

## **International Accounting Standard IAS 7**

# Statement of Cash Flows

**January 2012**

*(incorporating amendments from IFRSs issued up to 31 December 2011, including those with an effective date after 1 January 2012)*

### **BASIS FOR CONCLUSIONS**

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## **Basis for Conclusions on IAS 7 Statement of Cash Flows**

*This Basis for Conclusions accompanies, but is not part of, IAS 7.*

- BC1 This Basis for Conclusions summarises the considerations of the International Accounting Standards Board in reaching its conclusions on amending IAS 7 *Statement of Cash Flows* as part of *Improvements to IFRSs* issued in April 2009. Individual Board members gave greater weight to some factors than to others.
- BC2 IAS 7 was developed by the International Accounting Standards Committee in 1992 and was not accompanied by a Basis for Conclusions. This Basis refers to clarification of guidance on classification of cash flows from investing activities.

### **Classification of expenditures on unrecognised assets**

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- BC3 In 2008 the International Financial Reporting Interpretations Committee (IFRIC) reported to the Board that practice differed for the classification of cash flows for expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs. Some entities classified such expenditures as cash flows from operating activities and others classified them as investing activities. Examples of such expenditures are those for exploration and evaluation activities, which IFRS 6 *Exploration for and Evaluation of Mineral Resources* permits to be recognised as either an asset or an expense depending on the entity's previous accounting policies for those expenditures. Expenditures on advertising and promotional activities, staff training, and research and development could also raise the same issue.
- BC4 The IFRIC decided not to add this issue to its agenda but recommended that the Board should amend IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activity.
- BC5 In 2008, as part of its annual improvements project, the Board considered the principles in IAS 7, specifically guidance on the treatment of such expenditures in the statement of cash flows. The Board noted that even though paragraphs 14 and 16 of IAS 7 appear to be clear that only expenditure that results in the recognition of an asset should be classified as cash flows from investing activities, the wording is not definitive in this respect. Some might have misinterpreted the reference in paragraph 11 of IAS 7 for an entity to assess classification by activity that is most appropriate to its business to imply that the assessment is an accounting policy choice.
- BC6 Consequently, in *Improvements to IFRSs* issued in April 2009, the Board removed the potential misinterpretation by amending paragraph 16 of IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

- BC7 The Board concluded that this amendment better aligns the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position, reduces divergence in practice and, therefore, results in financial statements that are easier for users to understand.
- BC8 The Board also amended the Basis for Conclusions on IFRS 6 to clarify the Board's view that the exemption in IFRS 6 applies only to recognition and measurement of exploration and evaluation assets, not to the classification of related expenditures in the statement of cash flows, for the same reasons set out in paragraph BC7.