IFRS Accounting Standards in Practice 2024-2025:

IAS 7 *Statement of Cash Flows*

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1. Introduction

This edition of *IFRS® Accounting Standards in Practice* looks at a number of practical issues which often arise from the application of IAS 7 *Statement of Cash Flows*.

The original version of IAS 7 was first issued in 1992, with the International Accounting Standards Board (IASB) adopting the standard in April 2001. Being one of the older standards in the current suite of IFRS Accounting Standards, IAS 7 is shorter and more summarised than new and revised standards, which have been issued more recently by the IASB. Modifications to IAS 7 since it was originally published have been limited, meaning that judgement can be required when interpreting how it should be applied with some new IFRS Accounting Standards (e.g. IFRS 9 *Financial Instruments* – see Section 10). Some of the significant updates to IAS 7 occurred over the years, for example in 2016, when the IASB added IAS 7.44A – 44E requiring disclosures relating to the changes in liabilities arising from financing activities (see Section 4.3.1.) and recently in 2023, when the IASB issued *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7 *Financial Instruments: Disclosures*) to require an entity to provide additional disclosures about its supplier finance arrangements (see Section 4.3.2).

Note that this version of IFRS Accounting Standards In Practice does not reflect consequential amendments to IAS 7 issued in April 2024 together with IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 and the consequential amendments are effective for annual reporting periods beginning on or after 1 January 2027. The effect of these consequential amendments will be discussed in subsequent versions of this publication.

2. Definition of cash and cash equivalents

IAS 7.6 includes the following definitions:

'Cash':

- Cash on hand (physical currency held)
- Demand deposits.

'Cash equivalents':

- 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.

IAS 7.7 then notes that cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. IAS 7.7 also notes that:

'…an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.'

2.1. Demand deposits

Demand deposits are not defined in IFRS Accounting Standards. However, in order to qualify as cash, the related balance needs to have the same liquidity as cash itself, and so funds on 'demand deposit' need to be capable of being withdrawn at any time without penalty.

If a deposit does not qualify to be regarded as cash, it may qualify to be classified as a cash equivalent. See section 3.1 for a scenario where an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position where the demand deposit is subject to contractual restrictions on use agreed with a third party.

BDO Comment

In general, deposits which can be withdrawn without penalty within 24 hours, or one working day, are regarded as being demand deposits. These include amounts deposited at financial institutions (such as funds in a bank current account), and may extend to cover deposits at non-financial institutions such as legal advisers, if funds are held for a client in separate and designated accounts that can be called upon by the client at any time.

Questions arise about whether investments that can be withdrawn on demand (e.g. money market funds) could qualify to be regarded as cash equivalents.

We believe that this is possible, but only in very limited circumstances.

This is because, in addition to the existence of the demand feature, all of the other requirements of IAS 7 need to be met. An interest bearing deposit at a financial institution might result in the amount of cash that would be received being known, and there might be an insignificant risk of changes in value (in particular in a low interest rate environment), even if there is an early withdrawal penalty.

However, it is also necessary for it to be demonstrated that the investment is being held for the purpose of meeting short-term cash commitments rather than for investment or other purposes (IAS 7.7). It may be difficult to reconcile this last requirement to the characteristics of the investment, particularly as its maturity (excluding the demand feature) increases.

2.2. Short term maturity

Although the reference to three months in IAS 7.7 might not be viewed as establishing a 'bright line' threshold, it is a benchmark that is widely used in practice. One point which is frequently overlooked is that the three month period to maturity is based on the date on which an entity acquires an asset. Consequently, a one year fixed term deposit held by an entity does not become a cash equivalent when the period to maturity has reached three months.

BDO Comment

The reference in IAS 7 to three months is often interpreted as meaning that this time period is by itself sufficient to reach a conclusion that an investment would not be subject to a more than insignificant risk of changes in value.
However, this is not an automatic qualification, and it is still necessary to consider other attributes of short term investments. It is possible that an entity would be able to invest funds on a short term basis at a high rate of return that would put these funds at a more than insignificant risk of changes in value (for example, investments with low credit ratings such as certain asset backed securities). In these cases, the investments would not be regarded as being cash equivalents because they are subject to a more than insignificant change in value.

2.3. Investments in equity instruments

In almost all cases, investments in equity instruments are excluded from being classified as cash and cash equivalents, because they typically have no maturity and are subject to significant potential changes in value. However, it is possible that an instrument such as a redeemable preference share, which is purchased with a short period remaining to its maturity date, will meet the definition of a cash equivalent.

2.4. Changes in liquidity and risk

The definition of cash equivalents makes reference to them being both highly liquid and subject to an insignificant risk of changes in value. IAS 7 does not include any specific requirement to revisit either of these criteria after the initial recognition of a cash equivalent.

In general, amounts that initially meet the definition of cash equivalents would not be expected to be subject to significant risk of adverse changes in liquidity and changes in value. However, it is possible that such changes could take place. For example, a short-term maturity corporate (or government) bond that would otherwise meet the definition of a cash equivalent might be subject to a sudden adverse change in the issuer's credit status.

BDO Comment

This represents a less obvious feature of cash equivalents which is easily missed. At each reporting date, entities need to consider whether there are any indicators that items previously classified as cash equivalents now fail to meet the classification criteria. In recent years, a number of governments and financial institutions have seen their credit status decline dramatically within a very short period.

2.5 Cryptocurrencies

IFRS Accounting Standards do not contain specific accounting requirements for cryptocurrencies. However, at its June 2019 meeting, the IFRS Interpretations Committee (The Committee) discussed how existing IFRS Accounting Standards apply to holdings of cryptocurrencies and issued an Agenda Decision in which, among other things, it was concluded that a cryptocurrency is not cash.

For the purposes of its discussion, the Committee considered cryptocurrencies with the following characteristics:

- A cryptocurrency is a digital or virtual currency that is recorded on a distributed ledger and uses cryptography for security.
- A cryptocurrency is not issued by a jurisdictional authority or other party.
- A holding of a cryptocurrency does not give rise to a contract between the holder and another party.

As part of its analysis, the Committee considered whether a cryptocurrency is cash. It noted that IAS 32.AG3 states that:

'Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.'

The description of cash in IAS 32.AG3 implies that cash is expected to be used as a medium of exchange (i.e. used in exchange for goods or services) and as the monetary unit in pricing goods and services to such an extent that it would be the basis on which all transaction are measured and recognised in financial statements.

Although some cryptocurrencies can be used in exchange for particular goods or services, the Committee noted that it was not aware of any cryptocurrency that is used as a medium of exchange and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements. Consequently, the Committee concluded that a holding of cryptocurrency is not cash because cryptocurrencies do not currently have the characteristics of cash.

2.6 Short-term credit lending and cash and cash equivalent classification

In some circumstances, short-term loans and credit facilities may meet the definition of a cash and cash equivalent and would therefore be presented within cash and cash equivalents, rather than financing cash flows.

At its June 2018 meeting, the Committee discussed the circumstances in which short-term loans and credit facilities may be presented as a component of cash and cash equivalents.

In the fact pattern:

1. The entity has short-term loans and credit facilities that have a short contractual notice period (e.g. 14 days);
2. The entity says it uses the short-term arrangements for cash management; and
3. The balance of the short-term arrangements does not often fluctuate from being negative to positive.

The Committee observed that an entity generally considers bank borrowings to be financing activities, not a component of cash and cash equivalents. The Committee observed that bank borrowings are a component of cash and cash equivalent only in the particular circumstances noted in IAS 7.8: the arrangement is a bank overdraft that is payable on demand and forms an integral part of the entity's cash management. Therefore, a short-term financing arrangement cannot form a component of cash and cash equivalents unless it is due on demand.

The Committee observed that for a facility to form an integral part of the entity's cash management, it must use the facility in order to meet short-term cash commitments rather than for investing or other purposes. The Committee also noted that if the balance of a banking arrangement does not often fluctuate from being negative to positive, then the arrangement would generally not form an integral part of the entity's cash management. If the facility is consistently in a negative position, then it is a form of financing.

Therefore, based on the fact pattern provided, the Committee concluded that such an arrangement would not be a component of cash and cash equivalents because these facilities are not repayable on demand and the balance does not often fluctuate from being negative to positive (i.e., it is consistently in a negative position where the entity owes the lender). The facilities are a form of financing, and their cash flows should be classified as financing cash flows. For further discussion, refer to section 5.1.

3. Restricted cash and cash equivalent balances – disclosure requirements

Restricted cash and cash equivalent balances are those which meet the definition of cash and cash equivalents but are not available for use by the group. In practice, these balances may arise when a subsidiary in a group operates in a jurisdiction where there are legal restrictions or foreign exchange controls that restrict the group's access to, and use of, the subsidiary's cash balances. They can also arise from 'pledged' bank balances and amounts placed in escrow accounts.

Although these types of restrictions do not affect the presentation of the statement of cash flows, IAS 7.48 requires an entity to disclose the existence of any significant restricted cash balances, together with narrative commentary. This is normally included as part of the notes to the financial statements, with a separate line item in the primary financial statements for 'restricted cash and cash equivalents'.

3.1. Interaction with IAS 1

IAS 1 Presentation of Financial Statements paragraph 66(d) requires an entity to classify an asset as current when:

'…the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.'

Although most cash and cash equivalents will be classified as current, it is important to understand the effects of any restrictions that are placed over the timing of use of those assets.

At its April 2022 meeting, the Committee issued an agenda decision in response to whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party.

The fact pattern includes three entities; an entity holding a demand deposit with another entity (e.g., a bank or financial institution) whose terms and conditions do not prevent the entity from accessing the amounts held in it. This entity holding the demand deposit has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.

The question that was raised in the request was whether the demand deposit may be included as a component of cash and cash equivalents in the statement of cash flows and financial position.

The Committee concluded that the restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. In the fact pattern described in the request, the contractual restrictions on the use of the amounts held in the demand deposit do not change the nature of the deposit—the entity can access those amounts on demand.

The Committee concluded that in this case the entity should disaggregate the 'cash and cash equivalents' line item, and present the demand deposit separately as an additional line item (IAS 1.55) because this is relevant for an understanding of the entity's financial position.

An entity that presents assets as current or non-current would classify the demand deposit as current, unless the demand deposit is 'restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period' (IAS 1.66(d)).

As required by IAS 7.45, the entity discloses the demand deposit as a component of cash and cash equivalents. Applying this requirement, in the fact pattern described in the request, the entity discloses the demand deposit as a component of cash and cash equivalents.

The Committee observed that the entity considers whether to disclose additional information:

- IFRS 7 *Financial Instruments: Disclosures* - liquidity risk arising from financial instruments; and
- Any additional information, if the information provided in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient to enable users of financial statements to understand the impact of the restrictions on the entity's financial position (IAS 1.31),

4. Classification of cash flows as operating, investing or financing

IAS 7.10 requires an entity to analyse its cash inflows and outflows into three categories:

- Operating;
- Investing; and
- Financing.

IAS 7.6 defines these as follows:

'Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities.'

*'**Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.'*

*'**Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.'*

4.1. Operating activities

It is often assumed that this category includes only those cash flows that arise from an entity's principal revenue producing activities.

However, because cash flows arising from operating activities represents a residual category, which includes any cash flows that do not qualify to be recorded within either investing or financing activities, these can include cash flows that may initially not appear to be 'operating' in nature.

For example, the acquisition of land would typically be viewed as an investing activity, as land is a long-term asset. However, this classification is dependent on the nature of the entity's operations and business practices. For example, an entity that acquires land regularly to develop residential housing to be sold would classify land acquisitions as an operating activity, as such cash flows relate to its principal revenue producing activities and therefore meet the definition of an operating cash flow.

4.2. Investing activities

An entity's investing activities typically include the purchase and disposal of its intangible assets, property, plant and equipment, and interests in other entities that are not held for trading purposes. However, in an entity's consolidated financial statements, cash flows from investing activities do not include those arising from changes in ownership interest of subsidiaries that do not result in a change in control, which are classified as arising from financing activities.

It should be noted that cash flows related to the sale of leased assets (when the entity is the lessor) may be classified as operating or investing activities depending on the specific facts and circumstances.

If the leased assets, which were previously held for rental, were routinely sold as part of its ordinary activities, then an entity would reclassify the assets as inventories at their carrying amount, with the resulting cash flows classified as an operating activity.

If the sale of previously leased assets were non-routine, then they would not meet the definition of inventory prior to the time of sale, and therefore the disposal of the assets would be classified in investing activities in accordance with IAS 7.16.

Investing activities also include cash inflows and outflows associated with the drawdown and repayment of inter-company and other loans (provided the entity's principal activities do not include the lending of funds). One common example in practice is funds that are advanced to, and related repayments from, related parties.

4.3. Financing activities

An entity's financing activities typically include the following:

- The issue and repurchase by an entity of its own share capital
- Distributions (dividends) paid to equity shareholders (note that IAS 7 contains an option for the classification of these distributions – see below)
- The drawdown and repayment of borrowings from third parties
- Cash payment by a lessee for the reduction of a lease liability in the scope of IFRS 16 (i.e. the portion of the payment relating to the principal amount of the lease liability – see Section 4.4 for discussion of the interest portion of a payment made related to a lease)
- Any other cash flows related to items classified in equity.

4.3.1. Disclosure of changes in liabilities arising from financing activities

As noted in section 1, in January 2016 the IASB amended IAS 7 to require additional disclosures surrounding the change in liabilities arising from financing activities. These additional requirements were added to IAS 7.44A – 44E. This amendment was made in response to feedback from users of financial statements who felt that it was challenging to understand the changes in debt and other bank borrowings based on the existing disclosure requirements of IFRS Accounting Standards. Non-cash movements in financing activities resulted in the movement in borrowings being challenging to reconcile.

In September 2019 the Committee discussed whether the disclosure requirements in IAS 7.44B- 44E are adequate for an entity to provide disclosures that meet the objective in IAS 7.44A.

IAS 7.44A requires an entity to provide 'disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes'.

To the extent needed to meet the objective in IAS 7.44A, IAS 7.44B specifies that an entity discloses the following changes in liabilities arising from financing activities:

(a) Changes from financing cash flows;

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

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

(d) Changes in fair values;

(e) Other changes.

It is explained in IAS 7.BC16, how the disclosure objective in IAS7.44A was developed to reflect the needs of investors, including those summarised in IAS 7.BC10.

These investor needs are:

(a) to check their understanding of the entity's cash flows and use that understanding to improve their confidence in forecasting the entity's future cash flows;

(b) to provide information about the entity's sources of finance and how those sources have been used over time; and

(c) to help them understand the entity's exposure to risks associated with financing.

IAS 7.44C requires disclosure of changes in financial assets (e.g. assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities. An example of a change in financial asset would be assets that hedge liabilities arising from financial activities, provided that the cash flow from those financial assets are or will be included in cash flows from financing activities.

IAS 7.44D states that 'one way to fulfil the disclosure requirement in paragraph IAS 7.44A is by a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in IAS 7.44B'.

In showing such reconciliation, an entity applies:

(a) IAS 7.44C to identify liabilities arising from financing activities and use them as the basis of the reconciliation, even if the entity chooses to define, and reconcile, a different 'net debt' calculation.

(b) IAS 7.44E to disclose changes in liabilities arising from financing activities separately from changes in any other assets and liabilities.

(c) IAS 7.44D to provide sufficient information to enable investors to link the items included in the reconciliation to amounts reported in the statement of financial position and the statement of cash flows, or related notes.

The Committee observed that an entity applies judgement in determining the extent to which it disaggregates and explains the changes in liabilities arising from financing activities included in the reconciliation to meet the objective in IAS 7.44A.

In this respect, the Committee noted that in disaggregating liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies IAS 7. 44B as well as IAS 1.30A and 112(c).

Accordingly, an entity discloses individually material items with different natures or functions separately in the reconciliation (IAS1.30A). Such items include material classes of liability (or asset) arising from financing activities and material reconciling items (i.e., cash or non-cash changes) and ensures to disclose 'information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them' (IAS 1. 112(c)).

Accordingly, applying IAS 7.44A–44E, an entity determines the appropriate structure for its reconciliation including the appropriate level of disaggregation. Thereafter, the entity determines whether additional explanation is needed to meet the disclosure objective in paragraph IAS 7.44A.

Consequently, the Committee concluded that the disclosure requirements in paragraphs IAS 7.44B–44E together with requirements in IAS 1, are adequate to require an entity to provide disclosures that meet the objective in IAS 7.44A and decided not to add the matter to its standard-setting agenda.

Entities that do not have complex movements in borrowings (e.g. the only change being cash payments on term debt) may not require additional disclosure beyond what is presented in the statement of cash flows in order to comply with these requirements. Entities which have more complex movements in borrowings (e.g. foreign exchange, fair value movements, business combinations, etc.) may require tabular reconciliation with each category of change in borrowing activities being a separate column in the table.

The reconciliation should be presented in such a way that enables users to link items included in the reconciliation to the statement of financial position and the statement of cash flows (i.e. line items in the reconciliation should tie to other applicable line items in the financial statements).

Such tabular disclosure may also need to be supplemented by narrative disclosure in some cases.

In ESMA's 23rd Extract from the EECS's Database of Enforcement, which was published in July 2019, ESMA (European Securities and Markets Authority) noted that entities are encouraged to provide the tabular format for disclosure purposes, in order to meet the requirements of IAS 7.

An illustration of tabular disclosure:

			Non-cash changes		
	20x1	Cash flows	Acquisition	New leases	20x2
Long-term borrowing	1,040	250	200	Nil	1,490
Lease liabilities	Nil	(90)	Nil	900	810
Long-term debt	1,040	160	200	900	2,300

4.3.2. Supplier finance arrangements

Supplier finance arrangements (sometimes referred to as reverse factoring) are becoming more common as a means to facilitate faster payment by customers of their supplier invoices. These arrangements involve three parties: the buyer (the entity), the supplier, and a finance provider like a bank/financial institution.

The supplier's goal is generally to receive payment more quickly than the buyer is willing or able to make, therefore, the supplier effectively 'discounts' the buyer invoice with a financial institution. The buyer's goal is to initiate a transaction with the financial institutions, whereby they support the suppliers by financing their receivables at an accelerated rate in exchange for discounted rates from the suppliers.

Cash flows involved in these arrangements are classified either as operating activities or as financing activities as defined in Section 4 above. If the reverse factoring liability is considered part of trade payables, cash flows would be presented as part of operating activities, and if part of borrowings, cash flows would be presented as financing activities.

In 2020, the IFRS Interpretations Committee (the Committee) discussed a request about reverse factoring arrangements. Specifically, asking:

(a) How an entity presents liabilities to pay for goods or services received when the related invoices are part of a reverse factoring arrangement; and

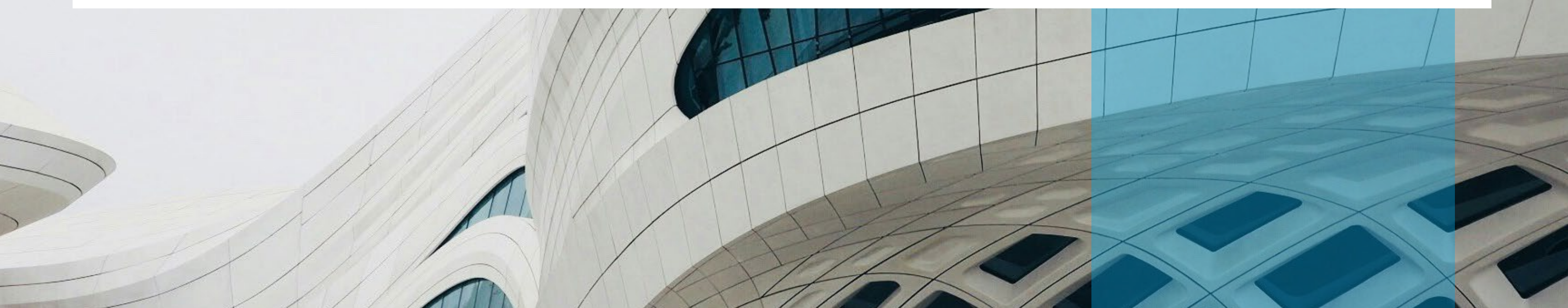
(b) What information about reverse factoring arrangements an entity is required to disclose in its financial statements.

When the Committee discussed the application of IAS 7, it noted that IAS 7.6 defines:

a. operating activities as 'the principal revenue-producing activities of the entity and other activities that are not investing or financing activities' and

b. financing activities as 'activities that result in changes in the size and composition of the contributed equity and borrowings of the entity'.

An entity that has entered a reverse factoring arrangement determines how to classify cash flows under the arrangement, typically as cash flows from operating activities or cash flows from financing activities.



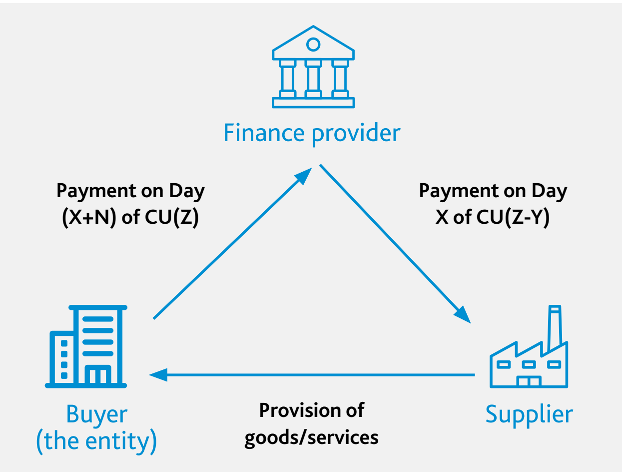
In December 2020, the Committee published an Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* that addressed this submission based on the requirements in IFRS Accounting Standards existing at that time.

During this process, the feedback from stakeholders indicated limitations of the then existing requirements to address important information needs of users to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another. In response to this feedback, the IASB undertook a narrow-scope standard setting, leading to the Amendments.

On 25 May 2023, the IASB issued *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* (the amendments).

The amendments provide guidance on the characteristics of supplier finance arrangements as well as introduce some specific disclosure requirements related to supplier finance arrangements. Newly inserted IAS 7.44G explains the characteristics of supplier finance arrangements.

The following diagram depicts a typical supplier finance arrangement (also referred to as supply chain finance, payables finance or reverse factoring arrangements):



In a supplier finance arrangement, the finance provider agrees to pay amounts an entity owes to the entity's suppliers and the entity agrees to pay the finance provider, according to the terms and conditions of the arrangement, at the same date as, or a date later than, suppliers are paid.

As a result, these arrangements provide the entity with extended payment terms or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

The Amendments also clarify that the following are not supplier finance arrangements:

- Arrangements that are solely credit enhancements for the entity such as financial guarantees including letters of credit used as guarantees; and
- Instruments used by the entity to settle directly with a supplier the amounts owed such as credit cards.

To meet the disclosure objective as per the amended IAS 7, an entity is required to disclose the following:

- the terms and conditions of the arrangements.
- as at the beginning and end of the reporting period:

  (i) the carrying amounts of supplier finance liabilities and the line items of financial liabilities in which they are presented.

  (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.

  (iii) the range of payment due dates for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. If ranges of payment due dates are wide, explanatory information about those ranges or additional ranges (for example, stratified ranges) are required to be disclosed.
- the type and effect of non-cash changes in the carrying amounts of the supplier finance arrangement liabilities, for example effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

These disclosure requirements:

- inform users of financial statements of the existence and nature of supplier finance arrangements.
- enable users to understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- help users to assess the magnitude of the entity's supplier finance arrangements and their effect on operating and financing cash flows.

The above information is required to be disclosed in an aggregated form. For arrangements that have dissimilar terms and conditions, separate disclosure of terms and conditions is required.

Application guidance of IFRS 7 (IFRS 7.B11F) provides examples of factors that an entity might consider in providing liquidity risk disclosures. The Amendments have added supplier finance arrangements as another factor relevant to liquidity risk.

The guidance on implementing in IFRS 7 is amended to add supplier finance arrangements as a factor that may cause concentration of liquidity risk.

The Amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

As a part of transitional relief, the Amendments provide exemptions from certain disclosures (the illustrative dates provided below assume an entity with a calendar year-end and a 30 June interim financial statement issued in accordance with IAS 34 *Interim Financial Reporting*. It is assumed that the entity applies the Amendments for annual reporting periods beginning on or after 1 January 2024 i.e. the Amendments are not early adopted):

Reporting period	Disclosures not required and example
For any reporting periods presented before the beginning of the annual reporting period in which the entity first applies the Amendments.	Comparative information. For example, in the entity's 31 December 2024 annual financial statements, disclosures for the 31 December 2023 comparative period are not required.
As at the beginning of the annual reporting period in which the entity first applies those amendments.	– The carrying amounts, and associated line items, of the financial liabilities for which suppliers have already received payment from the finance providers. – Range of payment due dates for supplier finance liabilities and comparable trade payables that are not part of a supplier finance arrangement. This information is not required to be disclosed for the beginning of the annual reporting period in which the entity first applies the amendments (i.e. 1 January 2024).
For any interim period presented within the annual reporting period in which the entity first applies those amendments.	The information otherwise required to be disclosed by the Amendments. Therefore, the entity is not required to disclose any of the information otherwise required by the Amendments in its interim financial statements for its half-year ended 30 June 2024. However, it should be noted that when the entity prepares its interim financial statements for the half-year ended 30 June 2025, it will be required to disclose the information as required by the Amendments for the comparative period i.e. for 30 June 2024.

4.4. Classification of interest and dividends

IAS 7.31 requires cash flows from interest and dividends received and paid to be disclosed separately, and permits each of them to be classified within either operating, financing, or investing activities. The classification chosen must be applied consistently from period to period.

However, it is also necessary to consider other requirements of IAS 7. In particular, if borrowing costs are capitalised to 'qualifying assets' in accordance with IAS 23 *Borrowing Costs*, the related cash flows must be classified as well.

BDO Comment

In practice, some regulators require consistent classification between interest paid and interest received (i.e. including the two line items within the same classification), particularly when an entity classifies interest received as an operating activity (i.e. financial institutions).

Similar regulatory requirements have also been seen in some jurisdictions in respect of the presentation of cash flows relating to dividends paid and received.

When classifying cash flows relating to borrowing costs that have been capitalised as part of the carrying value of a qualifying asset as required by IAS 23, inconsistencies exist in the requirements of IAS 7 as to how such interest cash flows should be presented.

It could be interpreted that the capitalised borrowing costs should be classified consistently with the cash flows related to the acquisition of the asset (e.g. in investment activities) since IAS 7.16 requires cash flows that relate to the acquisition of items such as property, plant and equipment to be classified as investing activities.

Despite this requirements of IAS 7.16, IAS 7.33 states that interest cash flows may be classified as either operating or investing/financing activities as an accounting policy choice. Therefore, in our view, it is acceptable to classify capitalised borrowing costs as either an investing cash flow (i.e. consistent with the cash flows to acquire the qualifying asset) or consistently with other interest cash flows that are not capitalised as borrowing costs (i.e. dependent on the entity's accounting policy choice for such cash flows).

4.5. Common classification errors in practice

Although the definitions of operating, financing and investing activities may appear straightforward, in practice a number of classification errors are frequently made. These include:

(i) Cash outflows related to the acquisition of intangible assets and items of property, plant and equipment incorrectly included within operating activities

Some items of property, plant and equipment are purchased from suppliers on standard credit terms that are similar to those for inventory and for amounts payable to other creditors.

Because of this, the transactions for property, plant and equipment may incorrectly be included within changes in accounts payable for operating items.

Consequently, unless payments for property, plant and equipment are separated from other payments related to operating activities, they may be allocated incorrectly to operating activities.

(ii) Cash inflows and outflows related to deposits held by financial institutions, or the purchase of short term investments, included within operating activities

Surplus funds are sometimes used to purchase investments with short-to-medium term maturities that do not meet the definition of cash and cash equivalents (e.g. a deposit with a fixed term maturity that is greater than 3 months (IAS 7.7)).

Entities sometimes argue that, because these funds are included in their working capital balances (because the funds will be used in the short-to-medium term for operating activities), the cash flows related to these investments should be classified within operating activities.

This is incorrect.

The entity is acquiring debt instruments of another entity that neither meet the definition of cash and cash equivalents, nor are held for dealing and trading purposes. Consequently, these cash outflows and inflows should be classified as investing (IAS 7.16(c)). Upon maturity of the investment the subsequent use of the funds for operating activities will result in cash flows being included in that category.

In contrast, if an entity holds financial assets that are classified as held for dealing or trading activities (such as cash held by most financial institutions), then cash flows associated with those assets are classified within operating activities. This is because financial assets classified as held for dealing or trading purposes are typically held by an entity in the short-term (a matter of days) for the purposes of short-term profits or losses. Consequently, they fall within the entity's operating activities.

(iii) Failure to classify cash flows arising from an entity's principal operating activities as operating

An entity in the financial services sector typically derives operating income from advancing loans to customers in return for future payments of principal and interest. Although IAS 7.31 permits an entity to classify interest cash flows as operating, investing or financing, the requirements of IAS 7.6 (which includes the definition of operating activities) override this option.

Consequently, cash flows relating to loans advanced to customers by a financial institution are required to be classified as operating activities.

(iv) Including cash flows in investing activities when they do not result in the recognition of an asset

Some cash outflows relate to items which do not qualify to be recorded as assets (for example, research costs and certain development costs do not qualify to be capitalised as intangible assets in accordance with IAS 38 *Intangible Assets*). Some argue that such cash outflows should be included within investing activities, because they relate to items which are intended to generate future income and cash flows.

IAS 7.16 states that for a cash flow to be classified as an investing cash outflow, the expenditure must result in an asset being recognised in the statement of financial position (IAS 7.BC7).

This is particularly relevant for entities operating in the extractives industry which apply IFRS 6 *Exploration for and Evaluation of Mineral Resources*, as these entities have a (temporary) exemption from applying the requirements of paragraphs 11 and 12 of IAS 8 *Accounting policies*, Changes in Estimates and Errors when developing an accounting policy in respect of the recognition of exploration and evaluation assets.

If the accounting policy adopted by the entity in accordance with IFRS 6 does not result in the recognition of an asset, then those cash flows do not qualify to be included within investing activities.

(v) Cash flows relating to the leased assets of lessors

When an entity is the lessor of assets, any cash receipts/payments relating to rental income derived from an operating lease as well as any subsequent sale of the leased assets are classified within operating activities similar to a situation where an entity, in its course of ordinary activities, routinely sells items of property, plant & equipment that it has held for rental to other parties. This is because IAS 7 requires cash flows from principal revenue producing activities of the entity and other activities that are not investing or financing activities to be classified under operating activities.

However, if an entity derives rental income from finance leases (where leasing is not the primary revenue generating activity), cash receipts related to the rental income will be classified under investing activities.

5. Offsetting cash inflows and outflows in the statement of cash flows

IAS 1.32 prohibits the offset of assets and liabilities, and income and expense, unless this is required or permitted by an IFRS Accounting Standard.

IAS 7.13 – 17 set out requirements for, and examples of, individual cash inflows and outflows that are to be presented separately in respect of operating, investing and financing activities. The offset of cash inflows and outflows is not permitted (except in limited circumstances, that are outlined below), meaning that separate (i.e. gross) disclosure is required for cash flows, including those related to:

- The purchase and sale of intangible assets, and items of property, plant and equipment;
- The drawdown and repayment of borrowings; and
- The lending of funds to third parties, and the repayments associated with those loans.

Offsetting cash flows – exception for all entities

IAS 7.22 permits the following cash flows to be reported on a net basis:

- Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- Cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short.

An example of cash receipts and payments that may be off-set would be the purchase and sale of short-term investments by an entity who trades them frequently, such as a bond trading fund that turns over its portfolio every 1-2 weeks.

Offsetting cash flows - exception for financial institutions

IAS 7.24 permits the following cash flows of a financial institution to be presented on a net basis:

- Cash receipts and payments for deposits with a fixed maturity dates
- Deposits placed and withdrawn from other financial institutions
- Cash receipts and payments for cash advances and loans.

5.1. Effect of bank overdrafts on the carrying amount of cash and cash equivalents

IAS 7.8 notes that although bank borrowings are generally considered to be financing activities, in some countries bank overdrafts form an integral part of an entity's cash management. In such cases, bank overdrafts are included as a component of cash and cash equivalents meaning that bank overdraft balances would be offset against any positive cash and cash equivalent balances for the purposes of the statement of cash flows. See Section 2.6 for further discussion of the circumstances in which certain borrowings may be classified as cash and cash equivalents. In circumstances where certain borrowings are classified as cash equivalents, any cash inflows or outflows relating to such borrowings would not be presented in financing activities, as they are essentially being netted.

However, care is required when presenting bank overdrafts, and cash and cash equivalents, in the statement of financial position. This is because, even though IAS 7 permits offset of balances in the statement of cash flows, this may not be permitted by IAS 32 *Financial Instruments: Presentation*.

The IAS 32 requirements mean that balances are only offset when an entity:

- Currently has a legally enforceable right to set off the recognised amounts; and
- Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Consequently, some balances may be offset in the statement of cash flows, but not in the statement of financial position.

It may be appropriate for entities to include narrative in their accounting policies, highlighting the distinction between cash flows that are offset in the statement of cash flows, and cash and cash equivalent balances that are offset in the statement of financial position.

Example 5.1-1

Entity A has two bank accounts with different financial institutions, Bank X and Bank Y.

As at entity A's reporting date, the two bank balances are:

– Bank X: positive balance of CU1,000
– Bank Y: overdraft of CU200.

From Entity A's perspective, the bank overdraft is an integral part of its cash management.

However, there is no arrangement involving Entity A, Bank X and Bank Y that give Entity A a legally enforceable right to offset the two recognised amounts.

(Note: in practice, it is very unlikely that any such offset arrangement between two separate banks would be entered into.)

Consequently, Entity A recognises amounts in its primary financial statements as follows:

Statement of financial position

	CU
Current assets	
Cash and cash equivalents	1,000
Current liabilities	
Bank overdraft	200
Statement of cash flows	
Cash and cash equivalents	800

The table below provides a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position. (IAS 7.45)

	CU
Cash and cash equivalents	1,000
Bank overdraft	(200)
Total cash and cash equivalents shown in the statement of cash flows	**800**

In addition, for those entities that operate in a range of different jurisdictions worldwide, it will be important to distinguish those countries in which bank overdrafts form part of the entity's cash management, and those where they do not.

5.2. Refinancing of borrowings with a new lender

When an entity refinances bank borrowings with the same financial institution, the refinancing typically does not result in cash flows, except for any fees or costs associated with the refinancing. Only to the extent that there are actual cash flows should any amount be included in the statement of cash flows. When an entity refinances debt and the counterparty changes (for example, the refinancing is with a different bank), the transaction is accounted for as the extinguishment of the previous financial liability and the recognition of a new financial liability, in accordance with IFRS 9 *Financial Instruments*. The settlement of the old debt and the cash receipt relating to the new debt may occur simultaneously, however, they result in a cash outflow and a cash inflow, which are required to be presented separately within financing activities, as the offsetting criteria of IAS 7 are not satisfied.

In some cases, even if a refinancing is carried out with the same bank, cash flows may have occurred. In such cases, the cash flows need to be included in the cash flow statement. This is the case even if the refinancing is accounted for as a modification of the existing debt, meaning that the original financial liability is not derecognised with the transaction instead being accounted for as a continuation of that financial liability.

6. Presentation of operating cash flows using the direct or indirect method

IAS 7.18 requires an entity to present its cash flows from operating activities using either the direct or the indirect method:

a) Direct method

Major classes of gross cash receipts and gross cash payments are disclosed.

b) Indirect method

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.

A common error in practice is for a cash flow statement to include elements of both the direct and indirect methods.

For example, certain non-cash items such as adjustments for depreciation, impairment, gains or losses on the disposal of property, plant and equipment, and the unwinding of discount on provisions, are sometimes seen in a statement of cash flows that is prepared under the direct method.

Although IAS 7.19 encourages the preparation of a cash flow statement using the direct method, in many jurisdictions it is very common to see the indirect method followed with many amounts included in the statement of cash flows reconciling back to the other primary statements and notes to the financial statements.

7. Income taxes and sales taxes

(i) Income taxes

IAS 7.35 requires cash flows arising from income taxes to be disclosed separately, and classified within operating activities unless they can be specifically associated with financing or investing activities.

(ii) Sales taxes

IAS 7 does not provide guidance covering sales taxes that are collected by entities on behalf of third parties (typically governments). The approach adopted will vary, depending on whether the entity follows the direct or indirect method in preparing its statement of cash flows.

If the direct method is followed, the following approaches might be followed:

- Include cash flows associated with sales taxes as separate line items
- Include cash flows associated with sales taxes in the payments to suppliers and receipts from customers.

If the indirect method is followed, sales taxes will be included in the increase or decrease in accounts payable.

Example 7(ii)-1

Entity A has a single transaction during its reporting period, being a sale to a customer for CU120 (inclusive of sales tax of CU20).

At entity A's reporting date, the customer has settled the amount due of CU120 in cash, but the sales tax has not yet been remitted to the tax authorities.

Direct method

Entity A could include either of the following in its statement of cash flows:

- Receipts from customers of CU100 and indirect taxes collected of CU20, or
- Receipts from customers of CU120.

Indirect method

Entity A would show working capital movement of an increase in accounts receivable of CU20.

(iii) Other taxes

For other taxes, it is appropriate for the cash flows to be included within the same activity as the cash flows arising from the transaction that gave rise to the tax cash flows.

This approach results in consistency between the way in which amounts are presented in the statement of cash flows and in other primary statements.

These taxes include withholding taxes related to dividend payments, employees' tax on earnings that is remitted by an entity to the tax authorities, and capital taxes incurred on the acquisition of a property.

8. Foreign exchange

IAS 7.25 requires cash flows arising from transactions in a foreign currency to be recorded at the exchange rate between an entity's functional currency and the foreign currency at the date of the cash flow.

A similar approach is required for cash flows of a foreign subsidiary (IAS 7.26).

IAS 7.27 notes that cash flows denominated in a foreign currency are dealt with in a manner that is consistent with that required by IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Consequently, it is possible to use exchange rates that approximate the exchange rates at the dates of transactions (for example, a monthly rate or, if exchange rates are stable, a quarterly rate). However, the use of the period end rate for transactions that take place during a reporting period is not permitted.

IAS 7.28 deals with unrealised gains and losses arising from transactions in foreign currency, and notes that:

'Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.'

This means that unrealised exchange differences in respect of cash and cash equivalents are not classified as operating, investing or financing. Instead, those unrealised exchange differences are presented as a separate, reconciling item, between the opening and closing balances of cash and cash equivalents in the statement of cash flows.

8.1. Worked example – foreign currency translation

Background information:

- Entity A has its head office in its home country (HC) but sells most of its products in an overseas jurisdiction in foreign currency (FC)
- Most of entity A's raw material purchases are denominated in FC and its production factory is located in the overseas jurisdiction
- The management of entity A has concluded that, for the purposes of its IFRS financial statements, its functional currency is FC
- Entity A has a local currency (LC) bank account which is used to pay the salaries and expenses of head office management and various other head office cost
- The balance in Entity A's LC bank account as at 1 January 20X1 was LC25,000,000.

During the year ended 31 December 20X1, the following transactions took place:

- Entity A paid LC12,500,000 in salaries from its LC account (spread evenly over the year)
- On 31 August 20X1, entity A acquired computers for its local offices for LC600,000, paid on 30 September 20X1.

Exchange rates between LC and FC during the year were:

Date	FC1 = LC
1 January 20X1	5.00
31 August 20X1	5.10
30 September 20X1	5.25
31 December 20X1	5.40
Average for 20X1	5.28

Entity A considers that the movements in exchange rates during the year were not significant, because not only were the variations in rates at each date specified above small, an analysis shows that changes in exchange rates between these dates were also small and were not volatile.

Consequently, for the purposes of translating the monthly salary payments, the annual average rate will be used.

BDO comment

The example has been simplified, in that an annual average rate has been used for the purposes of translating transactions that take place during the year.

It has been assumed that not only has the exchange rate not moved significantly, but that exchange rates between the dates specified above were not volatile; in addition, the monthly payments were all equal. If payments were spread unequally (e.g. a significant bonus paid in the last month of the year), then different foreign exchange rates may need to be applied to different periods of the annual reporting period.

If, for example, the payments had been made on specific dates for substantially different amounts, and the exchange rates on those dates were significantly different, it would not be appropriate to use an average rate.

In all cases, it is necessary to consider the timing of payments and the exchange rates applicable at each payment date when determining whether a monthly, quarterly or annual average rate can be used as an approximation for the exchange rate at the date of each separate transaction.

In practice, it is very unlikely for it to be appropriate for a period of more than three months to be used and in many cases monthly gaps between exchange rate resets will be the maximum possible period.

The LC transactions, as recorded in the LC bank account, are as follows:

	Date	LC	Exchange rate	FC
Opening balance	1 January 20X1	25,000,000	5.00	5,000,000
Payment of salaries	Monthly	(12,500,000)	5.28 (average)	(2,367,424)
Payment for computers [a]	30 September 20X1	(600,000)	5.25	(114,286)
Closing balance (calculated)				**2,518,290**
Closing balance (at year end spot rate)	31 December 20X1	11,900,000	5.40	**2,203,704**
Exchange loss [b]				**(314,586)**

[a] The effect of the acquisition of computers on cash and cash equivalents has been determined using the payment date.

[b] The exchange loss is the adjustment required to bring the closing bank balance to the amount calculated using the year end spot rate.

In addition, a foreign exchange adjustment arises from the retranslation of the trade payable balance in respect of the purchase of computers, as illustrated by the following journal entries:

31 August 20X1	
Dr PP&E (computers)	117,647
Cr Accounts payable	117,647

Acquisition of computers on 31 August and recording of amount payable

(Calculated as LC600,000 / 5.10, the exchange rate at 31 August 20X1)

30 September 20X1	
Dr Accounts payable	117,647
Cr Foreign exchange gain	3,361
Cr Cash	114,286

Settlement of accounts payable at 30 September 20X1

(Calculated as LC600,000 / 5.25, the exchange rate at 30 September 20X1)

If the transactions above were the **only** LC transactions during the period, the *Statement of profit or loss* would include the following charges and credits:

	FC
Salary expense	(2,367,424)
Foreign exchange gain	3,361
Foreign exchange loss	(314,586)
Loss arising from LC transactions	(2,678,649)

The related amounts in the *Statement of cash flows* for the year ended 31 December 20X1 would be:

	31/12/20X1 FC
Cash flows from operating activities	
Net loss	(2,678,649)
Adjustments for non-cash items:	
Foreign exchange gain	(3,361)
Foreign exchange loss	314,586
Net cash outflow from operating activities	**(2,367,424)**
Cash flows from investing activities	
Acquisition of PP&E	(114,286)
Net cash outflow from investing activities	**(114,286)**
Cash flows from financing activities	
Net cash inflow from financing activities	-
Decrease in cash and cash equivalents	**(2,481,710)**
Opening cash and cash equivalents at (1 January 20X1)	5,000,000
Exchange differences	(314,586)
Closing cash and cash equivalents at (31 December 20X1)	**2,203,704**

9. Group cash pooling arrangements in an entity's separate financial statements

Cash pooling arrangements arise where one group entity (which may be the ultimate group parent, or a fellow subsidiary) acts as the treasury function for the rest of the group. Under these arrangements, one entity within a group holds and maintains all cash balances with an external financial institution(s) and advances funds to group entities.

Often, a group treasury function is used in order to make the most efficient use of cash resources within a group, and to enable hedge accounting transactions to be entered into at group-level at the lowest overall cost. Typically, the group entities that act as a treasury function are not financial institutions. In some cases, subsidiaries do not have bank accounts at all, and instead amounts due are settled directly from centrally controlled funds.

Questions then arise as to whether the cash flow statement should be prepared at all.

In our view, a statement of cash flows which reflects the actual cash flows of an entity during the period is required to be prepared in all cases, regardless of the balance of cash and cash equivalents held at each period end. This is consistent with the requirements of IAS 7, which contain no exemption from the preparation of a statement of cash flows. This is regardless of whether an entity has a cash and cash equivalents balance at its reporting date, or merely a balance with a treasury function entity. In circumstances in which an entity makes net deposits or withdrawals of funds, these will give rise to inter-company balances. These deposits or withdrawals will be shown as operating, investing or financing activities based on their nature (see section 4).

The question which then arises is whether it is appropriate in the separate financial statements of an entity that has deposited cash and cash equivalents with a group treasury function, to present those amounts as cash and cash equivalents in its statement of cash flows.

Many consider that the classification of such amounts as cash and cash equivalents to be inappropriate, on the basis that:

- The concept of cash is restricted to amounts that are held by independent financial institutions and are subject to protection by the regulatory requirements that are imposed on those financial institutions
- Deposits with group entities are subject to inherent risks that are not usually associated with cash deposits
- All group entities are controlled by a parent entity, meaning that it is difficult to conclude that a group entity could demand repayment of deposits independently of whether the parent entity would agree to the repayment
- In many cases funds are transferred to the treasury entity for unspecified and indeterminate periods.

BDO comment

In our view, it is very unlikely that it would be appropriate for cash and cash equivalents deposited by entities within a group treasury function to be classified as cash and cash equivalents. However, in very rare cases, it is possible that this would be appropriate - limited to those which involve a combination of at least the following factors:

- *The treasury entity itself operates in accordance with strict and well defined controls*
- *The intra group balances behave in a manner similar to cash balances. That is, they are highly liquid, available on demand or in the short term and have terms that are similar to those which would be expected if the deposits had been made with an independent third party financial institution*
- *The group maintains collective cash balances (or has access to cash via lines of credit) to meet demand notices served by subsidiaries that have deposited excess funds with the treasury entity.*
- *Even if these characteristics existed, it is not clear how an entity could claim that it, individually, has control over whether it can require the repayment of cash and cash equivalents from a central treasury company. It would appear difficult to overcome the presumption that the ultimate parent company will control the repayment of funds, and in any event the purpose of a treasury function is to centralise the pooling and use of funds; the ability of a group entity to require repayment would appear contrary to the group policy.*

If they were presented as cash and cash equivalents, we believe that it would be appropriate for these balances to be identified on the face of the statement of financial position and/or in the notes to the financial statements (depending on their significance) as being amounts deposited with another group entity. It might also be appropriate to include additional information about the group cash pooling arrangements that are relevant to the users of financial statements in their understanding of the financial position and liquidity of the entity, as required by IAS 7.50.

10. Securities and loans held for dealing or trading

IAS 7.14 includes a number of examples of operating cash flows, including cash receipts and payments from contracts held for dealing or trading purposes. IAS 7.15 notes that when an entity holds securities and loans for dealing or trading purposes, those items are similar to inventory acquired specifically for resale. As a result, the cash flows arising from the purchase and sale of dealing or trading securities are classified within operating activities.

Consistent with this approach, IAS 7.16(c) and (d) require cash flows which relate to the acquisition or sale of equity or debt instruments of other entities (including interests in joint ventures) to be classified as arising from investing activities, unless the instruments being acquired are considered to be cash equivalents or they are held for dealing or trading purposes.

However, although IAS 7 refers to instruments held for dealing or trading purposes, it does not contain a direct reference to IFRS 9 *Financial Instruments*, which contains definitions of instruments that are held for trading. IFRS 9 *Appendix A* defines a financial instrument as held for trading if:

> *a) It is acquired or incurred principally for the purpose of selling or repurchasing in the near term*
>
> *b) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or*
>
> *c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).*

The question which then arises is whether cash flows related to securities that meet the definition of 'held for trading' in IFRS 9 are required to be classified as arising from operating activities.

The wording in IAS 7 makes no reference to the definition in IFRS 9 and, in consequence, it would appear that there is no automatic classification of these cash flows into a particular category.

Entities therefore need to give careful consideration to the purpose of the transaction that gave rise to the financial instrument classified as held for trading, and the reason(s) for the acquisition and/or sale.

BDO Comment

When considering the appropriate classification of cash flows arising from financial instruments classified as 'held for trading' in accordance with IFRS 9, it is necessary to consider the underlying principle of IAS 7, which is that cash flows should be classified in accordance with the business that is carried on by an entity.

Consequently, a financial institution for which a significant part of its business activities are buying and selling financial instruments would be likely to classify those cash flows as operating.

In contrast, a manufacturing entity that enters into an interest rate swap to hedge interest rate risk arising from a variable rate loan, and applies hedge accounting, would classify the cash flows from the derivative in the same way as the cash flows arising from the position that has been hedged.

The classification of cash flows arising from derivatives that are used in economic hedges but are not designated as hedging instruments in accordance with IFRS 9 is considered in the next section.

11. Classification of cash flows arising from a derivative used in an economic hedge

Consequential amendments were not made to IAS 7 as a result of the introduction of, and subsequent changes to, IFRS 9 *Financial Instruments*.

A related issue which often arises in practice is the classification of cash flows that arise from a derivative that, although used economically to hedge exposures, is not designated in an IFRS 9 qualifying hedge relationship. The same issue arises under IAS 39, for those entities that continue to apply the hedge accounting requirements of IAS 39 rather than IFRS 9.

IAS 7.16(g) and (h) note that cash payments and receipts that relate to futures contracts, forward contracts, option contracts, and swap contracts should be classified as investing activities, unless the contracts are held for dealing or trading purposes, or the cash flows are classified as relating to financing activities. IAS 7.16 also notes that when a derivative is accounted for as a hedge of an identifiable position, the cash flows of that contract are classified in the same manner as the cash flows of the position being hedged (e.g. if interest is classified as giving rise to operating cash flows, cash flows relating to a derivative to hedge those interest payments are also classified as operating cash flows).

A derivative that is used in an economic hedge, but is not designated as a hedging instrument in accordance with IFRS 9, does not technically fall within the guidance in IAS 7.16. Consequently, it could be argued that it would not be appropriate to present the cash flows in the financial statements as if such a designation had been made.

However, in our view, because IAS 7 is not clear about this point, it is acceptable to classify cash flows arising from economic hedges that are not designated as hedging instruments in accordance with IFRS 9 in the same way as if they had formed part of a qualifying hedging relationship for accounting purposes. This means that the cash flows from those economic hedging instruments could be classified as operating, investing or financing, depending on the nature of the item that is being hedged.

In addition to the cash flows discussed above that relate to derivatives used in an economic hedge, entities must also consider how to classify the cash flows from the early settlement or 'close out' of certain derivatives, such as interest rate swaps. For example, an entity that aims to manage its interest rate risk exposure by regularly reviewing its proportion of fixed to variable interest rate borrowings may adjust its exposure by entering into new interest rate swaps or by closing out existing interest rate swaps (in this case, assume that hedge accounting is not applied and interest cash flows are classified as operating activities). This is typically more efficient and less costly than renegotiation or terminating the underlying borrowings themselves. In closing out existing swaps, entities are typically required to pay the fair value of the swap as at the time of cancellation to the counterparty, and there may be an additional fee charged for the cancellation.

In our view, cash flows arising from the close out of interest swaps as described above may be classified as operating cash flows, consistent with the classification of interest payments. This is because the payments required on close out of the swaps represent the present value of the payments that would have otherwise been required, adjusted for expectations concerning market interest rates. Such future payments would have been classified as operating cash flows, therefore, the payment required on close out may also be presented as an operating cash flow. However, because IAS 7 is not specific, the payment could also be presented as a financing cash flow. The approach adopted should be applied consistently as an accounting policy choice.

12. Revenue from Contracts with Customers

Cash flows arising from revenue within the scope of IFRS 15 *Revenue from Contracts with Customers* will be classified as an operating activity as it is clearly a ‘principal revenue-producing activity of the entity…’. Cash flows other than those giving rise to revenue itself, which still relate to transactions in the scope of IFRS 15 may occur, however, such as cash flows relating to incremental costs of obtaining a contract. Such costs may be capitalised in certain circumstances and amortised on a systematic basis (see IFRS In Practice – IFRS 15 *Revenue from Contracts with Customers* for more information).

Cash flows related to capitalised costs in the scope of IFRS 15 (e.g. incremental costs of obtaining contracts) may be classified as operating activities, as they relate to the principle revenue-producing activities of the entity. They may also be classified as investing activities as they relate to acquisition of long-term assets, assuming the amortisation period of the costs is greater than one year. If incremental costs of obtaining a contract have a particularly long life (i.e. significantly longer than one year), then it would be more appropriate to classify them as investing activities. Entities should consider if local regulatory requirements exist concerning the classification requirements of such cash flows.

13. Leases

13.1. Payments made on inception of a lease

IAS 7.44(a) notes that many investing and financing activities do not have a direct effect on cash flows, although they do affect the capital and asset structure of an entity. Among the examples listed is the acquisition of an asset by means of a lease. This is because, in many cases, the initial recognition of a right-of-use asset acquired under a lease, and the corresponding liability, arise from the signature of a lease contract without there being any exchange of cash.

In some cases, leases can involve the exchange of cash on inception because the terms of the lease may require a deposit to be paid and/or payments to be made prior to the commencement of the lease, which is prior to a lease liability and right-of-use asset being recognised. In those cases, amounts are included in the statement of cash flows and would often be classified as investing activities (because the lease gives rise to a recognised asset, the lease deposit). This is because such cash flows do not meet the definition of 'financing activities' as the cash flow does not affect the 'size and composition of the contributed equity and borrowings of the entity', since a lease liability has yet to be recognised prior to the commencement date of the lease. The cash flow relates to the 'acquisition… of long-term assets…', therefore, it is an investing activity. This classification is required if all amounts due under a lease contract are contractually due on inception or on commencement of a lease.

However, in cases where there is a payment on inception or on commencement of a lease followed by periodic payments during the lease term, it could also be argued that, because the cash flows on inception arise from what, overall, is a financing arrangement, those cash flows should also be classified as arising from financing activities. Entities should apply a consistent policy for classification of such cash flows.

13.2. Disaggregation of lease payments

In the same way as repayments of a conventional loan, lease payments that settle a lease liability are comprised of two components:

– Repayment of the principal amount, and

– Payment of interest.

As a result, for the purposes of the statement of cash flows, lease payments are required to be split into each component with repayments of principal and payments of interest being presented separately.

The repayments of principal are classified within financing activities (IAS 7.17(e)), with the interest portion being aggregated with other interest outflows (for other borrowings) and presented as arising from either operating, investing or financing activities (IAS 7.31).

However, to the extent that lease interest is capitalised in accordance with IAS 23 Borrowing Costs, an entity has an accounting policy choice relating to how the interest is classified (see section 4.4).

13.3. Lease payments not included in the measurement of the lease liability

Lessees may make lease payments that are not included in the measurement of lease liabilities, either because:

– The leases meet recognition exemptions to not be recognised in the statement of financial position (i.e. short-term and low-value lease exemptions); or

– They are variable lease payments that are not dependent on an index or rate (e.g. a percentage of turnover in a leased retail location), and are therefore excluded from the measurement of the lease liability.

These lease payments are excluded from financing activities, as they are not a component of the repayment of a liability recorded in the statement of financial position. Such payments are included in cash flows from operating activities, since they are included in the determination of profit or loss for the period. Entities that elect to utilise the short-term and/or low-value lease exemptions will therefore have lower cash flows from operating activities and higher cash flows from financing activities than entities who elect to record such leases in the statement of financial position.

14. Classification of cash flows arising from business combinations

14.1. Presentation and disclosure of cash paid / acquired in a business combination

When an entity acquires a business and part or all of the consideration is in cash or cash equivalents, part of the net assets acquired may include the acquiree's existing cash balance. This results in different amounts being presented in the statement of cash flows and the notes to the financial statements.

IAS 7.39 and 42 require the net cash flows arising from gaining or losing control of a business, to be classified as arising from investing activities. Consequently, the statement of cash flows will not include the gross cash flows arising from the acquisition, and will instead show a single net amount. IAS 7.40 then requires the gross amounts to be disclosed in the notes.

The disclosures required by IFRS 3 *Business Combinations* include:

- The acquisition date fair value of total consideration transferred, analysed into each major class of consideration including the cash element (IFRS 3.B64(f)(i))
- Major classes of assets and liabilities acquired, of which cash and cash equivalents would be a class (IFRS 3.B64(i)).

14.2. Transaction costs

IFRS 3 requires transaction costs incurred in connection with a business combination to be expensed, because they relate to the purchase of services and not to the acquisition of the business.

Only cash outflows that result in the recognition of an asset in the statement of financial position are classified as arising from investing activities in the statement of cash flows. Consequently, cash flows arising from transaction costs related to a business combination are classified as arising from operating activities in consolidated financial statements.

However, if an entity prepares separate financial statements in accordance with IFRS Accounting Standards, transaction costs are included as part of the cost of the investment in a subsidiary. Consequently, in the separate (parent) entity's statement of cash flows, cash flows arising from transaction costs will be classified as arising from investing activities.

14.3. Deferred and contingent consideration

IAS 7.39 requires the aggregate cash flows arising from obtaining (or losing) control of a subsidiary or other business to be classified as being derived from investing activities.

This is consistent with the requirement of IAS 7.16 that only expenditure that results in an asset that is recognised in the statement of financial position can be classified as arising from investing activities.

While this appears straightforward, issues arise when determining how cash outflows associated with deferred or contingent consideration should be presented in the statement of cash flows.

(i) Deferred consideration

Some business combinations may involve deferral of (a portion of) the purchase consideration to a future date. A key question is whether cash flows associated with deferred consideration should be classified as arising from investing activities (on the basis that they are in connection with the acquisition of net assets), or from financing activities (on the basis that the vendor is providing a form of finance).

In our view, these cash flows should normally be classified as arising from investing activities on the basis that this is consistent with the nature of the original transaction which gave rise to the initial recognition of assets and liabilities in the statement of financial position. This would include any adjustments resulting from additional information about facts and circumstances that existed at the acquisition date.

However, in limited cases deferred consideration may be similar in nature to a loan granted by the vendor, with the associated cash flows being classified as arising from financing activities. In our view, this may be the case when the period between the acquisition date and settlement of the deferred consideration is sufficiently long that the vendor would recognise imputed interest (see section 4.4 for the classification of cash flows relating to interest). Classification as financing would be appropriate if the vendor accepted payment in the form of a long term loan note.

(ii) Contingent consideration

When a business combination involves an adjustment to consideration payable to the vendor that is contingent on future events, IFRS 3 requires the acquirer to recognise the acquisition date fair value of the contingent consideration with an associated adjustment to goodwill.

The related obligation (which meets the definition of a financial instrument) is classified as a financial liability or within equity in accordance with the requirements of IAS 32 *Financial Instruments: Presentation*.

For obligations that are to be settled in cash or cash equivalents, subsequent changes in the carrying amount of the liability are recorded in profit or loss. The classification of the related cash flows is affected by this requirement, because IAS 7.16 only permits cash outflows that result in the recognition of an asset to be classified as arising from investing activities.

This requirement of IAS 7 indicates that cash payments arising from any post acquisition date increase in the carrying amount of contingent consideration cannot be classified as arising from investing activities, because the incremental amount would be charged to profit or loss and would not result in the recognition of an asset (or an increase in carrying amount of an asset). This means that those excess cash flows would typically be classified as arising from operating activities (particularly if the increase arose from a formula linked to the operating performance of the acquired business). In limited cases, it may be appropriate to classify at least some of the cash flows as arising from financing activities (see deferred consideration above). However, it is necessary to look at the extent to which the amount of contingent consideration payable is affected by factors other than time value of money and, the more linkage there is to future business performance, the more difficult it will be to identify any financing component.

15. Cash flows from discontinued operations

IAS 7 requires an entity to include all of its cash flows in the statement of cash flows, including those generated from both continuing and discontinued activities.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to disclose its net cash flows derived from operating, investing and financing activities in respect of discontinued operations. There are two ways in which this can be achieved:

a) Presentation in the statement of cash flows

Net cash flows from each type of activity (operating, investing and financing) derived from discontinued operations are presented separately in the statement of cash flows.

b) Presentation in a note

Cash flows from discontinued operations are included together with cash flows from continuing operations in each line item in the statement of cash flows. The net cash flows relating to each type of activity (operating, investing and financing) derived from discontinued operations are then disclosed separately in a note to the financial statements.

When a disposal group that meets the definition of a discontinued operation is classified as held for sale in the current period, and has not been realised/ disposed of at the entity's reporting date, the closing balance of cash and cash equivalents presented in the statement of cash flows will not reconcile to the cash and cash equivalents balances that are included in the statement of financial position at the reporting date.

This is because the cash and cash equivalents related to the disposal group are subsumed into the assets and liabilities of the disposal group and presented within the single line item in the statement of financial position.

15.1. Worked example – Discontinued operations not disposed of at the entity's reporting date

Background information:

- Entity A operates in the food and beverage industry sectors
- Towards the end of the year ended 31 December 20X3, Entity A decides to dispose of the food sector
- The planned disposal qualifies as a discontinued operation in accordance with IFRS 5, as at 31 December 20X3
- The carrying amount of CU180 relating to Assets in disposal group classified as held for sale includes CU30 of cash and cash equivalents.

Information extracted from Entity A's statement of financial position is as follows:

	31/12/20X3 CU	31/12/20X2 CU
Assets		
Cash and cash equivalents	230	280
Inventories	190	160
Property, Plant and Equipment	400	200
Assets in disposal group classified as held for sale [a]	180	-
Total	**1,000**	**640**
Liabilities and equity		
Trade payables	(180)	(280)
Liabilities directly associated with assets in the disposal	(70)	-
Share capital	(10)	(10)
Retained earnings	(740)	(350)
Total	**(1,000)**	**(640)**

[a] Includes cash and cash equivalents of CU30

Additional information

Assets and liabilities directly related to the food sector disposal group as at 31 December 20X2 were as follows:

	31/12/20X2 CU
Assets	
Cash	10
Inventories	50
Property, plant and equipment	140
Total	**200**
Liabilities	
Trade payables	(120)
Total	**(120)**

- Entity A's profit (including profit generated from discontinued operations) in 20X3 is CU390.
- The profit from discontinued operations in 20X3 is CU30
- Discontinued operations in 20X3 include a cash outflow of CU100 for operating activities and a cash inflow of CU120 from investing activities
- In 20X3, Entity A acquired property, plant and equipment for CU400. This property, plant and equipment is used in activities within continuing operations
- Entity A presents net cash flows relating to each type of activity (operating, investing and financing) generated from discontinued operations in the statement of cash flows
- Depreciation expense in 20X3 was CU60
- The effects of tax have been ignored.

As at 31 December 20X3, Entity A had met the requirements in IFRS 5 meaning that the food sector disposal group was classified as a discontinued operation. As a result, the assets and liabilities of the food sector disposal group were presented separately from the other assets and liabilities of entity A in its statement of financial position.

However, the assets and liabilities of the food sector disposal group were not presented separately in the statement of financial position for the comparative period (IFRS 5.40).

In order to present a statement of cash flows for the year ended 31 December 20X3, which separates the continuing operations and the discontinued operations (either in the primary statement or in the notes), Entity A needs the opening balances of assets and liabilities of the disposal group (which comprises the discontinued operation) as at 31 December 20X2.

Entity A – Statement of Cash Flows for the year ended 31 December 20X3

	31/12/20X3 CU
Cash flows from operating activities	
Profit for the period	390
Adjustments for income and expenses not involving cash flows	
Depreciation of property, plant and equipment [(a)]	60
Profit from discontinued operations [(b)]	(30)
Changes in assets and liabilities:	
Increase in inventories [(c)]	(80)
Increase in trade payables [(d)]	20
Net cash generated from continuing operating activities	360
Net cash used by discontinued operations	(100)
Net cash inflow from operating activities	260
Cash flows from investing activities	
Acquisition of property, plant and equipment	(400)
Net cash used in continuing investing activities	(400)
Net cash generated from investing activities – discontinued operations	120
Net cash outflow from investing activities	(280)
Cash flows from financing activities	
Net cash generated from / (used in) financing activities	-
Net cash generated from / (used in) financing discontinued operations	-
Net cash flow financing activities	-
Decrease in cash and cash equivalents in 20X3	**(20)**
Opening cash and cash equivalents (1 January 20X3)	280
Closing cash and cash equivalents (31 December 20X3)	**260**

a) Depreciation of property, plant and equipment – continuing operations

	CU
Opening balance as at 1 January 20X3 (excluding discontinued operations)	60
Add: Acquisition of property, plant and equipment	400
Less: Closing balance of property, plant and equipment	(400)
Depreciation	**60**

The opening balance is calculated by deducting the amount of property, plant and equipment which relates to the discontinued operations on 31 December 20X2 (CU140) from the opening balance of entity A's property, plant and equipment at that date (CU200).

b) Profit from discontinued operations

The profit from discontinued operations is adjusted to avoid double counting.

The cash movement of 100 is obtained from the additional information above.

c) Increase in inventories – continuing operations

	CU
Closing balance as at 31 December 20X3	190
Less: opening balance (excluding discontinued operations)	(110)
Increase in inventories	**80**

The opening balance at 1 January 20X3 (excluding discontinued operations) is calculated by deducting the amount of inventories relating to the discontinued operations as at 31 December 20X2 (CU50) from the opening balance of Entity A's inventories (CU160) at the same date.

d) Increase in trade payables – continuing operations

	CU
Closing balance on 31 December 20X3	180
Less: opening balance (excluding discontinued operations)	(160)
Increase in trade payables	**(20)**

The opening balance (excluding discontinued operations) is calculated by deducting the balance of trade payables which relates to the discontinued operations as at 31 December 20X2 (CU120) from the balance of total trade payables of Entity A as at the same date (CU280).

Statement of cash flows vs. Statement of financial position

	Statement of cash flows CU	Statement of financial position CU
Opening balance of cash and cash equivalents	280	280
Net increase/(decrease) in cash and cash equivalents	(20)	(50)
Closing balance of cash and cash equivalents	**260**	**230**

The differences in the amounts for the net (decrease) in cash and cash equivalents, and in the closing balance of cash and cash equivalents, is because cash and cash equivalents of CU30 related to the food sector disposal group are included within the single line item *Assets in disposal groups classified as held for sale* in the statement of financial position.

15.2. Worked example – Discontinued operations disposed of in full during the reporting period

Extracts from Entity B's statement of financial position as at 31 December 20X2 and 20X3 are as follows:

	31/12/20X3 CU	31/12/20X2 CU
Assets		
Cash and cash equivalents	3,400	1,600
Assets in disposal groups classified as held for sale	-	900
Property, plant and equipment	1,700	1,400
Total	**5,100**	**3,900**
Liabilities and equity		
Trade payables	(550)	(240)
Liabilities directly associated with assets in disposal groups classified as held for sale	-	(490)
Equity	(4,550)	(3,170)
Total	**(5,100)**	**(3,900)**

Additional information:

- During 20X3, Entity B acquired property, plant and equipment (PP&E) for CU420. The PP&E is not included in the discontinued operation
- On 30 June 20X3 Entity B paid dividends of CU140
- On 1 August 20X3, Entity B disposed of all of the assets and liabilities of the discontinued operation for cash proceeds of CU1,300. The carrying amount of the discontinued operation's net assets as at the disposal date was CU1,050
- The following transactions and events took place in the discontinued operation during 20X3, prior to the date on which it was disposed of:
  - Property, plant and equipment was sold for cash proceeds of CU440
  - A loan of CU320 was repaid
  - Accounts receivable of CU480 were settled in cash.
- As at 31 December 20X2, cash and cash equivalents were not included in non-current assets classified as held for sale
- Entity B has adopted an accounting policy for the presentation of dividends received and dividends paid as cash flows derived from investing and financing activities, respectively (IAS 7.33)
- The effects of tax have been ignored.

	31/12/20X3 CU
Cash flows from operating activities	
Profit for the period [(a)]	1,520
Adjustments for income and expenses not involving cash flows	
Depreciation of property, plant and equipment [(b)]	120
Profit from discontinued operations [(c)]	(890)
Changes in assets and liabilities	
Increase in trade payables	310
Net cash generated from continuing operating activities	1,060
Net cash generated from discontinued operations [(d)]	480
Net cash inflows from operating activities	**1,540**
Cash flows from investing activities	
Acquisition of property, plant and equipment	(420)
Net cash used in continuing investing activities	(420)
Net cash generated from investing activities – discontinued operations [(e)]	1,740
Net cash inflows from investing activities	**1,320**
Cash flows from financing activities	
Dividend paid	(140)
Net cash used in continuing financing activities	(140)
Net cash used in financing discontinued operations [(f)]	(320)
Net cash outflows from financing activities	**(460)**
Increase in cash and cash equivalents in 20X3	**2,400**
Less: increase in cash and cash equivalents attributable to discontinued operations disposed of during the period [(g)]	(600)
Opening cash and cash equivalents (1 January 20X3)	1,600
Closing cash and cash equivalents (31 December 20X3)	**3,400**

a) Profit for the period

The profit for the period is equal to the change in equity before distributions. This is calculated as equity as at 31 December 20X3 of CU4,550 plus dividends paid of CU140, less the opening balance of equity of CU3,170.

b) Depreciation of property, plant and equipment (PP&E)

	CU
Opening balance as at 1 January 20X3	1,400
Add: Acquisition of PP&E during 20X3	420
Less: Closing balance as at 31 December 20X3	(1,700)
Depreciation of PP&E	**120**

c) Profit from discontinued operations

	CU
Gain on disposal [(i)]	250
Add: Profit during the period up to disposal [(ii)]	640
Profit from discontinued operations	**890**

[(i)] Consideration received of CU1,300 less the closing net assets of the discontinued operations of CU1,050 (see additional information above).

[(ii)] Equal to the change in net assets of the discontinued operation, calculated as closing net assets of CU1,050 less opening net assets (assets of CU900 less liabilities of CU490).

d) Net cash generated from discontinued operations

In this case, it has been assumed that all operating activities had ceased by 1 January 20X3.

Consequently, the only cash flows that would be expected to be received would be the collection of trade receivables and other receivable balances. The additional information above notes that cash receipts of CU480 were received from the settlement of trade receivables.

e) Net cash generated from investing activities – discontinued operations

These are comprised of proceeds from the disposal of operations (CU1,300) plus cash received from the sale of property, plant and equipment (CU440)

f) Net cash used in financing – discontinued operations

This relates to the repayment of the loan of CU320.

g) Increase in cash and cash equivalents attributable to the discontinued operations that have been disposed of

This comprises all cash flows attributable to the discontinued operation up to the point at which it was disposed of, but does not include cash flows attributable to cash receipts from the sale of the discontinued operation.

The amount is therefore the cash inflow from the decrease in accounts receivable (CU480) plus cash proceeds from the sale of property, plant and equipment (CU440) less the cash outflow associated with the repayment of the loan (CU320).

Statement of cash flows vs. Statement of financial position

	Statement of cash flows CU	Statement of financial position CU
Opening balance of cash and cash equivalents	1,600	1,600
Net increase/ (decrease) in cash and cash equivalents	1,800	1,800
Closing balance of cash and cash equivalents	**3,400**	**3,400**

The amounts included in both primary statements are the same, because at the reporting period end there is no discontinued operation to be presented separately in the statement of financial position.

Alternative 2 – presentation of discontinued operations in the notes

	31/12/20X3 CU
Cash flows from operating activities	
Profit for the period [(a)]	1,520
Adjustments for income and expenses not involving cash flows:	
Depreciation of property, plant and equipment [(b)]	120
Profit from discontinued operations [(c)]	(890)
Changes in assets and liabilities:	
Decrease in trade receivables	480
Increase in trade payables	310
Net cash inflow from operating activities	1,540
Cash flows from investing activities	
Acquisition of property, plant and equipment	(420)
Sale of property, plant and equipment	440
Disposal of discontinued operation, net of cash disposed of	700
Net cash inflow from investing activities	720
Cash flows from financing activities	
Loan repayment	(320)
Dividend paid	(140)
Net cash used in financing activities	**(460)**
Increase in cash and cash equivalents in 20X3	**1,800**
Opening cash and cash equivalents (1 January 20X3)	1,600
Closing cash and cash equivalents (31 December 20X3)	**3,400**

a) Profit for the period

The profit for the period is equal to the change in equity before distributions. This is calculated as equity as at 31 December 20X3 of CU4,550 plus dividends paid of CU140, less the opening balance of equity of CU3,170.

b) Depreciation of property, plant and equipment (PP&E)

	CU
Opening balance as at 1 January 20X3	1,400
Add: Acquisition of PP&E during 20X3	420
Less: Closing balance as at 31 December 20X3	(1,700)
Depreciation of PP&E	**120**

c) Profit from discontinued operations

	CU
Gain on disposal [(i)]	250
Add: Profit during the period up to disposal [(ii)]	640
Profit from discontinued operations	**890**

[(i)] Consideration received of CU1,300 less the closing net assets of the discontinued operations of CU1,050 (see additional information above).

[(ii)] Equal to the change in net assets of the discontinued operation, calculated as closing net assets of CU1,050 less opening net assets (assets of CU900 less liabilities of CU490).

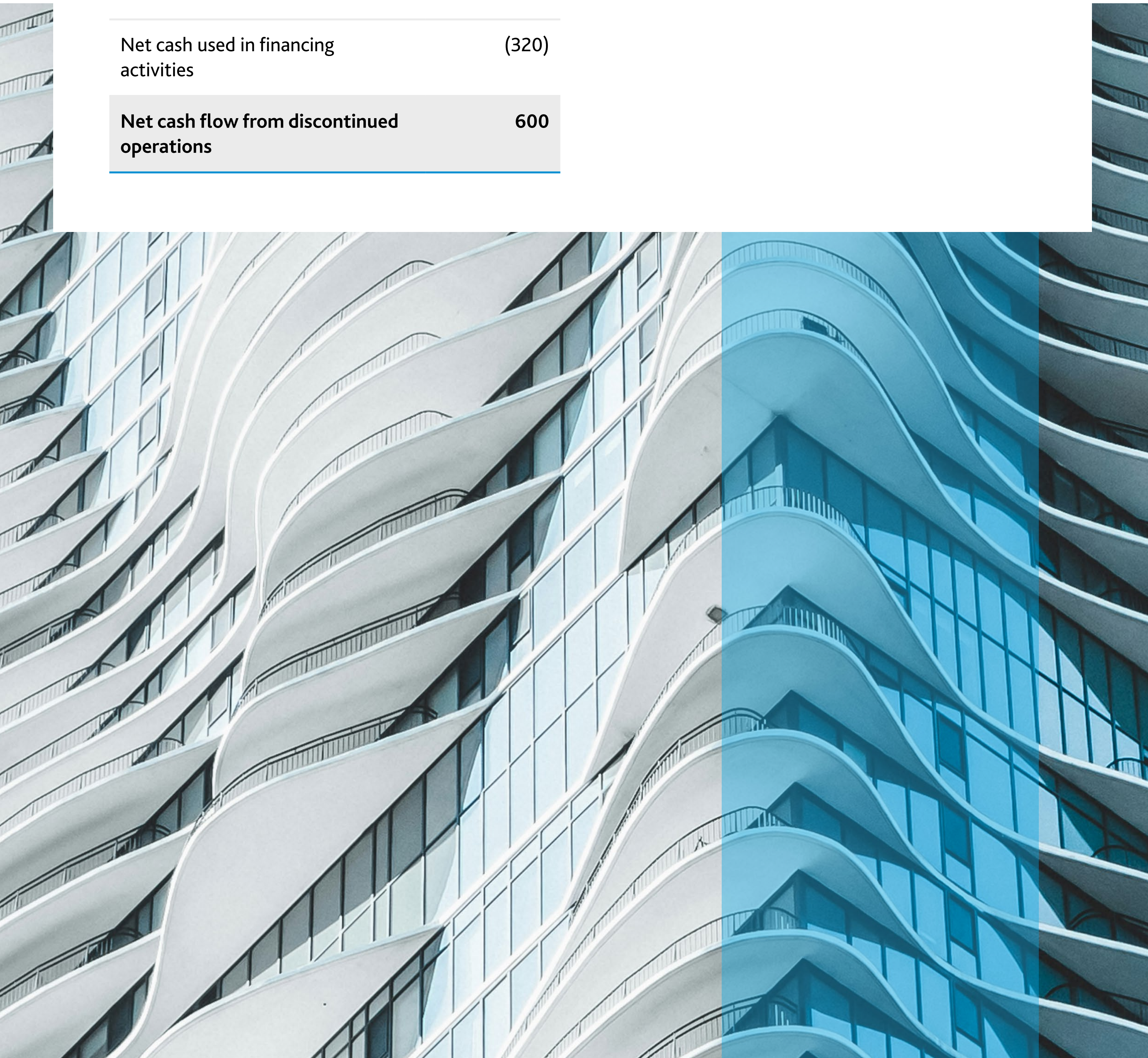
Notes to the financial statements (extract)

Note [x] – Discontinued operations (extract)

Entity B disposed all of the assets and liabilities of the discontinued operation for cash proceeds of CU1,300 during the year 20X3.

The statement of cash flows includes the following amounts relating to discontinued operations:

	31/12/20X3 CU
Net cash generated by operating activities	480
Net cash generated by investing activities	440
Net cash used in financing activities	(320)
Net cash flow from discontinued operations	**600**



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