STAFF PAPER

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Project	**Primary Financial Statements**	
Paper topic	Statement of cash flows	
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Objective

1. This paper sets out staff analysis and recommendations on the amendments to IAS 7 *Statement of Cash Flows* proposed in the Exposure Draft *General Presentation and Disclosures*. The paper considers:
   (a) the scope of the proposals relating to the statement of cash flows set out in the Exposure Draft;
   (b) the proposals relating to the starting point for the indirect method of reporting operating cash flows; and
   (c) the proposals relating to the classification of interest paid and dividend cash flows, applying to entities other than those with specified main business activities.[1]
2. The remaining proposals relating to the amendments to IAS 7 will be discussed in future Board papers because of the links between the proposals for the statement of cash flows and other proposals in these areas:

[1] Entities with specified main business activities comprise entities that provide financing to customers as a main business activity or in the course of their main business activities invest in assets that generate a return individually and largely independently of their other resources.

(a) the classification of cash flows from associates and joint ventures will be discussed in a future Board paper on the proposals in the Exposure Draft on associates and joint ventures.

(b) the classification of interest and dividend cash flows for entities with specified main business activities will be discussed in a future Board paper together with the proposals for categories and subtotals in the statement of profit or loss for such entities.

(c) the classification of interest received (for entities other than those with specified main business activities which are covered in sub-paragraph (b)) will be discussed in a future Board paper together with the definitions of investing and financing in the statement of profit or loss. The staff have concluded that it is possible for the Board to make a decision based on the analysis in this paper on the classification in the statement of cash flows of *interest paid*. However, there are additional questions about the classification of *interest received* that the staff think would be better analysed in the context of its classification in both the statement of profit or loss and the statement of cash flows (see paragraphs 56–59).

3. Appendix A sets out a summary of the links between topics relating to the statement of cash flows and other topics in the project.

Staff recommendations

4. The staff recommend:

(a) the Board make no additions to the scope of the work relating to the statement of cash flows in this project;

(b) the Board proceed with the proposal to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities;

(c) the Board proceed with the proposals in the Exposure Draft relating to the classification of interest paid and dividend cash flows for entities other than those with specified main business activities. Accordingly:

(i) interest and dividends paid are classified as cash flows arising from financing activities; and

(ii) dividends received are classified as cash flows arising from investing activities.

Structure of the paper

5. This paper is structured as follows:

(a) the scope of the proposals relating to the statement of cash flows (paragraphs 7–17);

(b) the starting point for the indirect method of reporting operating cash flows (paragraphs 18–39); and

(c) the classification of interest and dividend cash flows (paragraphs 40–60).

6. Appendix A sets out a summary of the links between topics relating to the statement of cash flows and other topics in the project. Appendix B sets out examples of adjustments needed to arrive at operating cash flows using the indirect method.

The scope of the proposals relating to the statement of cash flows

7. The Exposure Draft proposed only limited changes to the statement of cash flows. Those changes comprise:

(a) eliminating options on:

(i) the starting point for the indirect method of reporting cash flows from operating activities; and

(ii) the classification of interest and dividend cash flows; and

(b) new requirements for the classification of cash flows from investments in associates and joint ventures (to be discussed in a future Board paper).

8. The Basis for Conclusions on the Exposure Draft explains that only limited changes were proposed to the statement of cash flows because the focus of the project is improvements to the presentation and disclosure of information included in the

statement of profit or loss. In particular, the Basis for Conclusions explains that the Board developed the proposals in the Exposure Draft without trying to align classifications across the primary financial statements. Instead, the Board focused on providing information in the statement of profit or loss that meets the needs of users of financial statements. The limited changes to the statement of cash flows were proposed to improve consistency by removing options.

Feedback on scope of changes to the statement of cash flows

9. Some of the respondents, including many users, said the Board should undertake a comprehensive review of IAS 7, if necessary as a separate project. They said improvements are badly needed on topics including the alignment with the statements of profit or loss and financial position, how a statement of cash flows should be presented for entities that provide financial services, the definition of cash and cash equivalents and how to determine free cash flows. Different groups of respondents asked for different improvements, for example users were generally less interested in alignment between the statements but more interested in better, more consistent presentation of items in the statement of cash flows itself.

10. Some entities that provide financial services asked to be exempt from the requirement to provide a statement of cash flows, saying that such statements provide little relevant information about their activities.

Staff analysis

11. As explained in the Basis for Conclusions, this project is focused on the statement of profit or loss. Hence a comprehensive review of IAS 7 was not part of the objective of the project. The following paragraphs discuss whether any work on the specific aspects of the statement of cash flow raised by stakeholders should be added to this project.

Increased alignment with the statement of profit or loss

12. Some aspects of increased alignment between the categories in the statement of profit or loss and the statement of cash flows will be discussed in a future Board paper that considers the definition of the investing and financing categories in the statement of

profit or loss. That discussion will relate to the classification of interest items (see discussion in paragraphs 56–59) and will include the possibility of relabelling those categories to avoid confusion over the extent of the alignment.

13. Other examples of misalignment between the operating categories in the statement of profit or loss and the statement of cash flows are:

    (a) income tax is in a separate category in statement of profit or loss, but is included in operating in the statement of cash flows[2];

    (b) depreciation, amortisation, impairment, and gains/losses on disposal for property, plant and equipment and intangible assets are included in operating in the statement of profit or loss, but capital expenditure and disposal proceeds are included in investing in the statement of cash flows;

    (c) investment income other than interest and dividends (e.g., rent from investment properties) and incremental expenses from investments are included in investing in the statement of profit or loss, but in operating in the statement of cash flows;

    (d) some transactions result in expenses that are presented in more than one category in the statement of profit or loss but cash flows that are classified in a single category in the statement of cash flows, for example:

        (i) defined benefit pension expenses are disaggregated in the statement of profit or loss across operating profit (service cost) and financing (interest expense)[3] but the contribution paid is generally included as a single amount in the operating category in the statement of cash flows; and

        (ii) lease expenses from lease liabilities are presented in the statement of profit or loss in operating profit (depreciation) and financing (interest) but the lease payment for principal and interest would be included in

[2] Unless it can be specifically identified with financing or investing activities.

[3] There could also be a remeasurement income or expense included in other comprehensive income.

financing in the statement of cash flows applying the proposals in the Exposure Draft[4].

(e) profit or loss from discontinued operations is in a separate category in the statement of profit or loss. There is no such separate category in the statement of cash flows applying IAS 7 (we understand entities have adopted different approaches to presenting operating, investing and financing cash flows relating to discontinued operations).

14. These examples demonstrate the extent of the work that would be required to align fully the categories in the statement of profit or loss and the statement of cash flows. Such work would have a significant effect on the timing of this project and the feedback suggests achieving full alignment is not a priority for most users. Consistent with the explanation in the Basis for Conclusions set out in paragraph 8 of this paper, the staff recommend the Board does not consider further alignment in this project, other than as described in paragraph 12 of this paper.

Work on other aspects of the statement of cash flows

15. Additional work on other aspects of the statement of cash flows—such as its presentation by entities that provide financial services, the definition of cash and cash equivalents and the definition of free cash flows[5]—is also not part of the focus of this project which is on the statement of profit or loss. Again, any expansion of the scope of the proposals for the statement of cash flows would be detrimental to the timeliness of this project.

Staff conclusion

16. Any additional work on the statement of cash flows needs to be evaluated against other projects the Board might take on. In order to help the Board make such an evaluation, a possible project on a comprehensive review of IAS 7 will be described

[4] Cash flows from short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as operating cash flows.

[5] Although the staff do not think the Board should undertake work on the definition of free cash flows in this project, the possibility of extending the scope of the proposals relating to management performance measures to include cash flow measures such as free cash flows is discussed in Agenda Paper 21B—*Scope of management performance measures*.

in the Board's Request for Information on its Agenda Consultation. Feedback on such work from this project has been passed to the Agenda Consultation team.

17. Accordingly, the staff recommends no additions be made to the scope of the work on the statement of cash flows in this project.

Question 1
Does the Board agree with the recommendation that no additions be made to the scope of the work on the statement of cash flows in this project?

The starting point for the indirect method of reporting operating cash flows

18. The Exposure Draft proposed an amendment to paragraph 18(b) of IAS 7, requiring an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities.

19. Paragraphs BC186–BC187 explain that entities use different starting points for the indirect method for reporting operating cash flow and that users of financial statements have indicated that this diversity in practice reduces comparability between entities, making their analyses more difficult. Therefore, the Exposure Draft proposed to require all entities to use the same starting point for the indirect method.

20. Paragraph BC188 explains the reasons for using operating profit or loss rather than profit or loss as the starting point:

    (a) an entity needs to present fewer adjustments to the starting point, which simplifies the presentation of the operating cash flows category; and

    (b) the difference between cash flows from operating activities and operating profit or loss provides a measure of operating accruals.

Feedback on whether operating profit or loss should be the starting point for the indirect method

21. Most of the respondents that commented on this proposal support removing the options for the starting point of the indirect method.

22. Some said that starting with operating profit would result in consistent presentation that would enhance comparability, provide a more transparent link between operating cash flows and operating profit and a shorter reconciliation between the two.

23. Some of the respondents disagreed:

    (a) some said that useful information about non-operating non-cash flow items would be lost, for example fair value changes included in the investing and financing categories in the statement of profit or loss.

    (b) a few said that using operating profit as the starting point would cause confusion because of the lack of alignment between the definitions of operating for the statement of profit or loss and the statement of cash flows.

    (c) a few said that changing the starting point would be costly as they would need to modify their reporting systems and the cost of these changes might exceed the benefits, particularly for banks.

24. There would be no changes needed for entities that already start with operating profit, except those relating to the definition of operating profit for those entities that previously used a different definition from that proposed by the Board. However, most of the fieldwork participants did not start with operating profit and hence changed their starting point for the indirect method.

Staff analysis

25. The staff considered the following reasons respondents gave for not supporting operating profit as the starting point:

    (a) Loss of information (paragraphs 26–27);

    (b) Confusion because of lack of full alignment (paragraphs 28–36);

    (c) Cost of change (paragraphs 37–38).

Loss of information

26. Some respondents said that information about non-operating items would be lost. For fieldwork participants, the following items were lost from the information presented using the indirect method:

(a) share of profit or loss of equity-accounted investments—23 companies;[6]

(b) interest income and expenses—25 companies;

(c) fair value gains or losses on financial instruments—1 company; and

(d) income tax expenses—22 companies[7].

27. However, the structure of the statement of profit or loss results in that statement providing a transparent reconciliation between net profit and the defined operating profit. There is no need for that reconciliation to be duplicated in the statement of cash flows. The items listed above will either be presented in the statement of profit or loss, or will be disclosed in the notes. Including them in the statement of cash flows simply adds clutter to that statement, with the possibility of obscuring relevant information.

Confusion because of lack of full alignment

28. The staff acknowledge the lack of full alignment between the two statements could cause confusion. If there were full alignment, the only items that would adjust operating profit to arrive at operating cash flows would be operating accruals, for example changes in working capital. However, the lack of full alignment means that the adjustments to operating profit will also include items that are classified as operating in the statement of profit or loss but not in the statement of cash flows or vice versa (classification differences). Inclusion of those items could obscure the information about operating accruals.

29. For example:

[6] The presentation of amounts relating to equity-accounted investments will be discussed in a future Board paper.

[7] If the starting point were net profit, income tax expenses would be added back and then income tax cash flows would be included to get operating cash flows (IAS 7 requires separate presentation of cash flows relating to taxes so entities cannot simply present the change in tax receivables/payables). If the starting point were operating profit, no information about income tax expenses would be included, but income tax cash flows would still be added in arriving at operating cash flows.

(a) in relation to inventory sold in a period[8]:

(i) operating profit will include the cost of the inventory sold;

(ii) the adjustment in the cash flow statement reconciliation will be the change in inventory in the period, resulting in;

(iii) the operating cash flow for inventory acquired in the period.

(b) in contrast, for disposal of an item of property, plant or equipment;

(i) operating profit will include the gain on disposal;

(ii) the adjustment in the cash flow statement reconciliation will be the full amount of the gain, resulting in;

(iii) no operating cash flow, because the cash proceeds are classified as investing cash flows.

30. In order to identify operating accruals, a user of the financial statements needs to know the type of each adjustment. The adjustment described in paragraph 29(a)(ii) is an operating accrual, the adjustment described in paragraph 29(b)(ii) is not, rather it is a classification difference.

31. Given full alignment between the cash flow statement and the statement of profit or loss is not achievable in this project (see paragraph 14 of this paper), the question is which starting point for the indirect method is less confusing in terms of identifying the different types of adjustment. Appendix B gives examples of the different adjustments needed for each starting point to illustrate the descriptions in paragraphs 32–35.

32. Starting the reconciliation with operating profit, the adjustments would be:

(a) classification differences: differences between classification of items in operating profit or loss and items in operating activities of cash flows, comprising;

(i) the removal from operating profit of items classified as operating in profit or loss but non-operating in the statement of cash flows; and

[8] For simplicity, we have assumed that in this example no other costs are capitalised as inventories.

(ii) the addition to operating profit of items classified as non-operating in profit or loss but operating in the statement of cash flows; and

(b) operating accruals: differences between income and expenses on an accruals basis in the statement of profit or loss and cash flows for items included in the operating category in both statements.

33. In contrast, starting the reconciliation with net profit, the adjustments would be:

(a) classification differences comprising the removal of items classified as non-operating in the statement of cash flows;

(b) accrual differences comprising:

(i) operating accruals: differences between income and expenses on an accruals basis and cash flows for items included in operating in both statements; and

(ii) differences between income and expenses on an accruals basis and cash flows for items included in operating in the cash flow statement but not in the statement of profit or loss.

34. Hence, both starting points present the same adjustments for:

(a) items included in both operating profit and operating cash flows (the adjustments are operating accruals as described in paragraphs 32(b) and 33(b)(i)); and

(b) items included in operating profit but not operating cash flows (the adjustments are classification differences as described in paragraphs 32(a)(i) and 33(a)).

35. But they present different adjustments for:

(a) items that are not in operating profit or operating cash flows. If operating profit is the starting point for the reconciliation, no adjustment is needed for such items. If net profit is the starting point, there is a classification adjustment (paragraph 33(a)); and

(b) items that are in operating cash flows but not operating profit. If operating profit is the starting point for the reconciliation, there will be a classification adjustment (paragraph 32(a)(ii)). If net profit is the starting point, there will be an accrual adjustment (paragraph 33(b)(ii)).

36. Considering these different adjustments for different starting points, the staff do not think starting with operating profit causes more confusion over the lack of full alignment between the categories in the two statements than starting with net profit. Whichever the starting point, clear descriptions of the adjustments and appropriate grouping of their presentation will be needed to allow users to understand the nature of the adjustments. The staff will consider whether further guidance on or examples of disaggregation would help achieve such presentation when developing a paper on the disaggregation principles.

Cost of change

37. On whether the cost of a change in the starting point would exceed the benefits, the staff acknowledge there could be costs incurred upfront for systems modification. However, such costs often arise when an option is removed from an IFRS Standard, and the staff think the cost would be balanced for most entities with the benefits for users of financial statements of a consistent starting point and more transparency over the link between operating profit and operating cash flows.

38. The staff acknowledge that this balance may not be the case for banks and other entities with specified main business activities because of the broader questions about the benefits of the cash flow statement for such entities. However, as discussed in paragraph 16, the staff do not think the Board should consider creating different requirements for the statement of cash flows for these entities as part of this project. Most such entities did not raise the starting point of the indirect method as a specific concern—only a few banks specifically questioned the costs of implementing the new starting point.

Staff conclusion

39. Based on the analysis in paragraphs 26–38, the staff conclude that the balance of the feedback does not indicate a need to change the proposals in the Exposure Draft on the starting point for the indirect method. Therefore, the staff recommend the Board

proceed with requiring an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities.

Question 2
Does the Board agree to proceed with the proposals in the Exposure Draft to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities?

Classification of interest and dividend cash flows

40. The Exposure Draft proposed amending IAS 7 to reduce the presentation alternatives currently permitted and require that, in the statement of cash flows, an entity classifies interest and dividend cash flows as shown in Figure 1.

Figure 1—Classification of interest and dividend cash flows

Cash flow item	**Most entities**	**Specified entities**[9]
Interest paid	Financing	Accounting policy choice, possible location depends on the classification of the related income and expenses in the statement of profit or loss.
Interest received	Investing	
Dividends received	Investing	
Dividends paid	Financing	

41. As noted in paragraph 2 of this paper, this paper does not consider:

[9] Specified entities comprise entities that provide financing to customers as a main business activity or in the course of their main business activities invest in assets that generate a return individually and largely independently of the entity's other resources.

(a) cash flows from equity-method accounted associates and joint ventures, which will be discussed in a future paper on all the proposed requirements for such investments; or

(b) the classification of interest and dividend cash flows for specified entities, which will be discussed in a future Board paper together with the proposals for categories and subtotals in the statement of profit or loss for such entities.

42. Paragraphs BC189–BC190 of the Basis for Conclusions for the Exposure Draft explain the accounting policy choices currently permitted by IAS 7 for classifying interest and dividend cash flows have caused diversity in classification, even among entities in the same industry. This diversity reduces comparability and does not necessarily convey information about the role of interest and dividends in an entity's business activities.

43. Paragraphs BC191–BC192 explain the classification of dividends paid as a cash flow from financing activities and not as a cash flow from operating activities because dividends paid are financing in nature.

44. Paragraph BC193 explains that the Board considered two approaches for classifying dividends received and interest paid and received:

(a) seeking to align, to the extent possible, the classification in the statement of profit or loss with the classification in the statement of cash flows. Doing so would mean the classification of dividends received and interest paid and received would depend on the entity's main business activities.

(b) requiring all entities to classify dividends received, interest paid, and interest received as operating cash flows.

45. Paragraphs BC194–BC202 further explain that when alignment can be achieved, it can increase the understandability of resulting information, and that the proposals in the Exposure Draft are expected to achieve alignment of the classification of interest and dividends in the statement of profit or loss and the statement of cash flows in most cases. However, the Board is not proposing alignment in all cases because it concluded that classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than such full alignment. A list of situations when alignment is not achieved is given in paragraph 53 of this paper.

46. Paragraphs BC203–BC204 explain the Board rejected the approach described in paragraph 44(b) of this paper because it would be inconsistent with the proposed definition of financing activities in IAS 7 and because the approach would not align operating profit or loss with the operating cash flows category of the statement of cash flows.

Feedback on classification of interest and dividends

47. Many respondents, in particular most users, supported the removal of options for the classification of interest and dividends. They said that consistent classification would enhance comparability.

48. Some of the respondents supported the expected outcome of *alignment in most cases* between the presentation of interest and dividend in the statement of profit or loss and in the statement of cash flows. Nonetheless, almost all of the concerns about the proposals in the Exposure Draft were related to the lack of *full alignment* of the classification of interest and dividends between the statement of profit or loss and the statement of cash flows.

49. A few respondents said that it would be costly for them to change the reporting systems to achieve the proposed changes in the classification of interest and dividends.

50. A few respondents supported the alternative classifications of interest and dividends that were discussed but rejected in the Basis for Conclusions:

    (a) alternative 1—present all interest and dividend received cash flows as operating cash flows.[10] This approach would converge with US GAAP.

    (b) alternative 2—full alignment between interest and dividends in the statement of cash flows with the related income or expenses in the statement or profit or loss.

[10] Dividends paid would always be classified as financing.

Staff analysis

51. There is clear support for the removal of options for the classification of interest and dividend cash flows.

Dividends paid

52. Dividends paid are not recognised in the statement of profit or loss, but would be recognised in *financing activities* in the statement of cash flows. Alignment of the two statements for this item is not possible. Almost no respondents commented on the proposed classification in the statement of cash flows, so the staff recommend the Board proceed with that classification for the reason described in paragraph 43.

Dividends received and interest paid and received

53. The main concern of the respondents about the proposed classification for dividends received and interest paid and received in the Exposure Draft is the lack of full alignment between the statement of profit or loss and the statement of cash flows. This paper does not discuss the classification or alignment of interest and dividends for entities with specified main business activities. A lack of alignment on interest items would arise for other entities as follows:

(a) interest from customers determined applying IFRS 15 is expected to be included in *operating profit* in the statement of profit or loss but would be included in *investing* in the statement of cash flows applying the proposals in the Exposure Draft;

(b) interest income on cash and cash equivalents would be classified in the *financing* category in the statement of profit or loss but would be included in *investing* in the statement of cash flows;

(c) as discussed in paragraph 13(d)(i), interest expenses not arising from financing activities, for example the unwinding of discounting of pension liabilities would be included in the *financing* category in the statement of profit or loss but the contribution paid to the pension plan is generally included in *operating* in the statement of cash flows; and

(d) interest capitalised as part of the cost of property, plant and equipment would be recognised in the statement of profit or loss through depreciation in *operating profit*, but the interest paid would be included in cash flows from *financing activities* in the statement of cash flows.

54. The proposals in the Exposure Draft struck a balance between the benefits of alignment between the statement of profit or loss and the statement of cash flows and the complexity such alignment might create. Paragraph BC197 of the Basis for Conclusions explains that the Board concluded that including each type of cash flow in a single category in the statement of cash flows is more useful than full alignment. The two alternative suggestions described in paragraph 50 of this paper reflect opposing views about that balance:

    (a) alternative 1—the simplicity of including all interest paid and received and dividends received in one category in the statement of cash flows (operating) outweighs the resulting lack of alignment; and

    (b) alternative 2—full alignment of the classification of interest paid and received and dividends received across the two statements is worth its inherent complexity.

55. Considering alternative 1, including all such cash flows in operating would substantially increase the lack of alignment between the two statements because the proposals in the Exposure Draft resulted in alignment in most cases. Such a reduction in alignment would not respond to the balance of the feedback on this question.

56. Considering alternative 2, the Board will consider the definitions of investing and financing categories in the statement of profit or loss at a future Board meeting. That discussion could affect the extent of alignment between that statement and the statement of cash flows.

57. In relation to dividends received and interest paid, the staff do not think that future discussion on the categories in the statement of profit or loss need prevent the Board from making a decision about their classification in the statement of cash flows:

    (a) for dividends received, the feedback on the classifications in the two statements proposed in the Exposure Draft does not indicate a need for a change in either statement; and

(b) for interest paid described in paragraphs 53(c) and 53(d), the difficulties in aligning the two statements as described in paragraphs 13–14 are such that aiming for full alignment is outside the scope of this project. Hence, for interest paid, the staff conclude that the most useful information in the cash flow statement is given by classifying all interest paid in a single category. The category that will achieve the greatest degree of alignment is financing.

58. However, for interest received, the staff observe that:

(a) in relation to interest from customers (paragraph 53(a)) potential operational complexities might arise from the proposals in the Exposure Draft because of a need to disaggregate in the statement of cash flows an interest component from cash paid by customers. Such operational complexities might be avoided by classifying such interest received as operating, consistent with its proposed classification in the statement of profit or loss;

(b) in relation to interest on cash and cash equivalents (paragraph 53(b)), evidence from the fieldwork suggests that for some entities interest on cash and cash equivalents is the only or most substantial type of interest received. For such entities, classifying all interest received in the single category of financing would give the greatest alignment with the categories in the statement of profit or loss proposed in the Exposure Draft; and

(c) the outcome of the future discussion of the definitions of the investing and financing categories for both types of interest is uncertain.

59. Accordingly, the staff recommend that the classification of interest received in the statement of cash flows is considered at the same time as the definitions of the investing and financing categories in the statement of profit or loss.

60. For dividends and interest paid, the analysis in paragraphs 53–58 demonstrates the feedback generally supports the Board’s conclusions about the balance between alignment and complexity as set out in the Basis for Conclusions. Accordingly, the staff recommend the Board proceed with the proposals in the Exposure Draft on the classification of dividends and interest paid.

Question 3
Does the Board agree to proceed with the proposals in the Exposure Draft relating to the classification of interest paid and dividend cash flows for entities other than those with specified main business activities, accordingly: (a) interest and dividends paid are classified as cash flows arising from financing activities; and (b) dividends received are classified as cash flows arising from investing activities.

Appendix A—Linkages with other project areas that will be discussed in future meetings

A1. The following table summarises the linkages between topics that the Board will redeliberate at a later time and topics discussed in this paper:

Linked topic	How is the topic linked to the discussion in this paper?
Definitions of investing and financing in the statement of profit or loss	This paper asks Board to confirm the classification of interest paid and dividends in the cash flow statement. The extent to which the classification in that statement aligns with the classification in the statement of profit or loss will depend on the definitions used in the statement of profit or loss, which will be discussed in a future Board paper. The discussion of those definitions will also include a discussion of whether the categories in the statement of profit or loss might be labelled differently to reduce any confusion over a lack of alignment between the two statements. As discussed in paragraphs 56–59, the staff recommends the Board consider the classification of interest received in the statement of cash flows at the same time as it considers the definitions of investing and financing in the statement of profit or loss.
Entities with specified main business activities, such as banks	This paper does not discuss the classification in the statement of cash flows of interest and dividends for entities with specified main business activities. Such classification will be discussed after the Board has discussed the categories in the statement of profit or loss for such entities.
Associates and joint ventures accounted for using the equity method	This paper does not discuss the classification in the statement of cash flows of cash flows related to equity-accounted investments. Such classification will be discussed after the Board has discussed the categories in the statement of profit or loss for such entities.
Disaggregation principles	This paper acknowledges that appropriate grouping for the presentation of adjustments to operating profit to arrive at operating cash flows will be needed to allow users to understand the nature of the adjustments. This need will be considered as part of the discussion of the disaggregation principles.

Appendix B—examples of adjusting items to arrive at operating cash flows using the indirect method

B1 The following table sets out examples of the different types of adjustments needed to arrive at operating cash flows using the indirect method as described in paragraphs 32–35 of this paper:

<table>
<tr><th></th><th>Example</th><th>Adjustments required if operating profit is the starting point for the reconciliation</th><th>Adjustments required if net profit is the starting point for the reconciliation</th></tr>
<tr><td>Items included in both operating profit and operating cash flows (paragraph 34(a))</td><td>Sale of inventory</td><td colspan="2">Operating accrual for change in inventory (paragraphs 32(b) and 33(b)(i))</td></tr>
<tr><td>Items included in operating profit but not operating cash flows (paragraph 34(b))</td><td>Amounts related to property, plant and equipment</td><td colspan="2">Classification difference for the removal of depreciation and impairment (paragraphs 32(a)(i) and 33(a))</td></tr>
<tr><td>Items included in operating cash flows but not operating profit (paragraph 35(b))</td><td>Rent from investment properties</td><td>Classification difference for addition of rent received (paragraph 32(a)(ii))</td><td>Accrual adjustment for difference between rent receivable and rent received (paragraph 33(b)(ii))</td></tr>
<tr><td>Items included in neither operating profit nor operating cash flows (paragraph 35(a))</td><td>Interest expense/interest paid</td><td>No adjustment required</td><td>Classification difference for removal of interest expense (paragraph 33(a))</td></tr>
</table>