

**ACCOUNTING STANDARD**

**AASB 107**

July 2004

# **Cash Flow Statements**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## Obtaining a Copy of this Accounting Standard

This Standard is available on the AASB website: [www.aasb.com.au](http://www.aasb.com.au).  
Alternatively, printed copies of this Standard are available for purchase by contacting:

The Customer Service Officer  
Australian Accounting Standards Board  
Level 3  
530 Collins Street  
Melbourne Victoria 3000  
AUSTRALIA

**Postal address:**  
PO Box 204 Collins St West  
Melbourne Victoria 8007  
AUSTRALIA

Phone: (03) 9617 7637  
Fax: (03) 9617 7608  
E-mail: [publications@aaab.com.au](mailto:publications@aaab.com.au)  
Website: [www.aasb.com.au](http://www.aasb.com.au)

Other enquiries:

Phone: (03) 9617 7600  
Fax: (03) 9617 7608  
E-mail: [standard@aaab.com.au](mailto:standard@aaab.com.au)

### COPYRIGHT

© 2004 Commonwealth of Australia

This AASB Standard contains International Accounting Standards Committee Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Administration Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the International Accounting Standards Committee Foundation at [www.iasb.org](http://www.iasb.org).

ISSN 1036-4803

## CONTENTS

PREFACE

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

### ACCOUNTING STANDARD AASB 107 CASH FLOW STATEMENTS

	<i>Paragraphs</i>
Objective	
Application	Aus1.1 – Aus1.7
Scope	1 – 3
Benefit of Cash Flow Information	4 – 5
Definitions	6
Cash and Cash Equivalents	7 – 9
Presentation of a Cash Flow Statement	10 – Aus12.1
Operating activities	13 – 15
Investing activities	16
Financing activities	17
Reporting Cash Flows from Operating Activities	18 – Aus20.2
Reporting Cash Flows from Investing and Financing Activities	21
Reporting Cash Flows on a Net Basis	22 – 24
Foreign Currency Cash Flows	25 – 28
Interest and Dividends	31 – 34
Taxes on Income	35 – 36
Investments in Subsidiaries, Associates and Joint Ventures	37 – 38
Acquisitions and Disposals of Subsidiaries and Other Business Units	39 – 42
Non-cash Transactions	43 – 44
Components of Cash and Cash Equivalents	45 – 47
Other Disclosures	48 – 52
ILLUSTRATIVE EXAMPLES	<i>Page 23</i>

Australian Accounting Standard AASB 107 *Cash Flow Statements* is set out in paragraphs Aus1.1 – 52. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 107 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## **PREFACE**

### **Reasons for Issuing AASB 107**

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

## **Main Features of this Standard**

### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

### **First-time Application and Comparatives**

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

### **Main Requirements**

The Standard:

- (a) requires a cash flow statement to be presented; and
- (b) specifies the manner in which a cash flow statement is to be prepared, including a requirement that cash flows must be classified as arising from operating, investing or financing activities.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

### **AASB 107 and IAS 7**

AASB 107 is equivalent to IAS 7 *Cash Flow Statements* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

### **Compliance with IAS 7**

Entities that comply with AASB 107 will simultaneously be in compliance with IAS 7.

### **AASB 107 and IPSAS 2**

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

IPSAS 2 *Cash Flow Statements* (May 2000) is drawn primarily from IAS 7. The main difference between IPSAS 2 and AASB 107 is that IPSAS 2 allows either the direct or indirect method to be used to present cash flows from operating activities. Where the direct method is used to present cash flows from operating activities, IPSAS 2 (paragraph 29) encourages disclosure of a reconciliation of net surplus from ordinary activities to operating cash flows in the notes to the financial statements. AASB 107 requires cash flows from operating activities to be presented using the direct method and requires a reconciliation to profit or loss (or net cost of services, when applicable) to be disclosed in the notes.



## **ACCOUNTING STANDARD AASB 107**

The Australian Accounting Standards Board makes Accounting Standard AASB 107 *Cash Flow Statements* under section 334 of the *Corporations Act 2001*.

Dated 15 July 2004

D.G. Boymal  
Chair – AASB

## **ACCOUNTING STANDARD AASB 107 CASH FLOW STATEMENTS**

### **Objective**

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

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

### **Application**

**Aus1.1 This Standard applies to:**

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;**
- (b) general purpose financial reports of each reporting entity; and**
- (c) financial reports that are, or are held out to be, general purpose financial reports.**

**Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.**

- Aus1.3** This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus1.4** The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus1.5** When applicable, this Standard supersedes:
- (a) AASB 1026 *Statement of Cash Flows* as notified in the *Commonwealth of Australia Gazette* No S 415, 16 October 1997; and
  - (b) AAS 28 *Statement of Cash Flows* as issued in October 1997.
- Aus1.6** Both AASB 1026 and AAS 28 remain applicable until superseded by this Standard.
- Aus1.7** Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

## Scope

1. An entity shall prepare a cash flow statement in accordance with the requirements of this Standard and shall present it as an integral part of its financial report for each period for which a financial report is presented.
2. [Deleted by the AASB]
3. Users of an entity's financial report are interested in how the entity generates and uses *cash* and *cash equivalents*. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors.

## Benefits of Cash Flow Information

4. A cash flow statement, when used in conjunction with the rest of the financial report, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its

liquidity and solvency) and its ability to affect the amounts and timing of *cash flows* in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

5. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

## Definitions

6. **The following terms are used in this Standard with the meanings specified.**

***Cash* comprises cash on hand and demand deposits.**

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

***Cash flows* are inflows and outflows of cash and cash equivalents.**

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

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

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

## Cash and Cash Equivalents

7. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an

investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, 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. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

8. Bank borrowings are generally considered to be *financing activities*. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
9. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

## **Presentation of a Cash Flow Statement**

10. **The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.**
11. An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.
12. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

**Aus12.1 An entity is encouraged to adopt the cash flow statement format presented in the Illustrative Examples unless an**

**alternative cash flow statement format is more relevant to users in understanding the entity's cash flows.**

## **Operating Activities**

13. The amount of cash flows arising from *operating activities* is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
14. Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:
  - (a) cash receipts from the sale of goods and the rendering of services;
  - (b) cash receipts from royalties, fees, commissions and other revenue;
  - (c) cash payments to suppliers for goods and services;
  - (d) cash payments to and on behalf of employees;
  - (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
  - (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and *investing activities*; and
  - (g) cash receipts and payments from contracts held for dealing or trading purposes.

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

15. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired

specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

### **Investing Activities**

16. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:
- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
  - (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
  - (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
  - (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
  - (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
  - (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
  - (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
  - (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held

for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

### **Financing Activities**

17. The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
- (a) cash proceeds from issuing shares or other equity instruments;
  - (b) cash payments to owners to acquire or redeem the entity's shares;
  - (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
  - (d) cash repayments of amounts borrowed; and
  - (e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

### **Reporting Cash Flows from Operating Activities**

18. An entity shall report cash flows from operating activities using:
- (a) **the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.**
  - (b) [Deleted by the AASB]
19. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
- (a) from the accounting records of the entity; or
  - (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the income statement for:

- (i) changes during the period in inventories and operating receivables and payables;
- (ii) other non-cash items; and
- (iii) other items for which the cash effects are investing or financing cash flows.

20. [Deleted by the AASB]

**Aus20.1 A reconciliation of cash flows arising from operating activities to profit or loss shall be disclosed in the financial report.**

**Aus20.2 Notwithstanding paragraph Aus20.1, not-for-profit entities that highlight the net cost of services in their income statement for the reporting period shall disclose in the financial report a reconciliation of cash flows arising from operating activities to net cost of services as reported in the income statement.**

## **Reporting Cash Flows from Investing and Financing Activities**

**21. An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.**

## **Reporting Cash Flows on a Net Basis**

**22. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**

- (a) 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**
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

**23. Examples of cash receipts and payments referred to in paragraph 22(a) are:**

- (a) the acceptance and repayment of demand deposits of a bank;**

- (b) funds held for customers by an investment entity; and
- (c) rents collected on behalf of, and paid over to, the owners of properties.

Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:

- (a) principal amounts relating to credit card customers;
- (b) the purchase and sale of investments; and
- (c) other short-term borrowings, for example, those which have a maturity period of three months or less.

**24. Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:**

- (a) **cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**
- (b) **the placement of deposits with and withdrawal of deposits from other financial institutions; and**
- (c) **cash advances and loans made to customers and the repayment of those advances and loans.**

## **Foreign Currency Cash Flows**

- 25. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.**
- 26. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**
- 27. Cash flows denominated in a foreign currency are reported in a manner consistent with AASB 121 *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, AASB 121 does not permit use of the exchange rate at the reporting date when translating the cash flows of a foreign subsidiary.

28. 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 cash flow statement 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.
29. [Deleted by the IASB]
30. [Deleted by the IASB]

## **Interest and Dividends**

31. **Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.**
32. The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the income statement or capitalised in accordance with the allowed alternative treatment in AASB 123 *Borrowing Costs*.
33. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
34. Dividends paid shall be classified as a financing cash flow because they are a cost of obtaining financial resources.

## **Taxes on Income**

35. **Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.**

36. Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

### **Investments in Subsidiaries, Associates and Joint Ventures**

37. When accounting for an investment in an associate or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends and advances.
38. An entity reports its interest in a jointly controlled entity (see AASB 131 *Interests in Joint Ventures*) using the equity method and includes in its cash flow statement the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

### **Acquisitions and Disposals of Subsidiaries and Other Business Units**

39. **The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities.**
40. **An entity shall disclose, in aggregate, in respect of both acquisitions and disposals of subsidiaries or other business units during the period each of the following:**
- (a) **the total purchase or disposal consideration;**
  - (b) **the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;**

- (c) **the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of; and**
  - (d) **the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category.**
41. The separate presentation of the cash flow effects of acquisitions and disposals of subsidiaries and other business units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those of acquisitions.
42. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

### **Non-cash Transactions**

43. **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial report in a way that provides all the relevant information about these investing and financing activities.**
44. Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
  - (b) the acquisition of an entity by means of an equity issue; and
  - (c) the conversion of debt to equity.

### **Components of Cash and Cash Equivalents**

45. **An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its**

**cash flow statement with the equivalent items reported in the balance sheet.**

46. In view of the variety of cash management practices and banking arrangements around the world and in order to comply with AASB 101 *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.
47. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## **Other Disclosures**

48. **An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.**
49. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.
50. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:
  - (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
  - (b) [Deleted by the AASB]
  - (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and

- (d) the amount of the cash flows arising from the operating, investing and financing activities of each reported industry and geographical segment (see AASB 114 *Segment Reporting*).
51. The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.
52. The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

### **Effective Date of IAS 7**

53. [Deleted by the AASB]

## ILLUSTRATIVE EXAMPLES

*These examples accompany, but are not part of, AASB 107.*

### A. Cash Flow Statement for an Entity other than a Financial Institution

1. The examples show only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with AASB 101 *Presentation of Financial Statements*.
2. Information from the income statement and balance sheet is provided to show how the statements of cash flows under the direct method and reconciliation of cash flows from operating activities to profit or loss have been derived. Neither the income statement nor the balance sheet is presented in conformity with the disclosure and presentation requirements of other Australian Accounting Standards.

3. The following additional information is also relevant for the preparation of the statements of cash flows:

- all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	100
Accounts receivable	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

- 250 was raised from the issue of share capital and a further 250 was raised from long-term borrowings.
- interest expense was 400, of which 170 was paid during the period. Also, 100 relating to interest expense of the prior period was also paid during the period.
- dividends paid were 1,200.
- the liability for tax at the beginning and end of the period was 1,000 and 400 respectively. During the period, a further 200 tax was provided for. Withholding tax on dividends received amounted to 100.

- during the period, the group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.
- plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
- accounts receivable as at end of 20-2 include 100 of interest receivable.

### **Consolidated Income Statement for the period ended 20-2**

Sales	30,650
Cost of sales	<u>(26,000)</u>
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Investment income	500
Foreign exchange loss	<u>(40)</u>
Profit before income tax	3,350
Income tax expense	<u>(300)</u>
Profit for the period	<u><u>3,050</u></u>

## Consolidated Balance Sheet as at the end of 20-2

	20-2	20-1
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	230	160
Accounts receivable	1,900	1,200
Inventory	1,000	1,950
Portfolio investments	2,500	2,500
<b>Total Current Assets</b>	<u>5,630</u>	<u>5,810</u>
<b>Non-current Assets</b>		
Property, plant and equipment at cost	3,730	1,910
Accumulated depreciation	<u>(1,450)</u>	<u>(1,060)</u>
Property, plant and equipment net	<u>2,280</u>	<u>850</u>
<b>Total Non-current Assets</b>	<u>2,280</u>	<u>850</u>
<b>Total Assets</b>	<u><u>7,910</u></u>	<u><u>6,660</u></u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	<u>400</u>	<u>1,000</u>
<b>Total Current Liabilities</b>	<u>880</u>	<u>2,990</u>
<b>Non-current Liabilities</b>		
Long term debt	<u>2,300</u>	<u>1,040</u>
<b>Total Non-current Liabilities</b>	<u>2,300</u>	<u>1,040</u>
<b>Total Liabilities</b>	<u><u>3,180</u></u>	<u><u>4,030</u></u>
<b>Net Assets</b>	<u><u>4,730</u></u>	<u><u>2,630</u></u>
<b>Equity</b>		
Share capital	1,500	1,250
Retained earnings	<u>3,230</u>	<u>1,380</u>
<b>Total Equity</b>	<u><u>4,730</u></u>	<u><u>2,630</u></u>

## Direct Method Cash Flow Statement (paragraph 18)

		20-2
<b>Cash flows from operating activities</b>		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
	2,550	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
	1,380	
<i>Net cash used in operating activities</i>		1,380
 <b>Cash flows from investing activities</b>		
Acquisition of subsidiary X, net of cash acquired (Note 1)	(550)	
Purchase of property, plant and equipment (Note 2)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
	(480)	
<i>Net cash used in investing activities</i>		(480)
 <b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Dividends paid	(1,200)	
	(790)	
<i>Net cash used in financing activities</i>		(790)
 <b>Net increase in cash and cash equivalents</b>		 110
<b>Cash and cash equivalents at beginning of period (Note 3)</b>		 120
		230
<b>Cash and cash equivalents at end of period (Note 3)</b>		230

## Notes to the Cash Flow Statement (direct method)

### 1. Acquisition of Subsidiary

During the period the group acquired subsidiary X. The fair value of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price	<u>590</u>
Less: Cash of X	<u>(40)</u>
Cash flow on acquisition net of cash acquired	<u><u>550</u></u>

### 2. Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.

### 3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	20-2	20-1
Cash on hand and balances with banks	40	25
Short-term investments	<u>190</u>	<u>135</u>
Cash and cash equivalents as previously reported	230	160
Effect of exchange rate changes	–	(40)
Cash and cash equivalents as restated	<u><u>230</u></u>	<u><u>120</u></u>

Cash and cash equivalents at the end of the period include deposits with banks of 100 held by a subsidiary which are not freely remissible to the holding company because of currency exchange restrictions.

The Group has undrawn borrowing facilities of 2,000 of which 700 may be used only for future expansion.

#### 4. Segment Information

	Segment A	Segment B	Total
Cash flows from:			
Operating activities	1,520	(140)	1,380
Investing activities	(640)	160	(480)
Financing activities	(570)	(220)	(790)
	310	(200)	110

#### 5. Reconciliation of Net Cash provided by Operating Activities to Profit or Loss (see paragraph Aus20.1)

	<b>20-2</b>
Profit	3,050
Adjustments for:	
Depreciation	450
Foreign exchange loss	40
Investment income	(500)
	3,040
Increase in trade and other receivables	(500)
Decrease in inventories	1,050
Decrease in trade payables	(1,740)
Decrease in income tax payable	(600)
Increase in interest payable	130
<i>Net cash from operating activities</i>	1,380

## B. Cash Flow Statement for a Financial Institution

1. The example shows only current period amounts. Comparative amounts for the preceding period are required to be presented in accordance with AASB 101 *Presentation of Financial Statements*.
2. The example is presented using the direct method.

20-2

<b>Cash flows from operating activities</b>		
Interest and commission receipts	28,447	
Interest payments	(23,463)	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
	4,224	
<i>(Increase) decrease in operating assets:</i>		
Short-term funds	(650)	
Deposits held for regulatory or monetary control purposes	234	
Funds advanced to customers	(288)	
Net increase in credit card receivables	(360)	
Other short-term negotiable securities	(120)	
<i>Increase (decrease) in operating liabilities:</i>		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
	3,440	
Income taxes paid	(100)	
	3,340	
<i>Net cash from operating activities</i>		3,340
<b>Cash flows from investing activities</b>		
Disposal of subsidiary Y	50	
Dividends received	200	
Interest received	300	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
	650	
<i>Net cash from investing activities</i>		650

		<b>20-2</b>
<b>Cash flows from financing activities</b>		
Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
	<hr/>	
<i>Net cash from financing activities</i>		200
Effects of exchange rate changes on cash and cash equivalents		600
		<hr/>
<b>Net increase in cash and cash equivalents</b>		4,790
<b>Cash and cash equivalents at beginning of period</b>		4,050
		<hr/>
<b>Cash and cash equivalents at end of period</b>		<b>8,840</b>
		<hr/>