

IAS 7 — Statement of Cash Flows

Quick Article Links ▼

Overview

IAS 7 *Statement of Cash Flows* requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities, with the latter two categories generally presented on a gross basis.

IAS 7 was reissued in December 1992, retitled in September 2007, and is operative for financial statements covering periods beginning on or after 1 January 1994.

History of IAS 7

June 1976	Exposure Draft E7 <i>Statement of Source and Application of Funds</i>
October 1977	IAS 7 <i>Statement of Changes in Financial Position</i>
July 1991	Exposure Draft E36 <i>Cash Flow Statements</i>
December 1992	IAS 7 (1992) <i>Cash Flow Statements</i>
1 January 1994	Effective date of IAS 7 (1992)
6 September 2007	Retitled from <i>Cash Flow Statements</i> to <i>Statement of Cash Flows</i> as a consequential amendment resulting from revisions to IAS 1
16 April 2009	IAS 7 amended by Annual Improvements to IFRSs 2009 with respect to expenditures that do not result in a recognised asset.

1 July 2009	Effective date for amendments from IAS 27(2008) relating to changes in ownership of a subsidiary
1 January 2010	Effective date of the April 2009 revisions to IAS 7

Related Interpretations

- None

Amendments under consideration by the IASB

- [Disclosure initiative – Reconciliation of liabilities from financing activities](#)
- [Disclosure initiative – Principles of disclosure](#) (research project)

Summary of IAS 7

Objective of IAS 7

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

Fundamental principle in IAS 7

All entities that prepare financial statements in conformity with IFRSs are required to present a statement of cash flows. [IAS 7.1]

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

Presentation of the Statement of Cash Flows

Cash flows must be analysed between operating, investing and financing activities. [IAS 7.10]

Key principles specified by IAS 7 for the preparation of a statement of cash flows are as follows:

- **operating activities** are the main revenue-producing activities of the entity that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees [IAS 7.14]

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

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

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

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

Profit before interest and income taxes		xx,xxx
Add back depreciation		xx,xxx
Add back impairment of assets		xx,xxx
Increase in receivables		xx,xxx
Decrease in inventories		xx,xxx
Increase in trade payables		xx,xxx
Interest expense	xx,xxx	

Less Interest accrued but not yet paid	xx,xxx	
Interest paid		xx,xxx
Income taxes paid		xx,xxx
Net cash from operating activities		xx,xxx

- the exchange rate used for translation of transactions denominated in a foreign currency should be the rate in effect at the date of the cash flows [IAS 7.25]
- cash flows of foreign subsidiaries should be translated at the exchange rates prevailing when the cash flows took place [IAS 7.26]
- as regards the cash flows of associates and joint ventures, where the equity method is used, the statement of cash flows should report only cash flows between the investor and the investee; where proportionate consolidation is used, the cash flow statement should include the venturer's share of the cash flows of the investee [IAS 7.37-38]
- aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures. [IAS 7.39] The aggregate cash paid or received as consideration should be reported net of cash and cash equivalents acquired or disposed of [IAS 7.42]
- cash flows from investing and financing activities should be reported gross by major class of cash receipts and major class of cash payments except for the following cases, which may be reported on a net basis: [IAS 7.22-24]
 - cash receipts and payments on behalf of customers (for example, receipt and repayment of demand deposits by banks, and receipts collected on behalf of and paid over to the owner of a property)
 - cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short, generally less than three months (for example, charges and collections from credit card customers, and purchase and sale of investments)
 - cash receipts and payments relating to deposits by financial institutions
 - cash advances and loans made to customers and repayments thereof
- investing and financing transactions which do not require the use of cash should be excluded from the statement of cash flows, but they should be separately disclosed elsewhere in the financial statements [IAS 7.43]
- the components of cash and cash equivalents should be disclosed, and a reconciliation presented to amounts reported in the statement of financial position [IAS 7.45]
- the amount of cash and cash equivalents held by the entity that is not available for use by the group should be disclosed, together with a commentary by management [IAS 7.48]

You will find sample IFRS statements of cash flows in our [Model IFRS financial statements](#).



Related news

EFRAG issues 'Short Discussion Series' paper on the cash flow statements
15 Jul 2015

We comment on the proposed amendments to IAS 7
01 Apr 2015

IASB issues 'Investor Perspectives' on cash flows
23 Mar 2015

EFRAG draft comment letter on the IASB's exposure draft of amendments to IAS 7
11 Feb 2015

IASB proposes amendments to IAS 7 as result of the Disclosure initiative
18 Dec 2014

Summary of November GPF meeting now available
09 Dec 2014

[▶ All Related](#)

Related Publications

Deloitte comment letter on IASB ED/2014/6 'Disclosure Initiative (proposed amendments to IAS 7)'
01 Apr 2015

IFRS in Focus — IASB proposes amendments to IAS 7 Statement of Cash Flows under the Disclosure Initiative
18 Dec 2014

Batch #14 of extracts from the ESMA database of IFRS decisions
30 Oct 2013

Deloitte comment letter on tentative agenda decision on IAS 7 - Identification of cash equivalents
05 Apr 2013

[▶ All Related](#)

Related Projects

Annual improvements — 2006-2008 cycle

Annual improvements — 2007-2009 cycle

Annual improvements — 2010-2012 cycle

Disclosure initiative — Principles of disclosure

Disclosure initiative — Net debt

[▶ All Related](#)

[Contact us](#) | [About](#) | [Legal](#) | [Privacy](#) | [FAQs](#)

Material on this website is © 2015 Deloitte Global Services Limited, or a member firm of Deloitte Touche Tohmatsu Limited, or one of their related entities. See [Legal](#) for additional copyright and other legal information.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients.

Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.