preparing its statement of cash flows, the SME presents its cash flows from operating activities using the indirect method.

Extract from the SME's statement of cash flows for the year ended 31 December 20X1

	CU
Cash flows from operating activities	
Profit for the year	4,000
Add back non-cash income and expenses	
Unpaid current income tax expense	1,800
Deferred tax expense	200
Net cash from operating activities	6,000

Ex 34 The facts are the same as in Example 33. However, in this example the SME paid CU1,000 income tax in 20X1.

Extract from the statement of cash flows for the reporting period ended 31 December 20X1

	CU
Cash flows from operating activities	
Profit for the year	4,000
Add back	
Unpaid current income tax expense[(a)]	800
Deferred tax expense	200
Net cash from operating activities	5,000
...	

(a) Income tax paid in cash 1,000

Ex 35 **Cash and cash equivalents of an SME at the beginning of 20X0 were CU500.**

In 20X0 the SME's only cash flows were:

- **CU480 cash received from customers;**
- **CU30 cash paid to suppliers and employees;**
- **CU400 dividends received; and**
- **CU450 income tax paid (including CU100 tax in respect of the dividends received).**

The SME chooses to classify dividends received as investing cash flows.

Statement of cash flows of the SME for the year ended 31 December 20X0

	CU	*CU*
Cash flows from operating activities		
Cash receipts from customers	480	
Cash paid to suppliers and employees	(30)	
Income taxes paid	(350)[a]	
Net cash from operating activities		**100**
Cash flows from investing activities		
Dividends received	400	
Income taxes paid	(100)[a]	
Net cash from investing activities		**300**
Net increase in cash and cash equivalents		**400**
Cash and cash equivalents at beginning of year		500
Cash and cash equivalents at end of year		900

[a] Income tax paid in cash (450)

Non-cash transactions

7.18 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the **financial statements** in a way that provides all the relevant information about those investing and financing activities.

7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they 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 because 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 entity by means of an equity issue; and

(c) the conversion of debt to equity.

Educational notes

An entity is required to exclude all non-cash investing and financing activities (that is, those not having a direct impact on cash flows) from its statement of cash flows. Consequently, the entity presents only those transactions affecting cash and cash equivalents in a reporting period. The list of examples presented in paragraph 7.19 of the Standard is not exhaustive. Other non-cash activities include:

(a) the reclassification of long-term debt to short-term debt or vice-versa;

(b) changes in liabilities or assets with no cash inflows or outflows (for example, forgiveness of debt);

(c) revenue and expenses that arise from barter transactions; and

(d) non-cash dividends paid or received.

Example—Non-cash transaction

Ex 36 An SME acquired a machine on credit, which is payable two years later. The fair value of the machine at the date of acquisition was CU10,000.

This transaction does not entail a direct inflow or outflow of cash and so the SME excludes it from the statement of cash flows. However, the SME is required to disclose the non-cash investing and financing activity elsewhere in the financial statements (typically in the notes to the financial statements). To satisfy the requirement in paragraph 7.18 of the Standard, the SME discloses that it acquired the building on credit as a non-cash investing and financing activity.

Changes in liabilities arising from financing activities

7.19A An entity shall disclose a reconciliation between the opening and closing balances in the **statement of financial position** for liabilities arising from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. An entity shall include in the reconciliation:

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing **control** of subsidiaries or other businesses;

(c) the effect of changes in foreign exchange rates;

(d) changes in fair values; and

(e) other changes.

Educational notes

In January 2016 the IASB amended IAS 7 *Statement of Cash Flows* in response to requests from users of financial statements to improve the information on an entity's debt, including changes in the reporting period, so that users could improve their understanding of the entity's cash flows. During the second comprehensive review of the Standard, users of SMEs' financial statements said that a debt reconciliation would be useful because it would avoid the need for them to perform manual reconciliations.

Neither IFRS Accounting Standards nor the *IFRS for SMEs* Accounting Standard includes a definition of 'debt', so the IASB noted it could use the definition of 'financing activities' in IAS 7. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. Financing cash flows are those defined in paragraph 7.6 of the Standard. They are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity.

The disclosure requirement in paragraph 7.19A of the Standard sets out what is included in the reconciliation. An entity would need to provide more disaggregation if that information will be useful to users of its financial statements (see paragraph 3.2 of the Standard).

Example—Disclosure of changes in liabilities arising from financing activities

Ex 37 The SME has financing liabilities as at 31 December 20X1 from:

- **long-term borrowings: CU21,000 (20X0: CU22,000);**
- **short-term borrowings: CU9,700 (20X0: CU10,000); and**
- **finance lease liabilities: CU3,500 (20X0: CU4,000).**

In 20X0, these financing liabilities moved due to:

- **payments of long-term borrowings, short-term borrowings and finance lease liabilities amounting to CU1,000, CU500 and CU800, respectively;**
- **new finance leases amounting to CU300; and**
- **foreign exchange differences increasing the short-term borrowings by CU200.**

The SME could comply with paragraph 7.19A by disclosing (amounts in CU):

	20X0	Settlement	Non-cash exchanges		20X1
			New finance leases	Foreign exchange	
Long-term borrowings	22,000	(1,000)	–	–	21,000
Short-term borrowings	10,000	(500)	–	200	9,700
Finance lease liabilities	4,000	(800)	300	–	3,500
Total liabilities from financing liabilities	**36,000**	**(2,300)**	**300**	**200**	**34,200**

Educational notes

Before the IASB amended IAS 7, many entities disclosed a net debt reconciliation. A net debt reconciliation is a reconciliation of movements in financing activities minus cash and cash equivalents. A net debt reconciliation is an extension of the reconciliation required by paragraph 7.19A of the Standard.
The reconciliation required by paragraph 7.19A is expected to provide users with all the information they need similar to the information provided by a net debt reconciliation. However, an SME is permitted to choose to extend the reconciliation required by paragraph 7.19A and provide a net debt reconciliation.

Example—Net debt reconciliation

Ex 38 The SME's cash and cash equivalents and net debt comprising:

	20X1 *CU*	*20X2* *CU*
Cash	1,900	1,300
Bank overdrafts	(50)	(60)
Net cash and cash equivalents	1,850	1,240
Net debt		
Long-term borrowings	(5,800)	(5,700)
Short-term borrowings	(1,400)	(1,300)
Total debt	(7,200)	(7,000)
Net cash and cash equivalents	1,850	1,240
Net debt	**(5,350)**	**(5,760)**

Movements in the SME's cash and cash equivalents and debt are in 20X2 are as follows:

	CU
Foreign exchange translation	180
Cash flows arising from an acquisition of a subsidiary	(200)
Cash flows (net of new borrowings and repayments)	(590)
Other non-cash changes	200

The reconciliation of net debt for 20X2 can be presented as follows:

	CU
Net debt at beginning of the period	(5,350)
Cash flows	(590)
Acquisition	(200)
Foreign exchange	180
Other non-cash changes	200
Net debt at end of the period	**(5,760)**

Supplier finance arrangements

7.19B Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as 'supply chain finance', 'payables finance' or 'reverse factoring arrangements'. Examples of arrangements that are not supplier finance arrangements include:

(a) arrangements that are solely credit enhancements for an entity (for example, financial guarantees including letters of credit used as guarantees); and

(b) instruments used by an entity to settle directly with a supplier the amounts owed (for example, a situation in which an entity uses a credit card to settle the amount owed to a supplier and then has an obligation to pay the issuing bank instead).

Educational notes

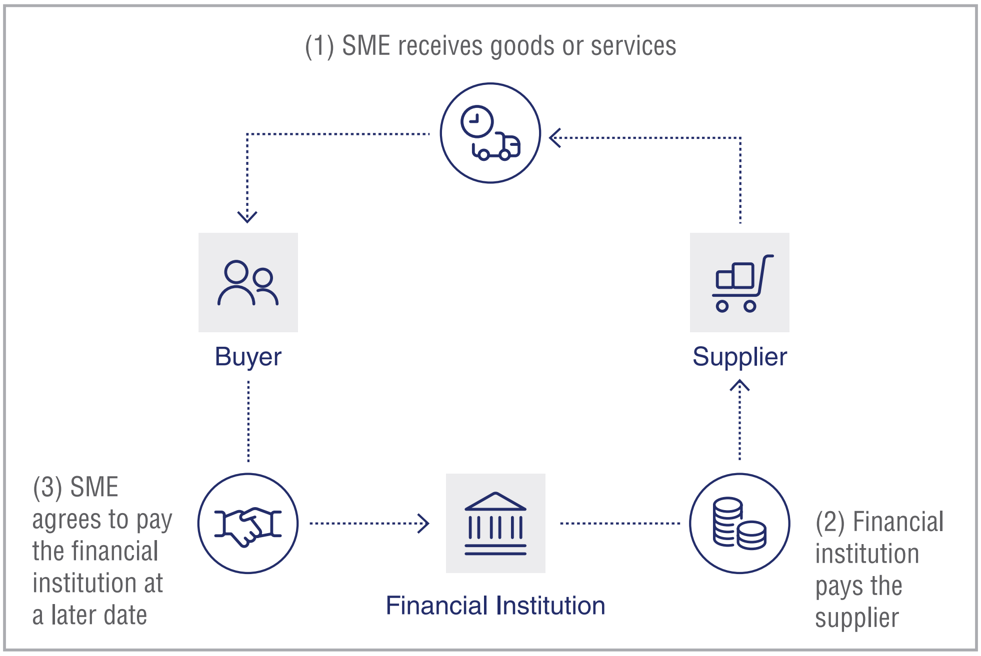
In May 2023 the IASB amended IAS 7 to require an entity to provide additional disclosures about its supplier finance arrangements. These targeted amendments are intended to enable users to obtain information they need to understand the effects of supplier finance arrangements on an entity's:

(a) liabilities and cash flows; and

(b) exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

Supplier finance arrangements are a growing source of finance for entities, including SMEs. A common supplier arrangement is illustrated in Figure 3.

Figure 3—Supplier finance arrangement



The SME, as the buyer, (1) purchases and receives goods or services from a supplier on agreed payment terms.

A finance provider (2) offers to pay amounts the SME owes to its supplier.

The SME (3) agrees to pay the finance provider on the same date the supplier is paid or at a later date.

Supplier finance arrangements can involve more than one finance provider that provides the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as 'supply chain finance', 'payables finance' or 'reverse factoring arrangements'.

An entity is required to present separately that it is part of a supplier finance arrangement, to the extent that doing so is relevant to users' understanding of the entity's financial position (see paragraph 4.3 of the Standard). The size, nature or function of financial liabilities that are part of a supplier finance arrangement will determine whether the entity presents the liabilities separately in its statement of financial position and help the entity in determining whether to present the related cash flows in operating or financing activities in the statement of cash flows. Varying arrangements might result in varying presentations.

An entity discloses the accounting policy it applies to the liabilities arising from or affected by supplier finance arrangements (see paragraph 8.5 of the Standard).

A supplier finance arrangement can result in a non-cash transfer within the statement of financial position that would not be presented in the statement of cash flows. An entity is already required to reflect such non-cash changes in its disclosures about changes in financing liabilities (see paragraph 7.19A of the Standard).

7.19C An entity shall disclose in aggregate for its supplier finance arrangements:

(a) the key terms and conditions of the arrangements (for example, terms and conditions related to the interest rate, fees charged, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar key terms and conditions.

(b) as at the beginning and end of the reporting period:

(i) the **carrying amounts**, and associated line items presented in the entity's statement of financial position, of the **financial liabilities** that are part of a supplier finance arrangement.

(ii) the carrying amounts, and associated line items, of the financial liabilities disclosed in accordance with (i) for which suppliers have already received payment from the finance providers, unless it is **impracticable** to do so. If it is impracticable to make this disclosure, the entity shall state that fact.

(iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed in accordance with (i) and comparable trade payables that are not part of the supplier finance arrangement. Comparable trade payables are, for example, the entity's trade payables within the same line of business or jurisdiction as the financial liabilities disclosed in accordance with (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or divide them into narrower ranges.

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed in accordance with (b)(i). These non-cash changes include the effect of **business combinations**, exchange differences and other transactions that do not require the use of cash or cash equivalents (see paragraph 7.18). For example, an entity that buys goods and services from suppliers would typically classify the cash outflows to settle amounts owed to its suppliers as cash outflows from operating activities. If the entity owes its suppliers an amount that becomes part of a supplier finance arrangement, the entity—having considered the terms and conditions of the arrangement—might classify the cash outflow to settle the amount owed as a cash flow from financing activities. In such circumstances, the entity might not have reported any cash inflow from financing activities, in which case the outcome would be a non-cash change in liabilities arising from financing activities.

Educational notes

Terms and conditions

Disclosure of the terms and conditions of supplier finance arrangements informs users of financial statements that such arrangements are in place and provides context about how such programmes are used and any constraints within the arrangements.

Carrying amount of liabilities

Disclosure about the carrying amount of liabilities is intended to enable users of financial statements:

- to analyse the entity's liabilities and their effects on operating and financing cash flows; and
- to understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

This disclosure shows the size of the entity's supplier finance arrangements and the line items in which the financial liabilities that are part of those arrangements are presented. An entity provides quantitative information on any payables that were approved as part of supplier finance arrangements, reconciling where they are presented on the statement of financial position and showing separately any payables for which the supplier had already taken payment from the finance provider. Example 39 illustrates how an entity could disclose such information.

Range of payment due dates

Disclosure about the range of payment due dates is intended to enable users of financial statements to assess how these arrangements affect the entity's cash flows. An entity explains if the ranges of payment due dates are wide. Example 39 illustrates how an entity could disclose such information.

Non-cash changes

Disclosure about non-cash changes is intended to enable users of financial statements to assess changes in an entity's financial liabilities that are part of a supplier finance arrangement and to understand how these changes affect the entity's cash flows.

In some supplier finance arrangements, trade payables retain their classification in an entity's statement of financial position after those trade payables are included in the arrangements. In other arrangements, the entity might need to change the classification—the entity could derecognise the trade payable and recognise a new finance payable. The change in classification could result in a non-cash transfer in the statement of cash flows—an operating cash inflow when the trade payable is initially created (that is, the entity presents the increase or decrease in the amounts of trade payables under cash flow from operating activities) followed by a financing cash outflow when the new finance payable is paid (that is, the entity classifies the settlement of a supplier finance arrangement as a cash flow from financing activities). This non-cash transfer can have significant ramifications for users' analysis of operating cash flows or free cash flows. Example 39 illustrates how an entity could disclose such information.

Example—Disclosure of supplier finance arrangements

Ex 39 An SME could comply with the disclosure requirements on carrying amount of liabilities, range of payment due dates and non-cash changes for its supplier finance arrangements by disclosing:

Note X—Supplier finance arrangements

Carrying amount of liabilities (amounts in CU)

	20X1	*20X0*
Presented within trade and other payables	1,500	1,000
—of which suppliers have received payments	1,050	800
Presented within finance payables	1,000	750
—of which suppliers have received payments	900	650

Range of payment due dates

	20X1	*20X0*
Liabilities that are part of the arrangement	85–90 days after invoice date	80–90 days after invoice date
Comparable trade payables that are not part of an arrangement	60–70 days after invoice date	60–75 days after invoice date

Non-cash changes

No business combinations or material foreign exchange differences occurred in either period. Non-cash transfers from trade payables to finance payables of CU1,200 and CU900 occurred in 20X1 and 20X0, respectively.

Components of cash and cash equivalents

7.20 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in the statement of cash flows with the equivalent items reported in the statement of financial position. However, an entity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Examples—Components of cash and cash equivalents

Ex 40 **At the end of the reporting period an SME reports cash and cash equivalents of CU100,000 in its statement of cash flows. In its statement of financial position, the SME presents those cash and cash equivalents as CU150,000 cash (a current asset) and CU50,000 bank overdraft (a current liability).**

In a note to the statement of cash flows, the SME presents the disaggregation of the CU100,000 cash and cash equivalents at the end of the year—CU150,000 cash and CU50,000 bank overdraft, presented as separate line items in the statement of financial position.

Ex 41 **At 31 December 20X8 an SME reports cash and cash equivalents of CU20,000 in its statement of cash flows. In its statement of financial position, the SME presents CU50,000 cash (a current asset) and CU170,000 bank overdrafts (current liabilities). The SME classifies a bank overdraft with a balance of CU30,000 as a component of cash and cash equivalents because it is repayable on demand and forms an integral part of the SME's cash management. The other bank overdraft (balance of CU140,000 at the end of the reporting period) is not a component of cash and cash equivalents.**

To comply with the requirement in paragraph 7.20 of the Standard, the SME references the statement of cash flows in the notes to financial statements:

Note X. Cash and cash equivalents

	Cash on hand	Bank overdrafts	Total
	CU	*CU*	*CU*
Cash and cash equivalents at 31/12/20X8 (statement of cash flows)	50,000	(30,000)	**20,000**
Included in financing activities in statement of cash flows when the cash flows occur		(140,000)	
Separate line item in statement of financial position at 31/12/20X8	**50,000**	**(170,000)**	

Ex 42 **Group B presents extracts from the statement of cash flows, statement of financial position and notes to the financial statements that relate to cash and cash equivalents, including accounting policies and explanatory notes, in its financial statements, as follows:**

Extract from Group B's consolidated statement of cash flows for the year ended 31 December 20X8

	20X8
	CU
...	
Net increase in cash and cash equivalents	**38,532**
Cash and cash equivalents at beginning of year	(93,432)
Cash and cash equivalents at end of year	**(54,900)**

	Notes	*20X8*	*20X7*
		CU	*CU*
Assets			
Current assets			
Cash	24	28,700	22,075
…			
	Notes	*20X8*	*20X7*
		CU	*CU*
Liabilities and equity			
Current liabilities			
Bank overdraft and loan	16	133,600	265,507

Extract from the notes to Group B's consolidated financial statements, including accounting policies and explanatory notes for the year ended 31 December 20X8

Note 16 Bank overdraft and loan

	20X8	*20X7*
	CU	*CU*
Bank overdraft	83,600	115,507
Bank loan—due in 20X9	50,000	150,000
Total	**133,600**	**265,507**

The bank overdraft and loan are secured by a floating lien over land and buildings owned by Group B with a carrying amount of CU266,000 as at 31 December 20X8 (CU412,000 as at 31 December 20X7).

Interest is payable on the bank overdraft at 200 points above the Sterling Overnight Indexed Average (SONIA). Interest is payable on the bank loan over seven years at a fixed rate of 5% of the principal amount.

Note 24 Cash and cash equivalents

	20X8	*20X7*
	CU	*CU*
Cash on hand[(a)]	28,700	22,075
Overdrafts[(b)]	(83,600)	(115,507)
Total	**(54,900)**	**(93,432)**

(a) Presented as a current asset in the statement of financial position.

(b) Presented as a current liability in the statement of financial position.

Ex 43 **The functional currency of the parent and its subsidiaries (together Group C) is CU. The presentation currency of Group C is CU. Group C has cash and cash equivalents in four foreign currencies. Group C has an unrealised loss of CU120,000 in foreign cash and cash equivalents at the end of the reporting period. Group C presents information about cash and cash equivalents as a part of its statement of cash flows as follows:**

Extract from the consolidated statement of financial position of Group C for the year ended 31 December 20X8

	20X8	*20X7*
	CU	*CU*
Assets		
Cash on hand and balances with banks	150,000	390,000
Short-term investments	1,700,000	170,000
...		
Liabilities		
Bank overdraft	130,000	50,000
…		

Extract from the consolidated statement of cash flows for the year ended 31 December 20X8

	Notes	*20X8* *CU*
...		
Net increase in cash and cash equivalents		1,330,000
Cash and cash equivalents at beginning of year		510,000
Unrealised foreign exchange loss in cash and cash equivalents		(120,000)
Cash and cash equivalents at end of year	**18**	**1,720,000**

Extract from the notes of the group for the year ended 31 December 20X8

Note 18 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of cash on hand and balances with banks and investments in money market instruments. They are presented as separate line items in the statement of financial position as follows:

	20X8 *CU*
Amounts reflected in the statement of financial position	
Cash on hand and balances with banks	150,000
Short-term investments	1,700,000
Bank overdrafts	(130,000)
Total cash and cash equivalents in the statement of cash flows	**1,720,000**

Other disclosures

7.21 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

Educational notes

Cash and cash equivalent balances held by an entity might not be available for use by the group in several circumstances. For example, cash and cash equivalent balances are not available for use by the group or other subsidiaries if they are held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply.

Example—Components of cash and cash equivalents

Ex 44 Extract from the notes of the group for the year ended 31 December 20X8

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

	20X8	*20X7*
	CU	*CU*
Cash on hand and balances with banks	40,000	25,000
Short-term investments	190,000	135,000
Total cash and cash equivalents in the statement of cash flows	**230,000**	**160,000**

Cash and cash equivalents at the end of the period include deposits with banks of CU50,000 (20X7: CU40,000) held by a subsidiary, which are not freely remissible to the parent company because of currency exchange restrictions.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Accounting Standard (Standard) to transactions or other events often requires an entity to use its judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful to a user of financial statements assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of the Standard, an entity discloses the judgements management has made when applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7 of the Standard, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about particular judgements and estimation uncertainties.

Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits and short-term, highly liquid investments held to meet short-term cash commitments instead of for investment or other purposes. In most cases an entity encounters little difficulty in determining whether an asset (or even a liability—for example, a bank overdraft) is an item of cash and cash equivalents. However, in some circumstances an entity uses its judgement to classify some items of cash and cash equivalents. For example, whether:

- some investments in equity instruments or debt instruments meet the classification criteria of cash equivalents;
- some bank overdrafts form an integral part of the entity's cash management; and
- some significant cash and cash equivalent balances held by the entity are not available for use by the entity.

Cash flows—Operating, investing and financing activities

The statement of cash flows presents cash flows classified by operating, investing and financing activities for a reporting period. In most cases an entity encounters little difficulty in determining whether a cash flow forms a part of the entity's operating, investing or financing activities. However, an entity might make significant judgement to classify some cash flows. Judgement involved in classifying some cash flows as financing activities would also affect the entity's disclosure of changes in liabilities from financing activities.

Direct method

An entity using the direct method presents cash flows from operating activities by disclosing information about major classes of gross cash receipts and gross cash payments. In most cases the entity encounters little difficulty in determining what constitutes major classes of gross cash flows.

Supplier finance arrangements

An entity uses its judgement to decide on whether it is subject to some of the disclosure requirements on supplier finance arrangements. For example, the Standard requires an entity to disclose:

- key terms and conditions of its supplier finance arrangements, such as terms and conditions related to the interest rate, fees charged, extended payment terms and security or guarantees provided. Depending on facts and circumstances, the entity might be required to disclose other terms and conditions.
- the range of payment due dates for payables within the supplier finance arrangements and comparable payables outside those arrangements. The entity uses judgement to determine the appropriate range of payment due dates that would provide the most useful information to users of the entity's financial statements.

TRANSITION REQUIREMENTS

The third edition of the *IFRS for SMEs* Accounting Standard (Standard) is effective for annual reporting periods beginning on or after 1 January 2027. Early application is permitted. Changes made to Section 7 *Statement of Cash Flows* from the second edition of the Standard are summarised on page 6.

An entity is required to retrospectively apply the amendments to Section 7 in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the Standard. Retrospective application means applying an accounting policy to transactions, other events and conditions as if that policy had always been applied.

COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

The requirements in full IFRS Accounting Standards (see IAS 7 *Statement of Cash Flows*) and those in the *IFRS for SMEs* Accounting Standard (see Section 7 *Statement of Cash Flows*) vary as at February 2025. The main differences are that:

- Section 7 is drafted in simpler language than that used in IAS 7.
- Section 7 does not explicitly encourage entities to present cash flows from operating activities using the direct method whereas IAS 7 encourages this method (see paragraph 19 of IAS 7).
- IAS 7 provides an alternative to use the indirect method to present net cash flow from operating activities by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables. Section 7 includes no such alternative method.
- IAS 7 includes guidance for investments in subsidiaries, associates and jointly controlled entities and changes in ownership interests in subsidiaries and other businesses. Section 7 has no corresponding guidance for these areas.
- IAS 7 allows specific cash flows to be presented on a net basis. Section 7 has no corresponding requirement.

This table sets out the disclosure requirements in IAS 7 compared to the disclosure requirements in Section 7.

IAS 7 paragraph	Section 7 paragraph
16	7.5
17	7.6
18	7.7
20	7.8
31	7.14
32	X
35	X
36	7.17
40	X
43	7.18
44A and 44E	X
44B and 44D	7.19A
44F	X
44H	7.19C

IAS 7 paragraph	Section 7 paragraph
45	7.20
46	X
48	7.21
50–52	X

‘X’ denotes no equivalent paragraph.

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements in Section 7 *Statement of Cash Flows* of the *IFRS for SMEs* Accounting Standard by answering the questions provided.

Assume all amounts mentioned are material.

Once you have completed the test, check your answers against those supplied on page 70.

Mark the box next to the most correct statement.

Question 1

The statement of cash flows presents changes in cash and cash equivalents:

☐ (a) from operating activities.

☐ (b) from operating and financing activities.

☐ (c) from operating, investing and financing activities.

Question 2

An airline domiciled in Country A (a developed economy where the local currency is CU) presents in its statement of financial position the following financial assets at 31 December 20X5:

- bank cheque account = CU58,400.
- bank savings account (collectible immediately) = CU23,440.
- cash = CU10,000.
- common stocks of Entity Z, one of the most traded assets in Country A's stock exchange, purchased by the SME for speculative purposes = CU2,715.
- oil price derivative entered into by the SME to hedge the commodity price risk of the anticipated future purchase of oil for use in the SME's operating business = CU6,720.
- a gold price derivative entered into by the SME for speculative purposes = CU9,880.
- treasury bonds issued by the government of Country A = CU8,500. The SME acquired the bonds from the government one week before the SME's reporting date. The bonds mature two months after the date of acquisition (that is, they are two-month bonds from date of issue).
- treasury bonds issued by the government of Country A = CU6,300. The SME acquired those bonds from the government in the previous annual reporting period. The bonds mature 15 months after the date of acquisition (that is, they are 15-month bonds).

In the absence of evidence to the contrary, the SME's total cash and cash equivalents at 31 December 20X5 is:

- ☐ (a) CU91,840
- ☐ (b) CU98,560
- ☐ (c) CU100,340
- ☐ (d) CU107,060
- ☐ (e) CU109,775
- ☐ (f) CU113,360

Question 3

Cash receipts from customers for the sale of goods are cash flows from:

- ☐ (a) operating activities.
- ☐ (b) investing activities.
- ☐ (c) operating or financing activities.
- ☐ (d) financing activities.

Question 4

Payment of non-refundable purchase taxes on the purchase of property, plant and equipment is allocated as cash flows from:

- ☐ (a) operating activities.
- ☐ (b) investing activities.
- ☐ (c) financing activities.
- ☐ (d) operating or financing activities.

Question 5

Cash payments to acquire the entity's own shares (that is, treasury shares) are:

- ☐ (a) cash outflows from operating activities.
- ☐ (b) cash outflows from investing activities.
- ☐ (c) cash outflows from financing activities.

Question 6

Cash proceeds from long-term borrowings are:

- ☐ (a) cash inflows from operating activities.
- ☐ (b) cash inflows from investing activities.
- ☐ (c) cash inflows from financing activities.

Question 7

Interest and dividends received:

☐ (a) are cash inflows from operating activities.
☐ (b) are cash inflows from financing activities.
☐ (c) could be classified as operating or financing cash flows.
☐ (d) could be classified as operating or investing cash flows.

Question 8

Cash receipts from the sale of an owner-operated plant are:

☐ (a) cash flows from financing activities.
☐ (b) cash flows from investing activities.
☐ (c) cash flows from operating activities.

Question 9

Entity A acquired 50% of the equity of Entity B on 1 January 20X3 for CU520,000 (cash) when the fair value of Entity B's identifiable net assets (total assets minus total liabilities and contingent liabilities) was CU1,000,000 (including cash and cash equivalents of CU100,000). With effect from 1 January 20X3 Entity A controls Entity B. In the group's consolidated statement of cash flows the separate line item 'cash flow on acquiring a subsidiary' is:

☐ (a) a cash inflow of CU520,000.
☐ (b) a cash outflow of CU520,000.
☐ (c) a cash inflow of CU420,000.
☐ (d) a cash outflow of CU420,000.

Question 10

The facts are the same as in Question 9. However, in this question, with effect from 1 January 20X3 Entity A has significant influence (that is, neither control nor joint control) over Entity B. In its statement of cash flows Entity A reports the separate line item 'cash flow on acquiring an associate' as:

☐ (a) a cash outflow of CU520,000.
☐ (b) a cash outflow of CU420,000.
☐ (c) a cash outflow of CU260,000.
☐ (d) a cash outflow of CU210,000.

Question 11

If an entity presents its operating cash flows using the direct method, the reconciliation of profit or loss to net cash flow from operating activities:

- ☐ (a) is required to be presented in the statement of cash flows.
- ☐ (b) is required to be disclosed in the notes to the financial statements.
- ☐ (c) is prohibited from being presented or disclosed in any way.
- ☐ (d) is permitted (but not required) to be disclosed in the notes to the financial statements.

Question 12

Which liability generally is <u>not</u> included in the reconciliation of liabilities arising from financing activities?

- ☐ (a) A lease liability arising from a finance lease.
- ☐ (b) Statutory income tax payable.
- ☐ (c) A long-term loan used in constructing an entity's head office.
- ☐ (d) Bank overdrafts that are repayable on demand but not an integral part of an entity's cash management.

Question 13

Which information does the Standard <u>not</u> require an entity to disclose about a supplier finance arrangement?

- ☐ (a) The range of payment due dates. If the range of payment due dates is wide, the entity need not explain nor provide additional information.
- ☐ (b) The cost of funding, extended payment terms and any security or guarantees provided to the finance provider.
- ☐ (c) The carrying amount of liabilities that were part of the entity's supplier finance arrangement, where they are presented in the statement of financial position and how much payment has already been received by the entity's suppliers.
- ☐ (d) The effect of non-cash changes in the carrying amount of liabilities under supplier finance arrangements that could include the effect of foreign exchange translation or business disposals.

Answers

Q1 (c)—see paragraph 7.1.

Q2 (c)—see paragraph 7.2 and the definition of cash equivalents in the Glossary (calculation: CU58,400 bank cheque account + CU23,440 bank savings account + CU10,000 cash + CU8,500 treasury bond acquired two months from maturity date). Common stocks of Entity Z and the gold derivative have a significant risk of changes in value and the SME entered into those investments for speculative purposes, the oil commodity price risk derivative is not held for short-term cash management purposes and the treasury bonds were acquired with a maturity period of more than three months.

Q3 (a)—see paragraph 7.4(a).

Q4 (b)—see paragraphs 7.4(e), 7.5(a) and 7.17.

Q5 (c)—see paragraph 7.6(b).

Q6 (c)—see paragraph 7.6(c).

Q7 (d)—see paragraphs 7.15.

Q8 (b)—see paragraphs 7.4(f) and 7.5(b).

Q9 (d)—see paragraph 7.5(c). The cash flow is the amount paid for the acquisition of Entity B (a subsidiary) of CU520,000 – cash acquired of CU100,000 = CU420,000.

Q10 (a)—see paragraph 7.5(c). The cash outflow is only the amount paid for the acquisition of Entity B (an associate)—that is, the netting of cash would not apply.

Q11 (d)—see paragraphs 7.9 and 8.2(c).

Q12 (b)—see paragraph 7.17.

Q13 (a)—see paragraph 7.19C(b)(iii).

APPLY YOUR KNOWLEDGE

You can apply your knowledge of the requirements in Section 7 *Statement of Cash Flows* of the *IFRS for SMEs* Accounting Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those on pages 72–73, 75–76, 81–84 and 89–90.

Case study 1

Financial effects of SME X's operations for the year ended 31 December 20X3 (amounts in CU):

	(Income) or Expense	Cash	Trade receivables	Trade payables	Accrued employee benefits	Inventory	Investment property	Furniture and equipment
Carrying amount at 01/01/20X3		600	200	(150)	(60)	1,000	800	500
Revenue	(6,000)		6,000					
Purchases				(2,200)		2,200		
Cost of goods sold	3,000					(3,000)		
Cash receipts from customers		3,600	(3,600)					
Rental income	(40)	40						
Cash payments to suppliers		(2,000)		2,000				
Cash payments to employees	1,500	(1,560)			60			
Depreciation	50							(50)
Sale of computer	(110)	210						(100)
Change in fair value	(100)						100	
Profit/carrying amount at 31/12/20X3	(1,700)	890	2,600	(350)	–	200	900	350

Part A—Prepare SME X's statement of cash flows for the year ended 31 December 20X3 using the indirect method of presenting operating cash flows.

Part B—Prepare SME X's statement of cash flows for the year ended 31 December 20X3 using the direct method of presenting operating cash flows.

Note: For simplicity, tax has been ignored in this case study.

Answer to Case study 1

Part A—Indirect method of presenting operating cash flows

Extract from the statement of cash flows of SME X for the year ended 31 December 20X3

	CU
Cash flows from operating activities	
Profit for the year	1,700
Adjustments for non-cash income and expenses:	
Depreciation expense	50
Increase in fair value of investment property	(100)
Adjustment for item included in investing activities:	
Profit on sale of equipment	(110)
Changes in working capital:	
Increase in trade and other receivables	(2,400)[(a)]
Decrease in inventories	800[(b)]
Increase in trade and other payables	140[(c)]
Net cash from operating activities	80
Cash flows from investing activities	
Proceeds on sale of equipment	210
Net cash from investing activities	210
Cash and cash equivalents	
Increase in cash for the year ended 31 December 20X3	**290**[(d)]
Cash at 1 January 20X3	600
Cash at 31 December 20X3	**890**

The following calculations do not form part of the answer to this case study:

(a) CU2,600 closing balance – CU200 opening balance = CU2,400.
(b) CU200 closing balance – CU1,000 opening balance = CU800.
(c) CU350 closing balance – CU210 (that is, CU150 trade payables + CU60 accrued employee benefits) opening balance = CU140.
(d) CU80 net cash flow from operating activities + CU210 net cash flow from investing activities = CU290.

Answer to Case study 1

Part B—Direct method of presenting operating cash flows

Extract from SME X's statement of cash flows for the year ended 31 December 20X3

	CU
Cash flows from operating activities	
Cash receipts from customers	3,600
Rentals received from tenants	40
Cash paid to suppliers and employees	(3,560)
Net cash from operating activities	80
Cash flows from investing activities	
Proceeds on sale of equipment	210
Net cash from investing activities	210
Cash and cash equivalents	
Increase in cash for the year ended 31 December 20X3	**290**
Cash at 1 January 20X3	600
Cash at 31 December 20X3	**890**

Case study 2

Group B prepares its financial statements for the year ended 31 December 20X6 in accordance with the Standard. Financial information for 20X6 (in thousands of CU):

	20X6	*20X5*
Accounts receivable	725	850
Trade payables	310	425
Inventory	625	550
Increase in other expenses payable—services	15	
Increase in wages and salaries payable	65	
Increase in accrued interest	2	
Increase in current tax payable	10	
Increase in deferred tax asset	7	
Purchases of inventory	5,425	
Revenue from the sale of goods and rendering of services	16,540	
Other expenses—services	210	
Wages and salaries expense	4,690	
Interest expense	95	
Income tax expense	205	

Group B classifies interest paid in operating activities and interest received in investing activities. In 20X6 Group B:

- borrowed (and received) CU590 (long-term loan);
- paid CU90 to settle long-term borrowing;
- received interest of CU5;
- paid CU265 for property, plant and equipment acquired;
- received CU150 from the sale of equipment;
- paid CU135 to acquire a licence for custom-made software for its production process;
- paid CU345 to acquire an investment property;
- purchased a second investment property on credit for CU345; and
- paid CU110 as a reduction of finance lease liability.

Group B had CU130 in cash and cash equivalents at the beginning of the 20X6 reporting period and CU5,940 in cash and cash equivalents at the end of the 20X6 reporting period.

Prepare Group B's consolidated statement of cash flows for the year ended 31 December 20X6 using the direct method of presenting operating cash flows.

Answer to Case study 2

Direct method—Group B's consolidated statement of cash flows for the year ended 31 December 20X6 (in thousands of CU)

	20X6
Cash flows from operating activities	
Cash receipts from customers	16,665[(a)]
Cash paid to suppliers and employees	(10,360)[(b)]
Cash generated from operations	6,305
Interest paid	(93)[(f)]
Income taxes paid	(202)[(g)]
Net cash from operating activities	**6,010**
Cash flows from investing activities	
Purchase of property, plant and equipment	(265)
Proceeds from sale of equipment	150
Purchase of intangible assets	(135)
Purchase of investment properties	(345)
Interest received	5
Net cash used in investing activities	**(590)**
Cash flows from financing activities	
Repayment of borrowings	(90)
Proceeds from long-term borrowings	590
Payment of finance lease liabilities	(110)
Net cash from financing activities	**390**
Net increase in cash and cash equivalents	**5,810**
Cash and cash equivalents at beginning of year	130
Cash and cash equivalents at end of year	**5,940**

The following calculations do not form part of the answer to this case study:

(a) *Receipts from customers* = CU16,540 revenue + CU850 beginning accounts receivable − CU725 ending accounts receivable = CU16,665.

(b) *Cash paid to suppliers and employees* = CU5,540[c] payments to suppliers of inventory + CU195[d] payments to suppliers of services + CU4,625[e] payments to employees = CU10,360.

(c) *Payments to suppliers of inventory* = CU5,425 purchases of inventory + CU425 beginning accounts payable − CU310 ending accounts payable = CU5,540.

(d) *Payments to suppliers of services* = CU210 other expenses − CU15 increase in other expenses payable = CU195.

(e) *Payments to employees* = CU4,690 wages and salaries expense − CU65 increase in wages and salaries payable = CU4,625.

(f) *Interest paid* = CU95 interest expense − CU2 increase in accrued interest = CU93.

(g) *Income taxes paid* = CU205 income tax expense − CU10 increase in current tax payable + CU7 decrease in deferred tax asset = CU202.

Note: In accordance with paragraph 7.18 of the Standard, the entity excludes from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. However, the entity is required to disclose elsewhere in its financial statements the non-cash investing and financing transaction that occurred in the period (that is, the purchase of the investment property on credit for CU345).

Case study 3

SME A prepares its financial statements in accordance with the *IFRS for SMEs* Accounting Standard. Its statement of comprehensive income, statement of changes in equity and statement of financial position are:

SME A's statement of comprehensive income for the year ended 31 December 20X9

	20X9	*20X8*
	CU	*CU*
Revenue	848,000	630,000
Cost of sales	(450,000)	(320,000)
Distribution costs	(108,640)	(77,675)
General and administrative expenses	(109,027)	(90,375)
Change in provisions	3,450	(12,600)
Loss on disposal of property, plant and equipment	(12,083)	–
Finance income	1,884	720
Finance expenses	(7,460)	(3,135)
Profit before tax	**166,124**	**126,935**
Income tax	(41,531)	(31,734)
Profit for the year	**124,593**	**95,201**

Statement of changes in equity for the year ended 31 December 20X9

	Share capital	*Retained earnings*	*Total equity*
	CU	*CU*	*CU*
Balance at 31 December 20X7	**60,000**	**6,500**	**66,500**
Shares issued in exchange for cash	15,000	–	15,000
Shares issued in exchange for property, plant and equipment	25,000	–	25,000
Profit for the year	–	95,201	95,201
Dividends distributed and paid in cash during the reporting period	–	(80,000)	(80,000)
Balance at 31 December 20X8	**100,000**	**21,701**	**121,701**
Profit for the year	–	124,593	124,593
Dividends distributed and paid in cash and cash equivalents	–	(85,000)	(85,000)
Dividends distributed and paid in shares	15,000	(15,000)	–
Balance at 31 December 20X9	**115,000**	**46,294**	**161,294**

SME A

Statement of financial position as at 31 December 20X9

	20X9	*20X8*	*20X7*
	CU	*CU*	*CU*
Assets			
Current assets			
Cash and cash equivalents	12,894	101,071	25,900
Short-term investments (non-cash equivalents)	14,954	6,820	6,000
Trade receivables	235,200	176,400	49,600
Inventories	29,200	15,200	30,200
Prepaid expenses	2,000	1,800	1,200
Total current assets	**294,248**	**301,291**	**112,900**
Non-current assets			
Long-term investments	118,970	20,520	26,000
Intangible assets	7,100	–	–
Property, plant and equipment	78,000	23,750	–
Total non-current assets	**204,070**	**44,270**	**26,000**
Total assets	**498,318**	**345,561**	**138,900**
Liabilities and Equity			
Liabilities			
Current liabilities			
Short-term loans	25,985	25,035	6,700
Current portion of finance lease liabilities	10,000	–	–
Accounts and trade payables	69,600	7,625	19,800
Wages and salaries payables	8,400	6,300	3,500
Income taxes payable	30,000	20,000	800
Other operating payables	5,979	7,500	1,600
Unearned revenue	–	8,000	–
Total current liabilities	**149,964**	**74,460**	**32,400**

Non-current liabilities			
Long-term loans	116,910	136,800	40,000
Finance lease	61,000	–	–
Provisions	9,150	12,600	–
Total non-current liabilities	**187,060**	**149,400**	**40,000**
Equity			
Share capital	115,000	100,000	60,000
Retained earnings	46,294	21,701	6,500
Total equity	**161,294**	**121,701**	**66,500**
Total liabilities and equity	**498,318**	**345,561**	**138,900**

Additional information:

	20X9 *CU*	*20X8* *CU*
Depreciation expense	3,667	1,250
Amortisation expense	6,400	–
Impairment loss on intangible assets	2,500	–
Carrying amount of property, plant and equipment sold, at the date of disposal	22,083	–
Property, plant and equipment acquired in the period under finance lease	80,000	–
Accrued interests included in short-term investments (non-cash equivalents)	254	120
Accrued interests included in long-term investments	1,970	520
Accrued interests included in short-term loans (interests accrued in 20X9 amounted to CU2,350)	985	35
Accrued interests included in long-term loans (interests accrued in 20X9 amounted to CU5,110)	6,910	1,800
New loans advanced to the SME in 20X8	–	120,000

Composition of cash and cash equivalents at 31 December 20X9:

	20X9	*20X8*	*20X7*
	CU	*CU*	*CU*
Cash	1,400	950	1,000
Bank deposits	11,494	32,000	20,000
Short-term investments—cash equivalent	–	68,121	4,900
Total cash and cash equivalents	**12,894**	**101,071**	**25,900**

Part A—Prepare the SME's statement of cash flows for the year ended 31 December 20X9 in accordance with the Standard (including comparative amounts) using the indirect method of presenting operating cash flows. Present interest paid and interest received as cash flows from operating activities and classify dividends paid as cash flows from financing activities.

Part B—Prepare the disclosure required by paragraph 7.19A of the Standard on changes in liabilities arising from financing activities for the year ended 31 December 20X9.

Notes:

1. The Standard does not require a statement of financial position at the beginning of the earliest comparative period (see paragraph 3.14). The statement of financial position provided by SME A in this example includes a column for the statement of financial position at 31 December 20X7 to enable the calculation of the amounts in the statement of cash flows for the year ended 31 December 20X8.
2. SME A does not have any deferred tax.
3. For simplicity, accrued interests are ignored on finance leases and provisions.

Answer to Case study 3

Part A—Statement of cash flows

Statement of cash flows for the years ended 31 December 20X9

	20X9 *CU*	*20X8* *CU*
Cash flows from operating activities		
Profit for the year	124,593	95,201
Adjustments for non-cash income and expenses:		
Non-cash finance cost(*)	4,476[a]	1,195[b]
Non-cash income tax expense(**)	10,000[c]	19,200[d]
Depreciation and amortisation	10,067[e]	1,250
Impairment	2,500	–
Change in provisions	(3,450)[f]	12,600[g]
Loss on disposal of property, plant and equipment	12,083	–
Changes in operating assets and liabilities:		
Trade receivables	(58,800)[h]	(126,800)[i]
Inventories	(14,000)[j]	15,000[k]
Prepaid expenses	(200)[l]	(600)[m]
Accounts and trade payables	61,975[n]	(12,175)[o]
Wages and salaries payables	2,100[p]	2,800[q]
Other operating payables	(1,521)[r]	5,900[s]
Unearned revenue	(8,000)[t]	8,000[u]
Net cash from operating activities	**141,823**	**21,571**
Cash flows from investing activities[v], [w]		
Purchase of intangible assets	(16,000)[x]	–
Proceeds from the sale of property, plant and equipment	10,000[y]	–
Investment in (withdraw from) non-cash equivalent financial assets	(105,000)[z]	5,300[aa]
Net cash from (used in) investing activities	**(111,000)**	**5,300**

Cash flows from financing activities		
Proceeds from issue of share capital	–	15,000
Proceeds from loan borrowings	–	120,000
Payment of finance lease	(9,000)[bb]	–
Repayment of loans	(25,000)[cc]	(6,700)[dd]
Dividends paid	(85,000)	(80,000)
Net cash from (used in) financing activities	**(119,000)**	**48,300**
Net increase (decrease) in cash and cash equivalents	**(88,177)**	**75,171**
Cash and cash equivalents as at beginning of year	101,071	25,900
Cash and cash equivalents at end of year	**12,894**	**101,071**
[*] Interest received in cash	300	80
[*] Interest paid in cash	1,400	1,300
[**] Income tax paid in cash	31,531	12,534

Note: The property, plant and equipment acquired in the period under finance lease are excluded from investing activities in the statement of cash flows as they do not require the use of cash and cash equivalents. This transaction should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about this investing activity (see paragraph 7.18 of the Standard).

The following calculations do not form part of the answer to this case study:

(a) *Non-cash finance cost 20X9* = CU7,460 interest expense – CU1,884 interest income + CU300 interest received – CU1,400 interest paid = CU4,476.

Interest received = CU120 current asset accrued interest as at 31 December 20X8 +CU520 non-current asset accrued interest as at 31 December 20X8 + CU1,884 finance income – CU254 current asset accrued interest as at 31 December 20X9 – CU1,970 non-current asset accrued interest as at 31 December 20X9 = CU300.

Interest paid = CU35 current liability accrued interest as at 31 December 20X8 + CU1,800 non-current liability accrued interest as at 31 December 20X8 + CU7,460 finance expense – CU985 current liability accrued interest as at 31 December 20X9 – CU6,910 non-current liability accrued interest as at 31 December 20X9 = CU1,400.

(b) *Non-cash finance cost 20X8* = CU3,135 interest expense – CU720 interest income + CU80 interest received – CU1,300 interest paid = CU1,195.

Interest received = CU0 current asset accrued interest as at 31 December 20X7 + CU0 non-current asset accrued interest as at 31 December 20X7 + CU720 finance income – CU120 current asset accrued interest as at 31 December 20X8 – CU520 non-current asset accrued interest as at 31 December 20X8 = CU80.

Interest paid = CU0 current liability accrued interest as at 31 December 20X7 + CU0 non-current liability accrued interest as at 31 December 20X7 + CU3,135 finance expense – CU35 current liability accrued interest as at 31 December 20X8 – CU1,800 non-current liability accrued interest as at 31 December 20X8 = CU1,300.

(c) *Non-cash income tax expense 20X9* = CU41,531 tax accrued – CU31,531 tax paid = CU10,000.

Tax paid = CU20,000 income taxes payable as at 31 December 20X8 + CU41,531 income tax expense – CU30,000 income taxes payable as at 31 December 20X9 = CU31,531.

(d) *Non-cash income tax expense 20X8* = CU31,734 tax accrued – CU12,534 tax paid = CU19,200.

Tax paid = CU800 income taxes payable as at 31 December 20X7 + CU31,734 income tax expense – CU20,000 income taxes payable as at 31 December 20X8 = CU12,534.

(e) *Depreciation and amortisation 20X9* = CU3,667 depreciation of plant, property and equipment (PPE) + CU6,400 amortisation of intangible assets = CU10,067.

(f) *Change in provisions 20X9* = CU9,150 provisions as at 31 December 20X9 – CU12,600 provisions and contingent liabilities as at 31 December 20X8 = CU3,450.

(g) *Change in provisions 20X8* = CU12,600 provisions as at 31 December 20X8 – CU0 provisions and contingent liabilities as at 31 December 20X7 = CU12,600.

(h) *Increase in trade receivables 20X9* = CU235,200 trade receivables as at 31 December 20X9 – CU176,400 accounts and trade receivables as at 31 December 20X8 = CU58,800.

(i) *Increase in trade receivables 20X8* = CU176,400 trade receivables as at 31 December 20X8 – CU49,600 accounts and trade receivables as at 31 December 20X7 = CU126,800.

(j) *Increase in inventories 20X9* = CU29,200 inventories as at 31 December 20X9 – CU15,200 inventories as at 31 December 20X8 = CU14,000.

(k) *Decrease in inventories 20X9* = CU15,200 inventories as at 31 December 20X8 – CU30,200 inventories as at 31 December 20X7 = CU15,000.

(l) *Increase in prepaid expenses 20X9* = CU2,000 prepaid expenses as at 31 December 20X9 – CU1,800 prepaid expenses as at 31 December 20X8 = CU200.

(m) *Increase in prepaid expenses 20X8* = CU1,800 prepaid expenses as at 31 December 20X8 – CU1,200 prepaid expenses as at 31 December 20X7 = CU600.

(n) *Increase in accounts and trade payables 20X9* = CU69,600 accounts and trade payables as at 31 December 20X9 – CU7,625 accounts and trade payables as at 31 December 20X8 = CU61,975.

(o) *Decrease in accounts and trade payables 20X8* = CU7,625 accounts and trade payables as at 31 December 20X8 – CU19,800 accounts and trade payables as at 31 December 20X7 = CU12,175.

(p) *Increase in wages and salaries payables 20X9* = CU8,400 wages and salaries payables as at 31 December 20X9 – CU6,300 wages and salaries payables as at 31 December 20X8 = CU2,100.

(q) *Increase in wages and salaries payables 20X8* = CU6,300 wages and salaries payables as at 31 December 20X8 – CU3,500 wages and salaries payables as at 31 December 20X7 = CU2,800.

(r) *Decrease in Other operating payables 20X9* = CU5,979 other operating payables as at 31 December 20X9 – CU7,500 other operating payables as at 31 December 20X8 = CU1,521.

(s) *Increase in Other operating payables 20X8* = CU7,500 other operating payables as at 31 December 20X8 – CU1,600 other operating payables as at 31 December 20X7 = CU5,900.

(t) *Decrease in unearned revenue 20X9* = CU0 unearned revenue as at 31 December 20X9 – CU8,000 unearned revenue as at 31 December 20X8 = CU8,000.

(u) *Increase in unearned revenue 20X8* = CU8,000 unearned revenue as at 31 December 20X8 – CU0 unearned revenue as at 31 December 20X7 = CU8,000.

(v) Note: In this case study a separate line item 'purchase of property, plant and equipment' is not presented in the statement of cash flows because the amount in both 20X9 and 20X8 is zero. Calculation: *purchase of property, plant and equipment 20X9* = CU78,000 PPE as at 31 December 20X9 – CU23,750 PPE as at 31 December 20X8 + CU3,667 depreciation expense of PPE + CU22,083 write-off carrying amount of PPE sold – CU80,000 PPE acquired under finance lease. The finance lease entered into in the period is a non-cash investing and financing activity.

(w) *Purchase of property, plant and equipment 20X8* = CU23,750 PPE as at 31 December 20X8 – CU0 PPE as at 31 December 20X7 + CU1,250 depreciation expense of PPE – CU25,000 contributed capital in PPE = CU0. The issue of shares in exchange for PPE in the year is a non-cash investing and financing activity

(x) *Purchase of intangible assets 20X9* = CU7,100 intangible assets as at 31 December 20X9 – CU0 intangible assets as at 31 December 20X8 + CU6,400 amortisation expense of intangible assets + CU2,500 impairment expense of intangible assets = CU16,000.

(y) *Proceeds from the sale of property, plant and equipment 20X9* = CU22,083 carrying amount of PPE sold – CU12,083 loss on disposal of PPE = CU10,000.

(z) *Withdraw from non-cash equivalent financial assets 20X9* = CU14,700 current asset investments as at 31 December 20X9 + CU117,000 non-current asset investments as at 31 December 20X9 – CU6,700 current asset investments as at 31 December 20X8 – CU20,000 non-current asset investments as at 31 December 20X8 = CU105,000.

(aa) *Investment in non-cash equivalent financial assets 20X8* = CU6,700 current asset investments as at 31 December 20X8 + CU20,000 non-current asset investments as at 31 December 20X8 – CU6,000 current asset investments as at 31 December 20X7 – CU26,000 non-current asset investments as at 31 December 20X7 = CU5,300.

(bb) *Payment of finance lease 20X9* = CU10,000 short-term maturity of finance lease as at 31 December 20X9 + CU61,000 non-current liability finance lease as at 31 December 20X9 – CU80,000 PPE acquired under finance lease – CU0 short-term maturity of finance lease as at 31 December 20X8 – CU0 non-current liability finance lease as at 31 December 20X8 = CU9,000.

(cc) *Repayment of loans 20X9* = CU25,000 short-term loans as at 31 December 20X8 + CU135,000 long-term loans as at 31 December 20X8 + CU0 loans borrowed – CU25,000 short-term loans as at 31 December 20X9 – CU110,000 long-term loans as at 31 December 20X9 = CU25,000.

(dd) Repayment of loans 20X8 = CU6,700 short-term loans as at 31 December 20X7 + CU40,000 long-term loans as at 31 December 20X7 + CU120,000 loans borrowed – CU25,000 short-term loans as at 31 December 20X8 – CU135,000 long-term loans as at 31 December 20X8 = CU6,700.

Part B—Disclosure on changes in liabilities arising from financing activities

The table shows the changes in SME A's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the SME A's consolidated statement of cash flows as cash flows from financing activities.

	20X8	Settlements	Non-cash changes		20X9
			New leases	Accrual of interests	
	CU	*CU*	*CU*	*CU*	*CU*
Short-term loans	25,035	(1,400)[(a)]	–	2,350	25,985
Long-term loans	136,800	(25,000)	–	5,110	116,910
Finance lease	–	(9,000)	80,000	–	71,000
Total liabilities from financing liabilities	**161,835**	**(35,400)**	**80,000**	**7,460**	**213,895**

The following calculation does not form part of the answer to this case study:

(a) *Short-term loans settlements* = CU35 accrued interest on short-term loans as at 31 December 20X8 + CU2,350 interest accrued in 20X9 – CU985 accrued interest on short-term loans as at 31 December 20X9 = CU1,400.

Case study 4

XYZ Group prepares its financial statements for the year ended 31 December 20X2 (including comparative information) in accordance with the Standard. XYZ Group's financial statements for 20X2 and 20X1 are:

XYZ Group

Consolidated statement of comprehensive income and retained earnings for the year ended 31 December 20X2

	20X2 *CU*	*20X1* *CU*
Revenue	6,863,545	5,808,653
Other income	88,850	25,000
Changes in inventories of finished goods and work in progress	3,310	(1,360)
Raw material and consumables used	(4,786,699)	(4,092,185)
Employee salaries and benefits	(936,142)	(879,900)
Depreciation and amortisation expense	(272,060)	(221,247)
Impairment of property, plant and equipment	(30,000)	–
Other expenses	(249,482)	(145,102)
Finance costs	(26,366)	(36,712)
Profit before tax	654,956	457,147
Income tax expense	(270,250)	(189,559)
Profit for the year	**384,706**	**267,588**
Retained earnings at start of year	2,171,353	2,003,765
Dividends	(150,000)	(100,000)
Retained earnings at end of year	**2,406,059**	**2,171,353**

Note: Other income in 20X2 includes dividends received in cash of CU25,000 and gain on disposal of property, plant and equipment of CU63,850.

XYZ Group

Consolidated statement of financial position as at 31 December 20X2

	20X2 *CU*	*20X1* *CU*	*20X0* *CU*
Assets			
Current assets			
Cash	28,700	22,075	18,478
Trade receivables	585,548	573,862	521,234
Inventories	57,381	47,920	45,050
	671,629	643,857	584,762
Non-current assets			
Investment in associate	107,500	107,500	107,500
Property, plant and equipment	2,549,945	2,401,455	2,186,002
Intangible assets	850	2,550	4,250
Deferred tax asset	4,309	2,912	2,155
	2,662,604	2,514,417	2,299,907
Total assets	**3,334,233**	**3,158,274**	**2,884,669**
Liabilities and equity			
Current liabilities			
Bank overdraft	83,600	115,507	20,435
Trade payables	431,480	420,520	412,690
Interest payable on bank loan	2,000	1,200	–
Current tax liability	271,647	190,316	173,211
Provision for warranty obligations	4,200	5,040	2,000
Current portion of employee benefit obligations	4,944	4,754	4,571
Current portion of finance lease obligations	21,461	19,884	18,423
	819,332	757,221	631,330

Non-current liabilities			
Bank loan	50,000	150,000	150,000
Long-term employee benefit obligations	5,679	5,076	5,066
Finance lease obligations	23,163	44,624	64,508
	78,842	199,700	219,574
Total liabilities	898,174	956,921	850,904
Equity			
Share capital	30,000	30,000	30,000
Retained earnings	2,406,059	2,171,353	2,003,765
Total equity	2,436,059	2,201,353	2,033,765
Total liabilities and equity	**3,334,233**	**3,158,274**	**2,884,669**

XYZ Group

Consolidated statement of cash flows for the year ended 31 December 20X2 (indirect method)

	20X2 *CU*	*20X1* *CU*
Cash flows from operating activities		
Profit for the year	384,706	267,588
Adjustments for non-cash income and expenses:		
Non-cash finance costs[(i)]	800	1,200
Non-cash income tax expense[(ii)]	79,934	16,348
Depreciation of property, plant and equipment	270,360	219,547
Impairment loss	30,000	–
Amortisation of intangibles	1,700	1,700
Cash flow included in investing activities:		
Gain on sale of equipment	(63,850)	–
Changes in operating assets and liabilities:		
Increase in trade receivables	(11,686)	(52,628)
Increase in inventories	(9,461)	(2,870)

Increase in trade payables[iii]	10,960	7,830
Increase (decrease) in provision for warranty obligations	(840)	3,040
Increase in current and long-term employee benefit obligations	793	193
Net cash from operating activities	**693,416**	**461,948**
Cash flows from investing activities		
Proceeds from sale of equipment	100,000	–
Purchases of equipment	(485,000)	(435,000)
Net cash used in investing activities	**(385,000)**	**(435,000)**
Cash flows from financing activities		
Payment of finance lease liabilities	(19,884)	(18,423)
Repayment of borrowings	(100,000)	–
Dividends paid	(150,000)	(100,000)
Net cash used in financing activities	**(269,884)**	**(118,423)**
Net increase (decrease) in cash and cash equivalents	**38,532**	**(91,475)**
Cash and cash equivalents at beginning of year	(93,432)	(1,957)
Cash and cash equivalents at end of year	**(54,900)**	**(93,432)**

[i] Finance costs paid in cash	?	?
[ii] Income taxes paid in cash	?	?
[iii] Includes unrealised foreign exchange loss	1,000	–

Note
Cash and cash equivalents

	20X2 *CU*	*20X1* *CU*
Cash	28,700	22,075
Overdrafts	(83,600)	(115,507)
	(54,900)	(93,432)

Prepare the XYZ Group's statement of cash flows for the year ended 31 December 20X2 (including comparative information) using the direct method of presenting operating cash flows.

Answer to Case study 4

XYZ Group

Consolidated statement of cash flows for the year ended 31 December 20X2

	20X2 *CU*	*20X1* *CU*
Cash flows from operating activities		
Cash receipts from customers	6,876,859	5,781,025
Payments to suppliers and employees	(5,967,561)	(5,110,354)
Interest paid	(25,566)	(35,512)
Income tax paid	(190,316)	(173,211)
Net cash from operating activities	**693,416**	**461,948**
Cash flows from investing activities		
Proceeds from sale of equipment	100,000	–
Purchases of equipment	(485,000)	(435,000)
Net cash used in investing activities	**(385,000)**	**(435,000)**
Cash flows from financing activities		
Payment of finance lease liabilities	(19,884)	(18,423)
Repayment of borrowings	(100,000)	–
Dividends paid	(150,000)	(100,000)
Net cash used in financing activities	**(269,884)**	**(118,423)**
Net increase (decrease) in cash and cash equivalents	**38,532**	**(91,475)**
Cash and cash equivalents at beginning of year	(93,432)	(1,957)
Cash and cash equivalents at end of year	**(54,900)**	**(93,432)**

The following calculations do not form part of the answer to this case study:

Cash receipts from customers = sales revenue + other income – gain on disposal of property, plant and equipment in 20X2 – increase in trade and other receivables.

20X1: CU5,808,653 sales revenue + CU25,000 other income – CU52,628 increase in trade and other receivables = CU5,781,025

20X2: CU6,863,545 sales revenue + CU88,850 other income – CU63,850 gain on disposal of property, plant and equipment in 20X2 – CU11,686 increase in trade and other receivables = CU6,876,859

Payments to suppliers and employees = (a) payments to suppliers for raw material and consumables + (b) payments to employees + (c) other payments from operations + increase (– decrease) in inventories of finished goods and work in progress.

20X1: CU4,087,225 payments to suppliers for raw material and consumables + CU879,707 payments to employees + (c) other payments from operations + CU142,062 other payments from operations + CU1,360 increase in inventories of finished goods = CU5,110,354

20X2: CU4,785,200 payments to suppliers for raw material and consumables + CU935,349 payments to employees + (c) other payments from operations + CU250,322 other payments from operations – CU3,310 decrease in inventories of finished goods and work in progress = CU5,967,561

(a) *Payments to suppliers for raw material and consumables* = raw material and consumables used + increase in inventories – increase in trade payables.

20X1: CU4,092,185 raw material and consumables used + CU2,870 increase in inventories – CU7,830 increase in trade payables = CU4,087,225

20X2: CU4,786,699 raw material and consumables used + CU9,461 increase in inventories – CU10,960 increase in trade payables = CU4,785,200

(b) *Payments to employees* = employee salaries and benefits – increase of current portion of employee benefits – increase of long-term employee benefit obligation.

20X1: CU879,900 employee salaries and benefits – CU183 increase of current portion of employee benefits – CU10 increase of long-term employee benefit obligation = CU879,707

20X2: CU936,142 employee salaries and benefits – CU190 increase of current portion of employee benefits – CU603 increase of long-term employee benefit obligation = CU935,349

(c) *Other payments from operations* = other expenses – increase (+ decrease) in provision for warranty obligations.

20X1: CU145,102 other expenses – CU3,040 increase in provision for warranty obligations = CU142,062

20X2: CU249,482 other expenses + CU840 decrease in provision for warranty obligations = CU250,322

Interest paid = interest expense – increase in accrued interest.

20X1: CU36,712 interest expense – CU1,200 increase in accrued interest = CU35,512

20X2: CU26,366 interest expense – CU800 increase in accrued interest = CU25,566

Income taxes paid = income tax expense – increase in current tax payable + increase in deferred tax asset.

20X1: CU189,559 income tax expense – CU17,105 increase in current tax payable + CU757 increase in deferred tax asset = CU173,211

20X2: CU270,250 income tax expense – CU81,331 increase in current tax payable + CU1,397 increase in deferred tax asset = CU190,316

Cash flows from investing activities and financing activities are identical to those presented using the indirect method.

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