Master's thesis

Cash Flow Theory and Cash Flow Statement (IAS 7)

Oriented studies have been conducted in Bucharest, ROMANIA

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Abstract

Basically terms, this research study evolved in response to my desire to find out some things more about *Cash Flow Theory and Cash Flow Statement (IAS 7)*.

The ultimate purpose of this action oriented research project is to assess cash and cash flow concept and cash flow statements on the base of IAS 7.

It has been studied in this research theoretical concept of *Cash Flow Theory and Cash Flow Statement (IAS 7)* by utilizing tables or figures.

In Chapter 1, I tried to open a window to describe the terminology of my study. *In Chapter 1*, introduction of the money, cash, cash flow and IAS have been tried basically to explain together with historical approaches. Additionally, the concept of cash and cash equivalents have been detailed on the base of IAS as meaning and others.

In Chapter 2, cash flow statement has been detailed on general and IAS concept. Purpose and history and variations and the reason to crating cash flow budget have been discussed in this chapter. Other than those, cash flow activities, cash flow classification by financial institutions have been tried to analyze.

In Chapter 3, Cash Flow Statement (IAS 7) specifically has been researched. In this part, the historical development of IAS 7 International Standard, fundamental principals and presentation of IAS 7 have been explained.

In Chapter 4, comparison of FRS and IAS 7 has been shown by the helps of tables.

In Chapter 5, the thesis has been summarized by explaining the concept of cash flow statement and IAS 7.

In Chapter 6, Stonehill Machine Tools Ltd.'s 1999 and 2000 accounts has been examined.

Certificate of the thesis

I certify that the ideas, research, results, analysis and conclusions reported in this thesis, *Cash Flow Theory and Cash Flow Statement (IAS 7),* are entirely my effort, except where otherwise acknowledged. I further certify that this work is official and has not been previously submitted for any award, except where otherwise acknowledged.

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List of Abbreviations

a/c	Account current
A/P	Accounts payable
App	Application
ASB	Auditing Standard Boards
b/d	Balance debt
c/d	Cash disbursement
DCF	Discounted cash flow
etc.	Continuing in the same way
FASB	Financial Accounting Standard Board
FAS	Financial Accounting Standards
FRS	Financial Reporting Standards
FRSSE	Financial Reporting Standard for Smaller Enterprises
e.g.	For example
IFRIC	International Financial Reporting Interpretations Committee
GAAP	Generally Accepted Accounting Principals
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IASC	International Accounting Standards Committee
i.e.	For example
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISBN	International Standard Book Number
Ltd	Limited
m	Million
P/L	Profit and Loss Statement
Plc	Power Line Communications
PPE	Property, Plant, And Equipment
QT	Quarter
SEC	Securities and Exchange Commission
SSAP	Statement of Statutory Accounting Principal
SME	Small And Medium-sized Enterprises
TIPS	Treasury Inflation Protected Securities
UK	United Kingdom
US	United States
VAT	Value added tax

Table of Contents

		Page No.
	Acknowledgments	II
	Abstracts	III
	Certificate of thesis	IV
	List of abbreviations	V
	Table of contents	VI-VIII
	List of Tables	IX
	Table of figures	X
Chapter 1	**Money, Cash Flow, IAS and Other Terminology**	
1.1	Introduction; money, cash flow, IAS	1
1.2	Cash and cash equivalents on general concept	2
1.3	Cash and cash equivalents on the concept of IAS	3
1.3.1	What are cash and cash equivalents	3
1.3.2	Recognition of cash and cash equivalents	4
1.3.3	Initial measurement	4
1.3.4	Measurement subsequent to initial measurement	4
1.3.5	Impairment losses and write-downs	4
1.3.6	Effect of use of financial instruments on the measurement of cash and cash equivalents	4
1.3.7	Presentation and disclosure	4
1.4	Conclusion	5
1.5	Practical assignments	5
Chapter 2	**Cash flow statement**	
2.1	Introduction	6
2.2	Cash flow statement	7
2.3	Purpose of cash flow	7
2.4	History and variations	8
2.5	Reasons for creating a cash flow budget	8
2.5.1	Cash flow is not profitability	9
2.5.2	Other financial statements	10
2.6	Cash flow activities (structure of cash flow statements)	11
2.6.1	Operating activities	11

2.6.2	Investing activities	12
2.6.3	Financing activities	12
2.7	Classification by financial institutions	13
2.8	Classification of other cash flows	13
2.8.1	Tax cash flows	13
2.8.2	Netting cash flows	13
2.8.3	Foreign currency cash flows	14
2.8.4	Treatment of overdraft	14
2.8.5	Short term investments	14
2.9	Disclosure of non-cash activities	14
2.10	Preparation methods	14
2.10.1	Direct method	14
2.10.2	Indirect method	15
2.11	Other matters on cash flow	16
2.11.1	Acquisitions and disposals	16
2.11.2	Discontinuing operations	16
2.11.3	Barter and other non-cash transactions	17
2.11.4	Classification of cash relating to hedging instruments	17
2.11.5	Segmental analysis	17
2.12	Conclusion	17
2.13	Practical assignments	17

Chapter 3 Cash flow statements (IAS 7)

3.1	Introduction	18
3.2	Background of IAS 7	18
3.2.1	FRS cash flow statement – the ASB standard	18
3.2.2	IAS 7, the International Standard	19
3.3	Summary of IAS 7	21
3.3.1	Objective of IAS 7	21
3.3.2	Fundamental principle in IAS 7	21
3.3.3	Presentation of the statement of cash flow in IAS 7	21
3.4	Issues relating to IAS 7 that IFRIC did not add to its agenda	22
3.4.1	IAS 7: Classification of treasury shares in consolidated cash flow statement	22
3.4.2	IAS 7: Value added tax	23
3.4.3	IAS7: Classification of expenditures as investing or operating	23
3.4.4	Conclusion	23
3.5	Practical assignments	23

Chapter 4 Comparison of FRS and IAS 7

4.1	Introduction	24
4.2	ISAC development	24
4.3	Cash flow statement IAS 7ISAC development	25
4.4	Cash flow statement the ASB's FRS 1 format	26
4.5	Conclusion	28
4.6	Practical assignments	28

Chapter 5 Conclusion

5.1	Introduction	29
5.2	Cash flow statement	29
5.3	IAS 7	29
5.4	Conclusion	30

Study case for IAS 7 statement of cash flow 31

Study case for IAS 7 statement of cash flow 35

References 51

List of Tables

Page No.

Table 2.1	Statement of cash flow simple example	37
Table 2.2	Cash flow budget (by quarter of the year)	37
Table 2.3	Simple cash flow – purchasing by down payment	37
Table 2.4	Simple cash flow – purchasing by borrowing	38
Table 2.5	Sample cash flow statement using the direct method	38
Table 2.6	Citigroup cash flow statement	38
Table 3.1	Cash flow format – direct method	38
Table 3.2	Cash flow format – indirect method	38
Table 2.4	Simple cash flow – purchasing by borrowing	38
Table 4.1	Cash flow statement IAS 7 format	38
Table 4.2	Cash flow statement IAS 7 format (continue)	38
Table 4.3	FRS 1 format	38
Table 4.4	Reconciliation of net cash flow movement in net debt	38
Table 4.5	Analyses of changing in net debt	38
Table study case 1	Stonehill Machine Tools Ltd., balance sheet 1999-2000	39
Table study case 2	Function and Expenditure Method IAS 1 (simplified)	40
Table study case 3	Stonehill Machine Tools Ltd., cash flow statement for Year Ended 30 June 2000	40
Table study case 4	Stonehill Machine Tools Ltd., cash and cash equivalents	40
Table study case 5	Stonehill Machine Tools Ltd., inventory of receivables and payables are differences	40
Table study case 6	Stonehill Machine Tools Ltd., disposal account non-current assets	40
Table study case 7	Stonehill Machine Tools Ltd., dividends account	40
Table study case 8	Stonehill Machine Tools Ltd., taxation account	40
Table study case 9	Stonehill Machine Tools Ltd., purchase differences	40
Table study case 10	Stonehill Machine Tools Ltd., net effect on cash	40

List of Figures

Page No.

Figure 2.1 Integrated financial statement 37

Chapter 1

Money, Cash Flow, IAS and Other Terminology

- **Introduction; money, cash flow, IAS**
- **Cash and cash equivalents on general concept**
- **Cash and cash equivalents on the concept of IAS**
- **What are cash and cash equivalents?**
- **Recognition of cash and cash equivalents**
- **Initial measurement**
- **Measurement subsequent to initial measurement**
- **Impairment losses and write-downs**
- **Effect of use of financial instruments on the measurement of cash and cash equivalents**
- **Presentation and disclosure**
- **Conclusion**
- **Practical assignments**

1.1 Introduction; money, cash flow, IAS

Money
Money was discovered as a tool in order to exchange the productions of the humans as services or goods. Money is a worth evaluating number of the productions.

For more than 3,700 years, the tablet languished in obscurity, until late nineteenth-century collectors unearthed it from Sippar's rains along the Euphrates River in what is now Iraq. Like similar tablets, it hinted at an ancient and mysterious Near Eastern currency, in the form of silver rings that started circulating two millennia before the world's first coins were struck. Many scholars believe money began even earlier. *"My sense is that as far back as the written records go in Mesopotamia and Egypt, some form of money is there,"* observes Jonathan Williams, curator of Roman and Iron Age coins at the British Museum in London. "That suggests it was probably there beforehand, but we can't tell because we don't have any written records." From the beginning, money has shaped human society. It greased the wheels of Mesopotamian commerce, spurred the development of mathematics, and helped officials and kings rake in taxes and impose fines. [1]

Money is anything that is generally accepted as payment for goods and services and repayment of debts. [2]

The main uses of money are as a medium of exchange, a unit of account, and a store of value. [3]

Some authors explicitly require money to be a standard of deferred payment. [4]
Money includes both currency, particularly the many circulating currencies with legal tender status, and various forms of financial deposit accounts, such as demand deposits, savings accounts, and certificates of deposit. In modern economies, currency is the smallest component of the money supply.

Cash Flow
Cash flow simply means the money that comes into and leaves a business or household. Money flows into a business in the form of revenues and out through the form of expenses. Money flows into a household in many forms. Are you receiving money from a structured settlement or lottery? Those are incoming cash flows. Do you owe money to anyone? Those are outgoing cash flows. [5]

Discounted cash flow calculations have been used in some form since money was first lent at interest in ancient times. As a method of asset valuation it has often been opposed to accounting book value, which is based on the amount paid for the asset. Following the stock market crash of 1929, discounted cash flow analysis gained popularity as a valuation method for stocks. Irving Fisher in his 1930 book "The Theory of Interest" and John Burr Williams's 1938 text 'The Theory of Investment Value' first formally expressed the DCF method in modern economic terms. [6]

IAS

International Financial Reporting Standards (IFRS) are standards and interpretations adopted by the International Accounting Standards Board (IASB).

Many of the standards forming part of IFRS are known by the older name of **International Accounting Standards** (IAS). IAS were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS.

In March 2001, the International Accounting Standards Committee (IASC) Foundation was formed as a not-for-profit corporation incorporated in the State of Delaware, US. The IASC Foundation is the parent entity of the **International Accounting Standards Board**, an independent accounting standard-setter based in London, UK. On 1 April 2001, the International Accounting Standards Board (IASB) assumed accounting standard-setting responsibilities from its predecessor body, the International Accounting Standards Committee. This was the culmination of a restructuring based on the recommendations of the report **Recommendations on Shaping IASC for the Future**. [7]

1.2 Cash and cash equivalents on general concept

Cash and cash equivalents are the most liquid assets found within the asset portion of a company's balance sheet. **Cash equivalents** are assets that are readily convertible into cash, such as money market (i) holdings, short-term government bonds(ii) or Treasury bills(iii), marketable securities(iv) and commercial paper(v). Cash equivalents are distinguished from other investments through their short-term existence; they mature within 3 months whereas short-term investments are 12 months or less, and long-term investments are any investments that mature in excess of 12 months.

"Cash and cash equivalents", when used in the context of payments and payments transactions refer to currency, coins, money orders, paper checks, and stored value products such as gift certificates and gift cards.

In certain cases, cash flow statements may allow careful analysts to detect problems that would not be evident from the other financial statements alone. For example, WorldCom committed an accounting fraud that was discovered in 2002; the fraud consisted primarily of treating ongoing expenses as capital investments, thereby fraudulently boosting net income. Use of one measure of cash flow (free cash flow) would potentially have detected that there was no change in overall cash flow (including capital investments). [8]

---

*(i) In finance, the **money market** is the global financial market for short-term borrowing and lending. It provides short-term liquid funding for the global financial system. The money market is where short-term obligations such as Treasury bills, commercial paper and bankers' acceptances are bought and sold.*

(ii) A government debt obligation (local or national) backed by the credit and taxing power of a country with very little risk of default. This includes short-term Treasury bills, medium-term Treasury notes, and long-term Treasury bonds.

*(iii) **Treasury securities** are government bonds issued by the United States Department of the Treasury through the Bureau of the Public Debt. They are the debt financing instruments of the U.S. Federal government, and they are often referred to simply as **Treasuries** or **Treasurys**. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS).*

(iv) Marketable securities are very liquid as they tend to have maturities of less than one year. Furthermore, the rate at which these securities can be bought or sold has little effect on their prices. Examples of marketable securities include commercial paper, banker's acceptances, Treasury bills and other money market instruments.

*(v) **Commercial paper** is a money-market security issued by large banks and corporations. It is generally not used to finance long-term investments but rather to purchase inventory or to manage working capital. It is commonly bought by money funds (the issuing amounts are often too high for individual investors), and is generally regarded as a very safe investment. As a relatively low-risk investment, commercial paper returns are not large. There are four basic kinds of commercial paper: promissory notes, drafts, checks, and certificates of deposit.*

1.3 Cash and cash equivalents on the concept of IAS [9]

Contents

- What are cash and cash equivalents?
- Recognition of cash and cash equivalents
- Initial measurement
- Measurement subsequent to initial measurement
- Impairment losses and write-downs
- Effect of use of financial instruments on the measurement of cash and cash equivalents
- Presentation and disclosure

1.3.1 What are cash and cash equivalents?

Cash includes money an entity holds and money deposited with financial institutions that can be withdrawn without notice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value [IAS7.6]. Cash and cash equivalents should be separately disclosed on the face of the balance sheet and should present a reconciliation of these balances to the equivalent amounts reported in the cash flow statement [IAS1R.68(i)] [IAS7.45].

The classification of a short-term investment(i) as a cash equivalent not only requires the investment to meet the definition of a cash equivalent, but also depends on the purpose for which the investment is held. Short-term investments must be investments that are purchased and sold, generally, as part of the entity's cash management activities, rather than as part of its operating, investing or financing activities to qualify as cash equivalents [IAS7.9].

Cash equivalents can be designated as available-for-sale investments, Held-to-maturity investments(ii) or Originated loans(iii). However, amounts are disclosed as cash equivalents provided that they meet the definition of a cash equivalent. The "short-term" characteristic of a cash equivalent is generally taken as a maturity of three months from the date of acquisition [IAS7.7].

The classification of an investment as a cash equivalent is not restricted to investments with financial institutions, such as banks, or government bonds. Debt instruments issued by corporate entities may also be classified as cash equivalents provided they meet the definition of a cash equivalent. Redeemable preferred shares could also be capable of qualifying as cash equivalents [IAS7.7].

An entity may classify bank overdrafts, repayable on demand, as part of its cash equivalents if management, as part of its cash management strategy, uses the overdrafts, rather than part of its financing strategy [IAS7.8]. Such overdrafts are classified as interest-bearing liabilities in the balance sheet rather than within cash equivalents.

IFRS cash flow statements show movements in cash and cash equivalents. This includes cash on hand and demand deposits, short term liquid investments readily convertible to cash and overdrawn bank balances where these readily fluctuate from positive to negative (IAS7.6 to 9). IFRS cash flow statements do not need to show movements in borrowings or net debt.

Cash flow statements may be presented using either a direct method, in which major classes of cash receipts and cash payments are disclosed, or using the indirect method, whereby the profit or loss is adjusted for the effect of non-cash adjustments (IAS7.18).

Items on the cash flow statement are classified as operating activities, investing activities and financing (IAS7.10).

(i) An account in the current assets section of a company's balance sheet. This account contains any investments that a company has made that will expire within one year. For the most part, these accounts contain stocks and bonds that can be liquidated fairly quickly.

(ii) This category is intended for investments in debt instruments that the entity will not sell before their maturity date irrespective of changes in market prices or the entity's financial position or performance. Investments in shares generally do not have a maturity date, and thus should not be classified as held-to-maturity investments.

(iii) The process of making a new loan from marketing to closing. Example: A mortgage banking firm originated an average of 100 home mortgage loans per month. Its salespeople solicited Realtors® for business. After loan origination, the mortgage loans were sold to an investor or to Fannie Mae.

1.3.2 Recognition of cash and cash equivalents

Cash should be recognized when received and cash equivalents should be recognized when the investment/deposit is made. Although the recognition is generally straightforward, there are certain matters which should be considered carefully.

Restrictions over the use of cash
Governments in some countries impose exchange controls, restricting the amount of cash that can be removed from the country. There may be other legal restrictions over an entity's ability to use cash and cash equivalents for general purposes. Such balances should continue to be recognized as cash and cash equivalents, but adequate disclosure of the restrictions should be given [IAS7.48-49].

Concerns over redemption
Securities should not be classified as a cash equivalent if there are concerns that the issuer may not fully redeem the security at maturity. Instead the security should be classified as an available-for-sale investment or a held-to-maturity investment.

1.3.3 Initial measurement

Cash should be recognized initially at the amount received by the entity or the amount received into the entity's bank account. Cash equivalents should initially be recognized at cost [F.100 (a)]. Cost is the fair value of the consideration given to acquire the cash equivalent. Bank overdrafts classified as cash equivalents should be initially recognized at the amount of principal repayable to the lender [F.100 (a)].
Any amounts denominated in foreign currency should be translated into the entity's reporting currency at the exchange rate ruling on the date of receipt [IAS21R.21].

1.3.4 Measurement subsequent to initial measurement

Normally, no adjustment should be required to cash and cash equivalents balances except to update the exchange rate applied to balances denominated in foreign currencies and to reflect the effect of subsequent cash transactions [IAS21R.23 (a)].

1.3.5 Impairment losses and write-downs

Cash and cash equivalent balances held with another entity should reflect the cash flows expected to be received from that entity. The balance would cease to meet the definitions of cash and cash equivalents if there are serious concerns over the other entity's credit worthiness. The balance would be reclassified to available-for-sale and written down to the present value of expected future cash flows [IAS39R.58].

1.3.6 Effect of use of financial instruments on the measurement of cash and cash equivalents

Cash and cash equivalent balances denominated in a foreign currency represent an exposure to foreign exchange risk. An entity may enter into a currency swap, contracted to mature at the same time as the cash equivalent, to manage this risk. The cash balance should be translated using the spot rate at the balance sheet date and the currency swap marked to market. The movements in value would be taken to the income statement [IAS39R.89].

1.3.7 Presentation and disclosure

Cash and cash equivalents should be presented as a separate line item on the face of the balance sheet [IAS1R.68 (i)].

The following information should be given in the notes:

a) Description of balances included in cash and cash equivalents [IAS7.45,46];
b) Explanation of how short-term investments are classified between cash equivalents and other investments [IAS7.46];
c) Reconciliation of cash and cash equivalents included in the cash flow statement to the balance sheet [IAS7.45];
d) Terms attached to cash and cash equivalent balances, for example interest rates and average maturity [IAS32R.67]; and

e) Restriction over use of cash and repatriation [IAS7.48]. Where appropriate, an explanation of why balance qualifies as a current asset [IAS1R.57]. This is not required in respect of currency restrictions.

1.4 Conclusion

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation. [10]

The objective of IAS 7 is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

1.5 Practical assignments

Answer the following questions.
1. What means money and cash?
2. What means cash equivalents?
3. What is cash flow?
4. What is IAS?

Chapter 2

Cash flow statement

• Introduction
• Cash flow statement
• Purpose of cash flow
• History and variations
• Reasons for creating a cash flow budget
• Cash flow is not profitability
• Other financial statements
• Cash flow activities (structure of cash flow statements)
• Operating activities
• Investing activities
• Financial activities
• Classification by financial institutions
• Classification of other cash flows
• Tax cash flows
• Netting cash flows
• Foreign currency cash flows
• Treatment of overdraft
• Short term investment
• Disclosure of non-cash activities
• Preparation methods
• Direct method
• Indirect method
• Other matters on cash flow
• Acquisitions and disposals
• Discontinuing operations
• Barter and other non-cash transactions
• Classification of cash relating to hedging instruments
• Segmental analysis
• Conclusion
• Practical assignments

2.1 Introduction,

Cash flow is a term that refers to the amount of cash being received and paid by a business during a defined period of time, sometimes tied to a specific project. Measurement of cash flow can be used;

- to evaluate the state or performance of a business or project.
- to determine problems with liquidity. Being profitable does not necessarily mean being liquid. A company can fail because of a shortage of cash, even while profitable.
- to generate project rate of returns. The time of cash flows into and out of projects are used as inputs to financial models such as internal rate of return, and net present value.
- to examine income or growth of a business when it is believed that accrual accounting concepts do not represent economic realities. Alternately, cash flow can be used to 'validate' the net income generated by accrual accounting.

Cash flow as a generic term may be used differently depending on context, and certain cash flow definitions may be adapted by analysts and users for their own uses. Common terms (with relatively standardized definitions) include operating cash flow and free cash flow.

2.2 Cash flow statement

Information on **cash flows** provides a basis to assess an entity's ability to generate cash, and the utilization of those cash flows.
All entities are required to provide a cash flow statement regardless of their size and the industry they operate in. There are no exemptions for subsidiaries whose parents have also published a cash flow statement [IAS7.1].

Only the cash flows of transactions are reported in the cash flow statement. Adjustment is required for a transaction for which income and expenses are recognized in one period but cash flows occur in another.

In financial accounting, **a cash flow statement** or **statement of cash flows** is a financial statement that shows a company's incoming and outgoing money (sources and uses of cash) during a time period (often monthly or quarterly). The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents, and breaks the analysis down according to **operating**, **investing**, and **financing activities**. As an analytical tool the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7), is the International Accounting Standard that deals with cash flow statements.

People and groups interested in cash flow statements include;

- accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
- potential lenders or creditors, who want a clear picture of a company's ability to repay
- potential investors, who need to judge whether the company is financially sound
- potential employees or contractors, who need to know whether the company will be able to afford compensation

Statement of Cash Flow - Simple Example *for the period 12/31/2005 to 12/31/2006*	
Cash flow from operations	$4,000
Cash flow from investing	($1,000)
Cash flow from financing	($2,000)
Net increase (decrease) in cash	**$1,000**

Table 2.1

2.3 Purpose of cash flow

The cash flow statement was previously known as the **statement of changes in financial position** or **flow of funds statement**. [11] The cash flow statement reflects a firm's liquidity or solvency.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation and write-offs on bad debts. [12] The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Non-cash activities(i) are usually reported in footnotes.

Non-cash charges are typically against the depreciation, amortization, and depletion accounts on a company's balance sheet. Companies take these charges against earnings due to extraordinary circumstances such as accounting policy changes or significant depreciation of asset's market value.

The cash flow statement is intended to; [13]

1) provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances ,
2) provide additional information for evaluating changes in assets, liabilities and equity
improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods
3) indicate the amount, timing and probability of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets. [14]

2.4 History and variations

Cash basis financial statements were common before accrual basis financial statements. The "flow of funds" statements of the past were cash flow statements.

In the United States in 1971, the Financial Accounting Standards Board (FASB) defined rules that made it mandatory under Generally Accepted Accounting Principles (US GAAP) to report sources and uses of funds, but the definition of "funds" was not clear. "Net working capital" might be cash or might be the difference between current liabilities and current assets. From the late 1970 to the mid-1980s, the FASB discussed the usefulness of predicting future cash flows. [15] In 1987, FASB Statement No. 95 (FAS 95) mandated that firms provide cash flow statements. [16] In 1992, the International Accounting Standards Board issued International Accounting Standard 7 (IAS 7), Cash Flow Statements, which became effective in 1994, mandating that firms provide cash flow statements. [17]

US GAAP and IAS 7 rules for cash flow statements are similar. Differences include
IAS 7 requires that the cash flow statement include changes in both cash and cash equivalents. US GAAP permits using cash alone or cash and cash equivalents. [14]

IAS 7 permits bank borrowings (overdraft) in certain countries to be included in cash equivalents rather than being considered a part of financing activities. [18]

IAS 7 allows interest paid to be included in operating activities or financing activities. US GAAP requires that interest paid be included in operating activities. [19]

US GAAP (FAS 95) requires that when the direct method is used to present the operating activities of the cash flow statement, a supplemental schedule must also present a cash flow statement using the indirect method. The IASC strongly recommends the direct method but allows either method. The IASC considers the indirect method less clear to users of financial statements. Cash flow statements are most commonly prepared using the indirect method, which is not especially useful in projecting future cash flows. [20]

2.5 Reasons for creating a cash flow budget [21]

Most statements are constructed so that you can identify each individual inflow or outflow item with a place for a description of the item. Statements like *Decision Tool* **Cash Flow Budget (short form – 6 periods)** and *Decision Tool* **Cash Flow Budget (12 periods)** provide flexible tools for simple cash flow projections. A more comprehensive tool for a **Farm Cash Flow** *(Decision Tool)* is also available. A more in-depth discussion of creating a cash flow budget is **Twelve Steps to Cash Flow Budgeting**.

Some cash flow budgets are constructed so that you can monitor the accuracy of your projections. These budgets allow you may make monthly cash flow *projections* for the coming year and also enter *actual* inflows and outflows as you progress through the year as provided in *Decision Tool* **Cash Flow Budget (short form - monitor projections)**. This will allow you to compare your projections to your actual cash flows and make adjustments to the projections for the remainder of the year.

Cash flow budget (by quarter of the gear). ($)

	First Qt.	Second Qt.	Third Qt.	Fourth Qt.
Cash inflow				
Beginning cah balance	5,000			
Sale of crop products		50,000		
Sale of livestock products	25,000			
Government payments				10,000
Total inflow	**30,000**	**50,000**	**0**	**10,000**
Cash expenditures				
Seed	10,000			
Fertilzer		20,000		
Feed	10,000			
Processing			10,000	
Marketing				5,000
Capital purchasis		10,000		
Interest			5,000	
Debt payments			10,000	
Total expenditures	**20,000**	**30,000**	**25,000**	**5,000**
Quarterly net cash flow	**10,000**	**20,000**	**-25,000**	**5,000**
Cumulative net cash flow	**10,000**	**30,000**	**5,000**	**10,000**

Table 2.2

Think of cash as the ingredient that makes the business operate smoothly just as grease is the ingredient that makes a machine function smoothly. Without adequate cash a business cannot function because many of the transactions require cash to complete them.

By creating a cash flow budget you can project your sources and applications of funds for the upcoming time periods. You will identify any cash deficit periods in advance so you can take corrective actions now to alleviate the deficit. This may involve shifting the timing of certain transactions. It may also determine when money will be borrowed. If borrowing is involved, it will also determine the amount of cash that needs to be borrowed. Periods of excess cash can also be identified. This information can be used to direct excess cash into interest bearing assets where additional revenue can be generated or to schedule loan payments.

2.5.1 Cash flow is not profitability

People often mistakenly believe that a cash flow statement will show the profitability of a business or project. Although closely related, cash flow and profitability are different. A cash flow statement lists cash inflows and cash outflows while the income statement lists income and expenses. A cash flow statement shows *liquidity* while an income statement shows *profitability*.

Many income items are also cash inflows. The sales of crops and livestock are usually both income and cash inflows. The timing is also usually the same as long as a check is received and deposited in your account at the time of the sale. Many expense items are also cash outflow items. The purchase of livestock feed (cash method of accounting) is both an expense and a cash outflow item. The timing is also the same if a check is written at the time of purchase.

However, there are many cash items that are not income and expense items, and vice versa. For example, the purchase of a tractor is a cash outflow if you pay cash at the time of purchase as shown in the example in Table 1. If money is borrowed for the purchase using a term loan, the down payment is a cash outflow at the time of purchase and the annual principal and interest payments are cash outflows each year as shown in Table 2. The tractor is a capital asset and has a life of more than one year. It is included as an expense item in an income statement by the amount it declines in value due to wear and obsolescence. This is called “depreciation”. The cost of depreciation is listed every year. In the tables below a $70,000 tractor is depreciated over seven years at the rate of $10,000 per year.

Depreciation calculated for income tax purposes can be used. However, to more accurately calculate net income, a realistic depreciation amount should be used to approximate the actual decline in the value of the machine during the year.

In Table 2, where the purchase is financed, the amount of interest paid on the loan is included as an expense, along with depreciation, because interest is the cost of borrowing money. However, principal payments are not an expense but merely a cash transfer between you and your lender.

Tractor Purchase - no borrowing

Purchase of a $70,000 tractor, no money borrowed, depreciated over seven years.

($)

	Cash Outflow	Expense
Current period	70,000	
Year 1		10,000
Year 2		10,000
Year 3		10,000
Year 4		10,000
Year 5		10,000
Year 6		10,000
Year 7		10,000
Total	**70,000**	**70,000**

Table 2.3

Tractor Purchase - borrowing

Purchase of a $70,000 tractor, $45,000 down payment, $25,000 paid over five year, seven percent interest, depriciated over seven years.

($)

	Cash Outflow		Expense	
Current period	45,000		0	
Year 1	5000	principal	10,000	depreciation
	1750	interest	1,750	interest
Year 2	5000	principal	10,000	depreciation
	1400	interest	1,400	interest
Year 3	5000	principal	10,000	depreciation
	1050	interest	1,050	interest
Year 4	5000	principal	10,000	depreciation
	700	interest	700	interest
Year 5	5000	principal	10,000	depreciation
	350	interest	350	interest
Year 6	0		10,000	
Year 7	0		10,000	
Total	**75,250**		**75,250**	

Table 2.4

2.5.2 Other financial statements

A cash flow statement is only one of several financial statements that can be used to measure the financial strength of a business. Other common statements include the balance sheet or **Net Worth Statement**(i) and the **Income Statement**, although there are several other statements that may be included.

These statements fit together to form a comprehensive financial picture of the business. The balance sheet or net worth statement shows the solvency of the business at a specific point in time. Statements are often prepared at the beginning and ending of the accounting period (i.e. January 1). The statement records the assets of the business and their value and the liabilities or financial claims against the business, i.e. debts. The amount by which assets exceed liabilities is the "net worth" of the business. The net worth reflects the current value of investment in the business by the owners.

The income statement is a dynamic statement that records income and expenses over the accounting period. The net income (loss) for the period increases (decreases) the net worth of the business (as shown in the ending balance sheet versus the beginning balance sheet).

(i) The amount by which a company or individual's assets exceed their liabilities.

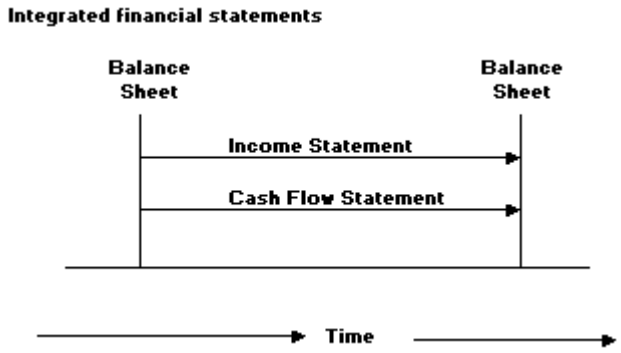

Figure 2.1

2.6 Cash flow activities (structure of cash flow statements)

The following three main headings should be used for all cash flow statements [IAS7.10]: **operating activities**, **investing activities**, and **financing activities**.

The level of detail within each category should reflect the nature of the entity's operations. Comparatives should be given to the cash flow statement for each year presented in the financial statements [IAS1R.36].

The nature of an entity's business will determine the classification of cash flows between the three headings [IAS7.10-11]. A cash flow that relates to an entity's investing activities will be classified as such. Financing cash flows are similarly identified. All remaining cash flows will be classified as operating. Although IFRS allow a reasonable amount of discretion with respect to classification, the classification an entity adopts should be followed consistently.

Where appropriate, the cash flows of a transaction should be divided into their constituent parts according to their nature and the respective elements included within operating, investing and financing.
The resulting cash flow total for the period is the movement in the balance of cash and cash equivalents from the start of the period to the end. If the total for cash and cash equivalents presented cannot be traced directly to the balance sheet, a reconciliation must be presented in the notes to the financial statements [IAS7.45].

2.6.1 Operating activities

Operating activities include the production, sales and delivery of the company's product as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising and shipping the product. Another word operating cash flows comprise all cash flows during the period that do not qualify as either investing cash flows or financing cash flows.

An entity shall report cash flows from operating activities using either; [22]

- the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

- the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Operating cash flows may be prepared from the entity's accounting records under the direct method. Alternatively, the entity can calculate the cash flows indirectly by adjusting the net profit or loss for the period for non-cash items and for investing and financing items [IAS7.18].

The preferred method is the direct method, because the information provided is more useful [IAS7.19]. However, the indirect method is more commonly used.

Interest paid is often classified as an operating activity, even though it arises on a financing balance. Interest costs must be covered by cash flows from operations and is included in determination of net income/expense. There is support for it to be classified as an operating cash flow.

Under IAS 7, operating cash flows include [19]

- receipts from the sale of goods or services
- receipts for the sale of loans, debt or equity instruments in a trading portfolio
- interest received on loans
- dividends received on equity securities
- payments to suppliers for goods and services
- payments to employees or on behalf of employees
- tax payments
- interest payments (alternatively, this can be reported under financing activities in IAS 7, but not in US GAAP)
- payments for the sale of loans, debt or equity instruments in a trading portfolio

Items which are added back to the net income figure (which is found on the Income Statement) to arrive at cash flows from operations generally include:

- Depreciation (loss of tangible asset value over time)
- Deferred tax
- Amortization (loss of intangible asset value over time)
- Any gains or losses associated with an asset sale (unrealized gains/losses are also added back from the income statement)

2.6.2 Investing activities

Investing activities focus on the purchase of the long-term assets a company needs in order to make and sell its products, and the selling of any long-term assets. As another explanation investing activities include cash payments to acquire PPE and other long-term assets [IAS7.16 (a)]. Investing activities also include cash payments and cash receipts relating to acquisition and disposal of debt and equity interests in other entities and interests in joint ventures (except for these relating to dealing or trading activity) [IAS7.16(c)]. Loans or advances made to other parties are classified as investing activities [IAS7.16 (f)].

Interest received and dividends received should each be classified separately and are normally classified as investing activities [IAS7.31].

Under IAS 7, investing cash flows include; [19]

- collections on loan principal and sales of other firms' debt instruments
- investment returns from other firms' equity instruments, including sale of those instruments
- receipts from sale of plant and equipment
- expenditure for purchase of plant and equipment
- loans made and acquisition of other firms' debt instruments
- expenditure for purchase of other firms' equity instruments (unless held for trading or considered cash equivalents)
- Items under investing activities include:
    - Capital expenditures, which include purchases (and sales) of property, plant and equipment
    - Investments

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. [22]

2.6.3 Financing activities

Financing activities include the inflow of cash from investors such as banks and shareholders, as well as the outflow of cash to shareholders as dividends as the company generates income. Other activities which impact the

long-term liabilities and equity of the company are also listed in the financing activities section of the cash flow statement.

Financing cash flows include cash flows relating to obtaining, servicing and redeeming sources of finance. Those sources of finance can include loans, debentures and share capital [IAS7.17 (a)-(e)].
Dividends paid should be classified separately and are usually included in financing cash flows [IAS7.31].

Under IAS 7, financing cash flows include; [19]

- proceeds from issuing shares
- proceeds from issuing short-term or long-term debt
- payments of dividends
- payments for repurchase of company shares
- repayment of debt principal, including capital leases
- for non-profit organizations, receipts of donor-restricted cash that is limited to long-term purposes
- Items under the financing activities section include:
- Dividends paid
- Sale or repurchase of the company's stock
- Net borrowings

An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. [22]

2.7 Classification by financial institutions

Activities a financial institution carries out in its ordinary course of business will be classified as operating activities, even though for other entities the same activity would likely be classified as investing or financing.

Loans and advances a financial institution makes should be classified as operating, as should the interest paid and received on those balances. Likewise, dividends received should be classified as operating cash flows [IAS7.15].

2.8 Classification of other cash flows

2.8.1 Tax cash flows

Tax cash flows are normally classified as operating cash flows. However, where specific cash flows can be identified with either investing activities or financing activities, then it is appropriate to classify that element of the tax cash flows as investing or financing respectively [IAS7.10] .

Where the tax cash flows are included in investing or financing categories, disclosure of the total tax cash flows should also be given [IAS7.36].

2.8.2 Netting of cash flows

Generally cash flows should be shown gross. The primary exceptions are when [IAS7.22]:

a) cash receipts and payments are made on behalf of a customer and therefore represent the customer's transactions and not the reporting entity’s; or

b) cash receipts and payments are in respect of items for which the turnover is quick, the amounts are large and the maturities are short

The opportunities for reporting cash flows on a net basis will usually arise only in a bank or similar financial institution [IAS7.24].
The derivation of operating cash flows by use of the indirect method also results in some netting of cash flows.

2.8.3 Foreign currency of cash flows

Foreign currency cash flows should be translated into the functional currency at the rate of exchange on the date of the transaction [IAS7.25]. This is consistent with the translation of the transaction for inclusion in the income statement.
Another words, the cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows. [22]

A foreign subsidiary's cash flows should also be translated at the exchange rates relevant to the underlying transactions [IAS7.26]. However, a rate that approximates the actual rate, for example a weighted average rate, may be used, consistent with the guidance in IAS 21.

The period-end rate cannot be used to translate foreign currency cash flows [IAS7.27]. However, residual balances arising as a result of a foreign currency transaction will be included in the balance sheet at the period-end rate. Consequently, a reconciling difference will arise between the changes in cash and cash equivalents reported in the cash flow statement and the equivalent amounts obtained from the balance sheet. This reconciling difference is not a cash flow but is reported separately in the cash flow statement IAS7.28].

2.8.4 Treatment of overdrafts

A bank overdraft may be used as part of an entity's day-to-day cash management tools rather than as financing arrangements. Normally, such overdraft accounts will regularly fluctuate between a positive and a negative balance. The overdraft balance should be included in the balance of cash and cash equivalents where overdrafts are used for such cash management purposes IAS7.8]. In all other circumstances, an overdraft balance is treated as part of the entity's financing.

2.8.5 Short-term investments

Investments with an original maturity of less than three months should not be considered a cash equivalent if there is any doubt that the obligated entity will fully redeem the security at maturity [IAS7.7]
Not all investments that meet the definition of cash equivalents are required to be treated as such. The nature of the transaction should be considered in determining the classification The policy for determining which items are treated as cash equivalents should be consistently applied and disclosed [IAS7.45].

2.9 Disclosure of non-cash activities

Under IAS 7, non-cash investing and financing activities are disclosed in footnotes to the financial statements. Under US GAAP, non-cash activities may be disclosed in a footnote or within the cash flow statement itself. Non-cash financing activities may include; [19]

- leasing to purchase an asset
- converting debt to equity
- exchanging non-cash assets or liabilities for other non-cash assets or liabilities
- issuing shares in exchange for assets

2.10 Preparation methods

The direct method of preparing a cash flow statement results in a more easily understood report. [23] The indirect method is almost universally used, because FAS 95 requires a supplementary report similar to the indirect method if a company chooses to use the direct method.

2.10.1 Direct method

The direct method for creating a cash flow statement reports major classes of gross cash receipts and payments. Under IAS 7, dividends received may be reported under operating activities or under investing activities. If taxes paid are directly linked to operating activities, they are reported under operating activities; if the taxes are directly linked to investing activities or financing activities, they are reported under investing or financing activities.

Sample cash flow statement using the direct method [24]

Cash flows from operating activities		
Cash receipts from customers	$27,500	
Cash paid to suppliers and employees	-20,000	
Cash generated from operations (sum)	7,500	
Interest paid	-2,000	
Income taxes paid	-2,000	
Net cash flows from operating activities		$3,500
Cash flows from investing activities		
Proceeds from the sale of equipment	7,500	
Dividends received	3,000	
Net cash flows from investing activities		10,500
Cash flows from financing activities		
Dividends paid	-12,000	
Net cash flows used in financing activities		-12,000
.		
Net increase in cash and cash equivalents		2,000
Cash and cash equivalents, beginning of year		1,000
Cash and cash equivalents, end of year		$3,000

Table 2.5

2.10.2 Indirect method

The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts for all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (loss) into cash flow by using a series of additions and deductions.[25]

The following rules are used to make adjustments for changes in current assets and liabilities, operating items not providing or using cash and non-operating items.[26]

- Decrease in non-cash current assets are added to net income
- Increase in non-cash current asset are subtracted from net income
- Increase in current liabilities are added to net income
- Decrease in current liabilities are subtracted from net income
- Expenses with no cash outflows are added back to net income
- Revenues with no cash inflows are subtracted from net income (depreciation expense is the only operating item that has no effect on cash flows in the period)
- Non-operating losses are added back to net income
- Non-operating gains are subtracted from net income

Citigroup Incorporated cash flow example: [27], [28], [29]

Citigroup Cash Flow Statement (all numbers in thousands)		
Period ending	*12/31/2006*	*12/31/2005*
Net income	**21,538,000**	**24,589,000**
Operating activities, cash flows provided by or used in:		
Depreciation and amortization	2,790,000	2,592,000
Adjustments to net income	4,617,000	621,000
Decrease (increase) in accounts receivable	12,503,000	17,236,000
Increase (decrease) in liabilities (A/P, taxes payable)	131,622,000	19,822,000
Decrease (increase) in inventories	--	--
Increase (decrease) in other operating activities	-173,057,000	-33,061,000
Net cash flow from operating activities	13,000	31,799,000
Investing activities, cash flows provided by or used in:		
Capital expenditures	-4,035,000	-3,724,000
Investments	-201,777,000	-71,710,000
Other cash flows from investing activities	1,606,000	17,009,000
Net cash flows from investing activities	-204,206,000	-58,425,000
Financing activities, cash flows provided by or used in:		
Dividends paid	-9,826,000	-9,188,000
Sale (repurchase) of stock	-5,327,000	-12,090,000
Increase (decrease) in debt	101,122,000	26,651,000
Other cash flows from financing activities	120,461,000	27,910,000
Net cash flows from financing activities	206,430,000	33,283,000
Effect of exchange rate changes	645,000	-1,840,000
Net increase (decrease) in cash and cash equivalents	$2,882,000	$4,817,000

Table 2.6

2.11 Other matters on cash flow

2.11.1 Acquisitions and disposals

The cash flows in respect of each major acquisition or disposal should be separately disclosed and classified as an investing cash flow [IAS7.39]. The amount reported is net of any cash included in the entity acquired or disposed of IAS7.42].

The amount of cash in the entities acquired or disposed of should be disclosed in the notes. This can be given in aggregate. The value of the consideration given or received should also be disclosed in the notes, together with the proportion represented by cash [IAS7.40].

Subsidiaries' cash flows are consolidated into the cash flow statement from the date of acquisition. The cash flows of other investments accounted for using the equity method or the cost-dividend method are recognized as dividend income [IAS7.37].

2.11.2 Discontinuing operations

The net cash flows relating to discontinuing operations should be disclosed, generally in a note (Disposal groups and discontinued operations). The cash flows should be classified between operating, investing and financing IFRS5.33(c)].

2.11.3 Barter and other non-cash transactions

The cash flow statement should not include transactions that do not include the transfer of cash [IAS7.43]. The same applies to the non-cash element of consideration, for example, in a barter transaction.
However, relevant information concerning non-cash transactions should be disclosed in the notes [IAS7.43]. The information should be classified between operating, investing and financing transactions IAS7.43]

2.11.4 Classification of cash flows relating to hedging instruments

Cash flows relating to financial instruments such as futures and forwards are generally classified as operating [IAS7.16 (g)]. However, the cash flows of financial instruments that are appropriately designated as hedges should be classified with the cash flows of the underlying transaction being hedged

2.11.5 Segmental analysis

Entities are encouraged, but not required, to give a summary analysis of cash flows by segment This would be at the level of operating, investing and financing cash flows [IAS7.52].

2.12 Conclusion

Information about cash flows is useful because it provides the users of financial statements with the bases to assess the capacity of a company to generate cash and cash equivalents, in addition to liquidity needs. This standard requires the company to provide information about the historic movements of cash and its equivalents depending on whether they arise from exploitation, investment or financing activities. [30]

2.13 Practical assignments

Answer the following questions.
1. What means cash flow statement?
2. What are cash flow activities?
3. What are cash flow operating activities?
4. What are cash flow investment activities?
5. What are cash flow financial activities?

Chapter 3

Cash flow statements (IAS 7)

- **Introduction**
- **Background of IAS 7**
- **FRS cash flow statement – the ASB standard**
- **IAS 7, the International Standard**
- **Summary of IAS 7**
- **Objective of IAS 7**
- **Fundamental principle in IAS 7**
- **Presentation of the statement of cash flow in IAS 7**
- **Issues relating to IAS 7 that IFRIC did not add to its agenda**
- **IAS 7: Classification of treasury shares in consolidated cash flow statement**
- **IAS 7: Value added tax**
- **IAS7: Classification of expenditures as investing or operating**
- **Conclusion**
- **Practical assignments**

3.1 Introduction

After balance sheet and income statement, cash flow became one of the quarterly financial reports any publicly traded company is required to disclose to the SEC and the public. The document provides aggregate data regarding all cash inflows a company receives from both its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a given quarter.

Cash flow's importance is not only because of request of some institutions or standards but also it is one of the most important management tools for running of entities.

3.2 Background of IAS 7

June 1976	Exposure Draft E7 *Statement of Source and Application of Funds*
October 1977	IAS 7 *Statement of Changes in Financial Position*
July 1991	Exposure Draft E36 *Cash Flow Statements*
December 1992	IAS 7 (1992) *Cash Flow Statements*
01 January 1994	Effective Date of IAS 7 (1992)
06 September 2007	Re-titled from *Cash Flow Statements* to *Statement of Cash Flows* as a consequential amendment resulting from revisions to IAS 1

3.2.1 FRS 1 cash flow statement – the ASB standard

Once accounts were comprised of just balance sheets and profit and loss accounts. But when, in the late 1960s, inflation began to bite, there was a call for another statement: a cash flow statement. Some, then and now, regard this kind of statement - variously called a cash flow statement, a statement of sources and applications of funds, or funds flow statement - as the most useful for many purposes, showing as they do the liquidity of the business. The concepts of funds flow and cash flow soon found their way into UK accounting standards where they have been a feature for more than two decades.

For example, statement of accounting practice, SSAP 10 (1976), source and application of funds statement, was an early attempt by standard setters to provide a link between the balance sheet at the start of the accounting period, the profit and loss for the period, and the balance sheet at the end of the period.

When the Accounting Standards Board (ASB), took over UK accounting standard setting responsibility in 1991, its first significant revision was replacement of SSAP 10 with its own financial reporting standard, FRS 1, cash flow statements. This was subsequently revised again in 1996, which is now the latest version.
This marked a transition from a 'funds flow' to a 'cash flow' approach, and was influenced by the International Accounting Standards Committee's (IASC, now IASB) own standard on the subject IAS 7, cash flow statement, which had been issued in 1977 and revised in 1992.

FRS 1 requires large organizations producing 'true and fair' accounts to prepare cash flow statements. Smaller entities are also encouraged also to do so. Although some SME's use FRSSE, others have adopted full standards.

Its stated objective is to ensure those within its scope report their 'cash generation and absorption'.
Cash flow statements help users understand performance and position better by explaining the difference cash inflows and outflows (some of which are of a capital nature, some represent revenue flows and some movements in debtors and creditors) and profits or losses and movements on reserves. They provide users with a mechanism for:

- assessing the current liquidity of a business;
- providing additional information on business activities;
- providing an overview of the major sources of cash inflow and outflow from the business;
- estimating future cash flows; and
- determining cash flows generated from trading as opposed to the other sources of finance.

FRS 1 requires organizations to report their cash flows under standard headings, namely:

- operating activities;
- returns on investment and servicing of finance;
- taxation;
- capital expenditure and financial investment;
- acquisitions and disposals;
- equity dividends paid;
- management of liquid resources; and
- financing

Cash flows from 'operating activities' comprise operating profit adjusted for depreciation (a non-cash item), and for changes in stocks, debtors and creditors.

'Returns on investment and servicing of finance' includes interest received, dividends received and interest paid. 'Taxation' is simply the tax paid in the period, while 'capital expenditure and financial investment' is that spent on acquisitions net of cash received for disposals of fixed assets during the period.

'Equity dividends paid' include both interim and final dividend paid to equity holders.
'Management of liquid resources' comprises the movement in current asset investments, and 'Financing' cash movements resulting from the issue of share capital, or issue and redemption of debentures.

FRS 1 also requires two notes to the cash flow statement, one giving a reconciliation of net cash flow to 'net debt', the other an analysis of changes in that 'net debt'.

3.2.2 IAS 7, the International Standard

Over the past five years there has been much progress on the harmonization debate for global accounting standards. In 1995 the IASC agreed with IOSCO – International Organization of Securities Commissions – to develop a work plan for the completion of a comprehensive set of core standards, that would be acceptable to IOSCO, for them to recommend endorsement of IAS for cross border capital raising and listing purposes in all global markets.

IOSCO had already endorsed IAS 7, Cash Flow Statement and stated that 14 of the existing IAS's did not require additional improvement.

The project was completed earlier this year and in May 2000 the decision was made by IOSCO to endorse the IASC's core standards. The endorsement is that IOSCO members permit incoming multinational issuers to use IASC core standards to prepare their financial statements for cross border listings. Former chairman of IASC, Stig Enevoldsen said "This is a landmark for improved global financial reporting and benefits by users and preparers in global capital markets".

Standard setters globally are now working on joint projects prior to the 2005 initiatives, with many now well advanced.

It is felt by many that the IAS 7 format will remain. The structure of the standard has been well received by both preparers and users of accounting statements.

The notion of funds flow has been included in accounting standards for more than two decades. In the UK SSAP 10 (1976), Source and Application of Funds, was an early attempt by standard setters to provide the link between the balance sheet at the start of the period, the profit and loss account for the period and the balance sheet at the end of the period.

When the ASB, Accounting Standards Board, in the UK, took over the work of the Accounting Standards Committee in 1991, its first significant revision was to replace SSAP 10 by FRS 1, Financial Reporting Standard 1, Cash Flow Statement. This transition from funds flow to cash flow was clearly influenced by the experience of the IASC and its standard IAS 7, Cash Flow Statement, issued in 1977 and revised in 1992.

IAS 7 requires enterprises to present a cash flow statement as part of their financial statements.
The statement is needed as a consequence of the difference between profits and cash and thus provides the user with a mechanism for:

- providing additional information on business activities
- an assessment of the current liquidity of a business
- showing an overview of the major sources business cash flow
- a guide to estimate future cash flow
- identifying cash flows generated from trading as opposed to other sources of finance.

The IASC's objective of IAS 7 "is to provide information on changes by cash and cash equivalents and to classify cash flow under three standard headings:

- operating activities
- investing activities
- financing activities

and to determine whether the operating activities reveal a positive cash flow, whether the overall activities yield a positive cash flow and the manner in which such activities have been funded".
Examining these standard headings, under which we determine net cash flow from each, we find:

Operating Activities
The operating profit adjusted for depreciation, profit and or losses on sale of non-current assets, interest paid and working capital changes i.e. increases or decreases in inventories, receivables and payables. It also includes outflows as interest paid, dividends paid and tax paid.

Investing Activities
Purchases of non-current assets and proceeds on the sale of such assets.

Financing Activities
Proceeds on the issue of shares and loan notes and the redemption of certain classes of shares and loan notes.

3.3 Summary of IAS 7

3.3.1 Objective of IAS 7

The objective of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an enterprise by means of a statement of cash flows, which classifies cash flows during the period according to operating, investing, and financing activities.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.3.2 Fundamental Principle in IAS 7

The statement of cash flows analyses changes in cash and cash equivalents during a period. Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. Guidance notes indicate that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Equity investments are normally excluded, unless they are in substance a cash equivalent (e.g. preferred shares acquired within three months of their specified redemption date). Bank overdrafts which are repayable on demand and which form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents. [IAS 7.7-8]

3.3.3 Presentation of the statement of cash flow in IAS 7

Cash flows must be analyzed between operating, investing and financing activities. [IAS 7.10]
Key principles specified by IAS 7 for the preparation of a statement of cash flows are as follows:

- **operating activities** are the main revenue-producing activities of the enterprise that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees [IAS 7.14]
- **investing activities** are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents [IAS 7.6]
- **financing activities** are activities that alter the equity capital and borrowing structure of the enterprise [IAS 7.6]
- interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period [IAS 7.31]
- cash flows arising from taxes on income are normally classified as operating, unless they can be specifically identified with financing or investing activities [IAS 7.35]
- for operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable [IAS 7.18]

The **direct method** shows each major class of gross cash receipts and gross cash payments. The operating cash flows section of the statement of cash flows under the direct method would appear something like this:

Cash receipts from customers	xx,xxx
Cash paid to suppliers	xx,xxx
Cash paid to employees	xx,xxx
Cash paid for other operating expenses	xx,xxx
Interest paid	xx,xxx
Income taxes paid	xx,xxx
Net cash from operating activities	**xx,xxx**

Table 3.1

The **indirect method** adjusts accrual basis net profit or loss for the effects of non-cash transactions. The operating cash flows section of the statement of cash flows under the indirect method would appear something like this:

Profit before interest and income taxes		xx,xxx
Add back depreciation		xx,xxx
Add back amortization of goodwill		xx,xxx
Increase in receivables		xx,xxx
Decrease in inventories		xx,xxx
Increase in trade payables		xx,xxx
Interest expense	xx,xxx<TD	
Less Interest accrued but not yet paid	xx,xxx	
Interest paid		xx,xxx
Income taxes paid		xx,xxx
Net cash from operating activities		**xx,xxx**

Table 3.2

- cash flows relating to extraordinary items should be classified as operating, investing or financing as appropriate and should be separately disclosed [IAS 7.29]
- the exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary should be the rate in effect at the date of the cash flows [IAS 7.25]
- cash flows of foreign subsidiaries should be translated at the exchange rates prevailing when the cash flows took place [IAS 7.26]
- as regards the cash flows of associates and joint ventures, where the equity method is used, the statement of cash flows should report only cash flows between the investor and the investee; where proportionate consolidation is used, the cash flow statement should include the venturer's share of the cash flows of the investee [IAS 7.37-38]
- aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures. The aggregate cash paid or received as consideration should be reported net of cash and cash equivalents acquired or disposed of [IAS 7.39]
- cash flows from investing and financing activities should be reported gross by major class of cash receipts and major class of cash payments except for the following cases, which may be reported on a net basis: [IAS 7.22-24]
    - cash receipts and payments on behalf of customers (for example, receipt and repayment of demand deposits by banks, and receipts collected on behalf of and paid over to the owner of a property)
    - cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short, generally less than three months (for example, charges and collections from credit card customers, and purchase and sale of investments)
    - cash receipts and payments relating to fixed maturity deposits
    - cash advances and loans made to customers and repayments thereof
- investing and financing transactions which do not require the use of cash should be excluded from the statement of cash flows, but they should be separately disclosed elsewhere in the financial statements [IAS 7.43]
- the components of cash and cash equivalents should be disclosed, and a reconciliation presented to amounts reported in the statement of financial position [IAS 7.45]
- the amount of cash and cash equivalents held by the enterprise that is not available for use by the group should be disclosed, together with a commentary by management [IAS 7.48]

3.4 Issues relating to IAS 7 that IFRIC did not add to its agenda

3.4.1 IAS 7: Classification of treasury shares in the consolidated cash flow statement

Issue: How should treasury shares be classified in the cash flow statement?
Decision Not to Add: April 2003
Reason: Four scenarios were considered concerning the classification of treasury shares in the consolidated cash flow statement, under IAS 7:

- a subsidiary purchases (sells) shares of its parent;
- the parent entity purchases (sells) shares of its subsidiary from (to) minority interest holders;
- the subsidiary issues shares to minority interest holders; and
- the subsidiary purchases its own shares from minority interest holders.

While the IFRIC noted that conclusions could be drawn that were consistent with the current accounting for transactions with minority interest holders, it also noted that this accounting will probably change, given the Board's tentative decision that transactions between majority and minority interest holders are equity transactions. Therefore, the IFRIC agreed that the issue should be passed to the Business Combinations Phase II team for consideration of consequential amendments to IAS 7. The classification of cash-flows arising from these scenarios has been addressed in the 1st draft of amendments to IAS 27 Consolidated and Separate Financial Statements resulting from phase II of the Business Combinations project (as a consequential amendment to IAS 7).

3.4.2 IAS 7: Value added tax

Issue: Should cash flows reported in accordance with IAS 7 be measured as inclusive or exclusive of value added tax (VAT)?
Decision Not to Add: August 2005
Reason: There was evidence that different practices will emerge, the differences being most marked for entities that adopt the direct method of reporting cash flows. IAS 7 does not explicitly address the treatment of VAT. The IFRIC noted that it would be appropriate in complying with IAS 1 Presentation of Financial Statements for entities to disclose whether they present their gross cash flows as inclusive or exclusive of VAT. The IFRIC decided that it should not develop an Interpretation on this topic, because while different practices may emerge, they are not expected to be widespread. The IFRIC will recommend to the IASB that the treatment of VAT should be considered as part of the review of IAS 7 being carried out within the project on performance reporting.

3.4.3 IAS 7: Classification of expenditures as investing or operating

Issue: What should be the criteria for classifying expenditures as 'operating' or 'investing' in the statement of cash flows?
Decision Not to Add: March 2008
Reason: The IFRIC agreed not to add the item to the agenda, but refer it to the Board, as IAS 7 was considered ambiguous in this respect. The question had come to IFRIC in the context of cash flows relating to exploration and evaluation activities in the extractive industries, but the staff concluded this could be extended on many situations. The agenda decision also contains a recommendation to the Board that classification in the statement of cash flows should follow recognition, that is, only expenditure for an asset recognized in the statement of financial position qualifies for classification as 'investing' in the statement of cash flows.

3.4.4 Conclusion

Having considered the form and content of IAS 7, it seems clear that the drafters of the FRS 1 Cash Flow Statement in the early 90’s, and its revision in 1996 were influenced in their work by the design of the International Standard in 1977 and its subsequent revision in 1992.

There are significant similarities here and other national standards setters have standards covering this concept.

Preparers and users of accounting statements will find the transition from FRS 1 to IAS 7, encouraging and if other IAS standards showed such close similarities the harmonization debate would be favorably enhanced.

3.5 Practical assignments

Answer the following questions.
1. Could you please summary the background of IAS 7?
2. What is the objective of IAS 7?
3. What are fundamental principals of IAS 7?
4. What is presentation of statement of cash flow in IAS 7?

Chapter 4

Comparison of FRS and IAS 7

- **Introduction**
- **ISAC development**
- **Cash flow statement IAS 7ISAC development**
- **Cash flow statement the ASB's FRS 1 format**
- **Conclusion**
- **Practical assignments**

4.1 Introduction

The European Commission has recently entered the globalization of accounting standards debate and has stated that Europe's 7000 listed companies must adopt International Accounting Standards by 2005 at the latest.

With this objective in focus I wish to examine the nature and similarity of both the ASB's FRS 1, Cash Flow Statement and IASC's IAS 7 standard on the concept.

4.2 ISAC development

Over the past five years there has been much progress on the harmonization debate for global accounting standards. In 1995 the IASC agreed with the International Organization of Securities Commissions (IOSCO) to develop a work plan for the completion of a comprehensive set of core standards that would be acceptable to IOSCO for them to recommend endorsement of IAS for cross border capital raising and listing purposes in all global markets. IOSCO had already endorsed IAS 7, Cash Flow Statement and stated that 14 of the existing IASs did not require additional improvement.

The project was completed earlier last year and in May 2000 the decision was made by IOSCO to endorse the IASC's core standards. The endorsement is that IOSCO members permit incoming multinational issuers to use IASC core standards to prepare their financial statements for cross border listings. Former chairman of IASC, Stig Enevoldsen said; *"This is a landmark for improved global financial reporting and benefits by users and preparers in global capital markets"*.

The endorsement of the core standards has stimulated my interest in the form and content of the IAS concept.

I wish to focus on an issue which has, with both the ASB's FRS 1 and the IASC's IAS 7, some close similarity in form and presentation – that of the cash flow statement.

The notion of funds flow has been included in accounting standards for more than two decades. In the UK SSAP 10 (1976), 'Source and Application of Funds', was an early attempt by standard setters to provide the link between the balance sheet at the start of the period, the profit and loss account for the period and the balance sheet at the end of the period.

When the Accounting Standards Board (ASB), took over the work of the Accounting Standards Committee in the UK in 1991, its first significant revision was to replace SSAP 10 by Financial Reporting Standard (FRS) 1, 'Cash Flow Statement'. This transition from funds flow to cash flow was clearly influenced by the experience of the IASC and its standard IAS 7, 'Cash Flow Statement', issued in 1977 and revised in 1992.

4.3 Cash Flow Statement IAS 7 Format

IAS 7 requires enterprises to present a cash flow statement as part of their financial statements. The statement is needed as a consequence of the difference between profits and cash and thus provides the user with a mechanism for:

- providing additional information on business activities;
- an assessment of the current liquidity of a business;
- showing an overview of the major sources business cash flow;
- a guide to estimate future cash flow;
- identifying cash flows generated from trading as opposed to other sources of finance.

The IASC's objective of IAS 7 is to provide information on changes by cash and cash equivalents and to classify cash flow under three standard headings:

- operating activities
- investing activities
- financing activities

and to determine whether the operating activities reveal a positive cash flow, whether the overall activities yield a positive cash flow and the manner in which such activities have been funded.

Examining these standard headings, under which we determine net cash flow from each, we find:

Operating Activities

The operating profit adjusted for depreciation, profit and or losses on sale of non-current assets, interest paid and working capital changes in increases or decreases in inventories, receivables and payables. It also includes outflows as interest paid, dividends paid and tax paid.

Investing Activities

Purchases of non-current assets and proceeds on the sale of such assets.

Financing Activities

Proceeds on the issue of shares and loan notes and the redemption of certain classes of shares and loan notes.

Having reviewed the content of the above headings we can now consider an example of a cash flow statement in accordance with IAS 7.

Cash Flow Statement
IAS 7 Format

	$
Cash flows from operating activities	
Net profit before tax	-
Adjustments for :	
Depreciation	-
Profit or loss on sale of non current assets	-
Interest expense	-
Operating profit before working capital changes	-
Increase / decrease in inventory	-
Increase / decrease in receivables	-
Increase / decrease in payables	-
Cash generated from operations	-
Interest paid	-
Dividends paid	-
Tax paid	-
Net cash flow from operating activities	-
Cash flows for investing activities	-
Purchase of non current assets	-
Proceeds of sale non current assets	-
Net cash used in investing activities	-
Cash flow from financing activities	
Proceeds issue of shares	
Proceeds issue of loan notes	
Net cash from financing activities	-
Net increase/(decrease) in cash and cash equivalents	-
Cash and cash equivalents at start of year	-
Cash and cash equivalents at end of year	-

Table 4.1

	Start of Period	End of Period
Cash at Bank	-	-

Table 4.2

4.4 Cash flow statement the ASB's FRS 1 format

FRS 1 requires large organizations producing *'true and fair'* accounts to prepare cash flow statements. Smaller entities are also encouraged to do so.

Its stated objective is to ensure those within its scope report their 'cash generation and absorption'.

Cash flow statements help users understand performance and position better by explaining the difference cash inflows and outflows (some of which are of a capital nature, some represent revenue flows and some movements in debtors and creditors) and profits or losses and movements on reserves. They provide users with a mechanism for:

- assessing the current liquidity of a business;
- providing additional information on business activities;
- providing an overview of the major sources of cash inflow and outflow from the business;
- estimating future cash flows; and
- determining cash flows generated from trading as opposed to the other sources of finance.

FRS 1 requires organizations to report their cash flows under standard headings, namely:

- operating activities;
- returns on investment and servicing of finance;
- taxation;
- capital expenditure and financial investment;
- acquisitions and disposals;
- equity dividends paid;
- management of liquid resources; and
- financing.

Cash flows from **'operating activities'** comprise operating profit adjusted for depreciation (a non-cash item), and for changes in stocks, debtors and creditors.

'Returns on investment and servicing of finance' includes interest received, dividends received and interest paid.

'Taxation' is simply the tax paid in the period, while 'capital expenditure and financial investment' is that spent on acquisitions net of cash received for disposals of fixed assets during the period.

'Management of liquid resources' comprises the movement in current asset investments, and **'financing'** cash movements resulting from the issue of share capital, or issue and redemption of debentures.

FRS 1 also requires two notes to the cash flow statement, one giving a reconciliation of net cash flow to **'net debt'**, the other an analysis of changes in that **'net debt'**.

The FRS 1 format is:

	£000
Net cash flow from operating activities:	
Operating profit	-
Depreciation	-
Increase / decrease in stocks	-
Increase / decrease in debtors	-
Increase / decrease in creditors	-
Net cash flow from operating activities	-
Cash flow statement:	
Net cash flow from operating activities	-
Returns on investment and servicing of finance	-
Taxation	-
Capital expenditure (payment to acquire fixed assets)	-
Equity dividends paid	-
Management of liquid resources	-
Financing:	
(issue of shares)	-
(issue of debentures)	-
	-
Increase/decrease in cash	-

Table 4.3

Note 1

Reconciliation of net cash flow to movement in net debt:

	£000
Increase/decrease in cash for period	-
Cash from issue of debentures	-
Change in net debt	-
Net debt start of year	-
Net debt end of year	-

Table 4.4

Note 2

Analysis of changes in net debt:

	Net debt as at start of year	Cash flows in year	Net debt as at end of year
	£000	£000	£000
Cash at bank	-	-	-
Debt	-	-	-
Total	-	-	-

Table 4.5

The International Standard was first issued in 1977 and revised in 1992. The structure of FRS 1 was clearly influenced by the format of IAS 7. Much of the difference in the two formats is linked simply to terminology.

It has been said recently that much work has yet to be done on the move towards the 2005 objective.

However, if the form and content of other IAS statements showed such close similarities as is the case of IAS 7 and FRS 1; then the harmonization of IAS's with FRS and SSAP's would be an achievable objective.

4.5 Conclusion

Because of trying to serve to the same purpose both the ASB's FRS 1, Cash Flow Statement and IASC's IAS 7 standard have similarities and differences. The differences are getting disappearing during the life and physical differences getting closer.

4.6 Practical assignments

Answer the following questions.
1. Could you please summary cash flow statement IAS 7 format?
2. Could you please summary cash flow statement the ASB's FRS 1 format?

Chapter 5

Conclusion

- **Introduction**
- **Cash flow statement**
- **IAS 7**
- **Conclusion**

5.1 Introduction

A cash flow statement is one of the most important financial statements for a project or business. The statement can be as simple as a one-page analysis or may involve several schedules that feed information into a central statement.

5.2 Cash flow statement

A cash flow statement is a listing of the flows of cash into and out of the business or project. Think of it as your checking account at the bank. Deposits are the cash inflow and withdrawals (checks) are the cash outflows. The balance in your checking account is your net cash flow at a specific point in time.

A *cash flow statement* is a listing of cash flows that occurred during the past accounting period. A projection of future flows of cash is called a *cash flow budget.* You can think of a cash flow budget as a projection of the future deposits and withdrawals to your checking account.

A cash flow statement is not only concerned with the amount of the cash flows but also the timing of the flows. Many cash flows are constructed with multiple time periods. For example, it may list monthly cash inflows and outflows over a year's time. It not only projects the cash balance remaining at the end of the year but also the cash balance for each month.

Working capital is also an important part of a cash flow analysis. It is defined, as the amount of money needed to facilitate business operations and transactions, and is calculated as current assets (cash or near cash assets) less current liabilities (liabilities due during the upcoming accounting period). Computing the amount of working capital gives you a quick analysis of the liquidity of the business over the future accounting period. If working capital appears to be sufficient, developing a cash flow budget may be not critical. But if working capital appears to be insufficient, a cash flow budget may highlight liquidity problems that may occur during the coming year. [31]

5.3 IAS 7

Because of business life of the world is getting closer day by day, the necessity has appeared to evaluate the financial tables of the companies in the same language. It was the need for other companies, banks, other financial institutions, governments, and shareholders and finally for the all related persons.

IAS 7's has issued after balance sheet and income statement as the third leg of evaluation studies. IAS 7 rules mainly the below items;

- all entities shall prepare a cash flow statement in accordance with the requirements of the standard of IFRS and shall present it as an integral part of its financial statements for each period for which financial statements are presented . [IAS 7.1] ; and

- the cash flow statement shall report cash flows during the period classified by operating, investing and financing activities. [IAS 7.7-8]

5.4 Conclusion

The official name for the cash flow statement is the statement of cash flows.

The statement of cash flows is one of the main financial statements. (The other financial statements are the balance sheet, income statement, and statement of stockholders' equity.)

The cash flow statement reports the cash generated and used during the time interval specified in its heading. The period of time that the statement covers is chosen by the company. For example, the heading may state "For the Three Months Ended December 31, 2006" or "The Fiscal Year Ended September 30, 2006".

The cash flow statement organizes and reports the cash generated and used in the following categories:

1. Operating activities – converts the items reported on the income statement from the accrual basis of accounting to cash.
2. Investing activities – reports the purchase and sale of long-term investments and property, plant and equipment.
3. Financing activities – reports the issuance and repurchase of the company's own bonds and stock and the payment of dividends.
4. Supplemental information – reports the exchange of significant items that did not involve cash and reports the amount of income taxes paid and interest paid.

Because the income statement is prepared under the accrual basis of accounting, the revenues reported may not have been collected. Similarly, the expenses reported on the income statement might not have been paid. You could review the balance sheet changes to determine the facts, but the cash flow statement already has integrated all that information. As a result, savvy business people and investors utilize this important financial statement.

Here are a few ways the statement of cash flows is used. [32]

1. The cash from operating activities is compared to the company's net income. If the cash from operating activities is consistently greater than the net income, the company's net income or earnings are said to be of a "high quality". If the cash from operating activities is less than net income, a red flag is raised as to why the reported net income is not turning into cash.

2. Some investors believe that "cash is king". The cash flow statement identifies the cash that is flowing in and out of the company. If a company is consistently generating more cash than it is using, the company will be able to increase its dividend, buy back some of its stock, reduce debt, or acquire another company. All of these are perceived to be good for stockholder value.

3. Some financial models are based upon cash flow.

Study case for IAS 7 statement of cash flow

Study case, Stonehill Machine Tools Ltd for 1999 and 2000 [33]

Hawsker Engineering Plc has an overseas subsidiary Stonehill Machine Tools Ltd and International Accounting Standards are applied to their published statements. As is the case with the ASB and FRS 1, IAS 7 recommends two formats: direct method and indirect method. This example is based on the indirect method, research suggests that the majority of published statements are in this format.

The following is an extract of the accounts of Stonehill Machine Tools Ltd for 1999 and 2000:

Balance Sheet as at 30 June

($000's)	**1999**	**2000**
Non-current Assets	**72,500**	**75,000**
Current Assets:		
Inventory	24,500	26,500
Receivables	34,000	36,500
Cash at Bank	1,250	2,250
	59,750	65,250
	$132,250	$140,250
Capital and Reserves:		
Issued Share Capital	50,000	50,050
Reserves	26,100	32,600
Non-current liabilities:		
10% Loan Notes	20,000	21,500
Current Liabilities:		
Trade payables	31,900	31,000
Taxation	2,250	2,950
Dividend	2,000	2,150
	$132,250	$140,250

Table study case 1

Extract from the Income Statement Year Ended 30 June 2000.

Function and Expenditure Method IAS 1 (simplified)

	($000's)
Sales Revenue	195,000
Profit from Operations	13,750
Net Interest Cost	2,150
Profit before Taxation	11,600
Income Tax Expense	2,950
Profit after Tax	8,650
Dividends	2,150
Net Profit for Period	$6,500

Table study case 2

NB: Depreciation charge for the year $6m, Non-current assets disposed in year – proceeds $0.3m, depreciation to date $0.175m, cost $0.5m.

Stonehill Machine Tools Ltd
Cash Flow Statement for Year Ended 30 June 2000

	($000's)
Cash Flows from Operating Activities:	
Net Profit before Tax	11,600
Adjustment for:	
Depreciation	6,000
Loss on Sale Non-current Assets (W1)	25
Interest Expense	2,150
Operating Profit before Working Capital Changes	**19,775**
Increase in Inventory	(2,000)
Increase in Receivables	(2,500)
Decrease ie Payables	(900)
Cash Generated from Operations	**14,375**
Interest Paid (W2)	(2,150)
Dividends Paid (W3)	(2,000)
Tax Paid (W4)	(2,250)
Net Cash Flow from Operating Activities	**7,975**
Cash Flows from Investing Activities:	
Purchase of Non-current Assets (W5)	(8,825)
Proceeds of Sale Non-current Assets	300
Net Cash used in Investing Activities	**(8,525)**
Cash Flows from Financing Activities:	
Proceeds, Issue of Shares (W6)	50
Proceeds, Issue of 10% Loan Notes (W7)	1,500
Net Cash Flow from Financing Activities	1,550
Net Increase in Cash and Cash Equivalents (W8)	1,000

Cash and Cash Equivalents 1/7/99 (W9)	1,250
Cash and Cash Equivalents 30/6/00 (W10)	2,250

Table study case 3

Cash and Cash Equivalents:

	($000's)	
	30 June	
	1999	**2000**
Cash at Bank	1,250	2,250

Table study case 4

Notes for Guidance

Net profit before tax is taken from the extract of the income statement.

Depreciation is shown as a note to the income statement.

Loss on sale of the non-current asset; proceeds minus (cost less depreciation to date) see note W1 below.

Interest expense is shown on income statement.

Changes in Working Capital Structure:

Inventory, receivables and payables are differences in opening and closing balances shown on the balance sheet.

Note (W1)

	($000's)
Proceeds of Sale	300
Non-current Assets (Cost 500 – Deprecation to Date 175)	325
Loss on Sale	25

Table study case 5

Disposal Account

($000's)	**Non-Current Assets**		
Asset a/c	500	Deprecation Provision	175
		Proceeds Cash	300
		Profit and Loss a/c	25
	500		500

Table study case 6

Notes: (W2, W3 and W4)
The interest paid is the net interest cost shown on the income statement and is the 10% charge on loan notes shown on the balance sheet for June 2000.
The dividend and tax paid in the year are those shown on the 1999 balance sheet extract under the heading Current Liabilities.

($000's)	**Dividends Account**				
1999/2000	Bank	2,000	1 July 1999	Balance b/d	2,000
			30 June 2000	P/L App	2,150
30 June 2000	Balance c/d	2,150			
		$4,150			**$4,150**
			1 July 2000	Balance b/d	2,150

Table study case 7

($000's)		**Taxation Account**			
1999/2000	Bank	2,250	1 July 1999	Balance b/d	2,250
30 June 2000	Balance c/d	2,950	30 June 2000	P/L App	2,950
		$5,200			**$5,200**
			1 July 2000	Balance b/d	2,950

Table study case 8

(W5) Purchase of Non-Current Assets

Purchase differences	**($000's)**
Balance on Balance Sheet 1999	72,500
Less Net Book Value of those Disposed ($0.5m – 0.175m)	325
	72,175
Less Depreciation for the Year	6,000
	66,175
Balance Sheet 30 June 2000	75,000
Difference in Purchases	**$8,825**

Table study case 9

(W6 & W7)

Proceeds from the issue of shares and loan notes are the increases shown on the difference between the two balance sheet figures for 1999 and 2000.

(W8)

*This is the **net effect** from operating activities $7,975, net cash used in investing activities (8,525) and the net cash flow from financing activities 1,550.*

($000's)	ie:	7,975
		(8,525)
		1,550
		$1,000

Table study case 10

(W9)

This is the bank figure under current assets 1999 balance sheet.

(W10)

Bank balance on 2000 balance sheet.

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