

CICA handbook accounting and auditing highlight summary no. 96 June 1998

HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

Cash flow statements, Section 1540

The Section revises and replaces STATEMENT OF CHANGES IN FINANCIAL POSITION, Section 1540. The new Section does not apply to pension plans or not-for-profit organizations or to investment funds that meet certain criteria. In addition the financial statements of enterprises which are not public need not present a cash flow statement if the cash flow information is readily apparent from the other financial statements or is adequately disclosed in the notes to the financial statements.

The main features of the revised Section 1540 are:

- Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.
- The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.
- Cash flows from operating activities may be reported using either the direct method or the indirect method.
- Enhanced guidance is provided concerning reporting of cash flows on a net basis and translation of cash flows arising from transactions in foreign currencies.
- Cash flows from interest and dividends received and paid and included in the determination of net income should be classified as cash flows from operating activities.
- Cash flows arising from income taxes should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities, in which case they may be classified accordingly.
- The aggregate cash flows arising from each of business combinations accounted for using the purchase method and disposals of business units should be presented separately and classified as cash flows from investing activities.
- Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from the cash flow statement and disclosed elsewhere in the financial statements in a way that provides all relevant information.
- New disclosure requirements include:
 - a reconciliation of the amounts in the cash flow statement with the equivalent items presented in the balance sheet;
 - the policy adopted in determining the composition of cash and cash equivalents; and
 - the amount of cash and cash equivalents for which use is restricted.

The Recommendations should be applied for fiscal years beginning on or after August 1, 1998, although earlier adoption is encouraged. The Recommendations should be applied retroactively to comparative information for prior periods, unless it is impractical to do so.

The Section includes appendices to illustrate cash flow statements both for financial institutions and other enterprises.

Accounting guidelines

- The Year 2000 issue (AcG-10)

EIC Abstracts

New

- Revenue recognition on sales with a guaranteed minimum resale value (EIC-84)

Amended

- Accounting for Part VI.1 tax (EIC-2)
- Income statement classification of the federal large corporations tax (EIC-7)
- Reverse takeover accounting (EIC-10)

- Income statement classification of previously unrecognized loss carryforward benefits (EIC-15)
- The application of tax allocation accounting to the recognition of pension surplus (EIC-24)
- Discontinued operations (EIC-45)
- Tax effecting dilution gains and losses (EIC-48)
- Accounting for the costs of modifying internal use computer software for Year 2000 compliance (EIC-80)

Assurance and related services guidelines

- The Year 2000 issue — the auditor's consideration of financial statement disclosures, the going concern assumption, and other matters (AuG-23)
- The Year 2000 issue — service auditor responsibilities and audit evidence considerations when an entity uses a service organization (AuG-24)
- Auditor's report on summarized financial statements (AuG-25)

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