GENERAL ACCOUNTING
SECTION 1540
cash flow statement

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PURPOSE AND SCOPE

.01 Information about the cash flows of an enterprise enables users of financial statements to assess the capacity of the enterprise to generate cash and cash equivalents and the needs of the enterprise for cash resources. The adequacy of expected cash inflows, taking into consideration their timing and certainty of generation, is evaluated against cash resources required to repay maturing financial obligations, to finance the growth of productive assets and to make distributions to owners. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. The purpose of this Section is to require the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement that classifies cash flows during the period arising from operating, investing and financing activities.

.02 This Section need not be applied to an investment fund that meets all of the following criteria:

(a) during the period, substantially all of the investment fund's investments were highly liquid;

(b) substantially all the investment fund's investments are carried at fair value (as defined in FINANCIAL INSTRUMENTS, Section 3856);

(c) the investment fund has little or no debt based on average debt outstanding during the period, in relation to total assets; and

(d) the investment fund provides a statement of changes in net assets.

An investment fund that presents a cash flow statement would follow this Section.

.03 *A cash flow statement shall be presented as an integral part of the financial statements for each period for which financial statements are presented.*

.04 Users of an enterprise's financial statements are interested in how the enterprise generates and uses cash and cash equivalents. This is the case regardless of the nature of the enterprise's activities.

.05 An enterprise that presents consolidated financial statements includes a consolidated cash flow statement, in which cash flows within the consolidated entity, such as intercompany loans, repayments and other cash transfers, are eliminated.

DEFINITIONS

.06 The following terms are used in this Section with the meanings specified:

(a) **Cash** comprises cash on hand and demand deposits.

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

(c) **Cash flows** are inflows and outflows of cash and cash equivalents.

(d) **Operating activities** are the principal revenue-producing activities of the enterprise and all other activities that are not investing or financing activities.

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

(f) **Financing activities** are activities that result in changes in the size and composition of the equity capital and borrowings of the enterprise.

Cash and cash equivalents

.07 Cash subject to restrictions that prevent its use for current purposes, such as compensating balances required in accordance with lending arrangements, would not be included among cash and cash equivalents. Cash subject to restrictions would be classified on the balance sheet in accordance with CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510, and increases and decreases would be reflected in cash flows from investing activities.

.08 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investing 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.

.09 In certain circumstances, investments that qualify to be treated as cash equivalents may be classified as trading assets or investments. An enterprise would establish a policy concerning which short-term, highly liquid investments that satisfy the definition in paragraph 1540.06, will be treated as cash equivalents. For example, an investment enterprise, whose portfolio consists largely of short-term, highly liquid investments, may decide that all such items will be treated as investments rather than cash equivalents.

.10 Bank borrowings are generally considered to be financing activities. However, in some cases, bank overdrafts that are repayable on demand form an integral part of an enterprise's cash management. Bank overdrafts may be included as a component of cash and cash equivalents when the bank balance fluctuates frequently from being positive to overdrawn.

.11 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities.

CLASSIFICATION OF CASH FLOWS

.12 *The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.*

.13 An enterprise presents its cash flows from operating, investing and financing activities in a manner that 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 enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

.14 A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a liability includes both interest and principal, the interest component is classified as an operating activity and the principal component as a financing activity.

Operating activities

.15 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to repay loans, maintain the operating capability of the enterprise, make new investments and provide distributions to owners 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.

.16 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net income 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 payments of interest and dividends included in the determination of net income;

(f) cash receipts and payments of an insurance enterprise for premiums and claims, annuities and other policy benefits;

(g) cash payments and refunds of income and other taxes; and

(h) cash receipts and payments from contracts held for trading purposes.

Some transactions, such as the sale of a capital asset, may give rise to a gain or loss that is included in the determination of net income or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

.17 An enterprise may acquire securities and loans for trading purposes (i.e., specifically for resale in the near term), in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of trading assets are classified as operating activities.

Investing activities

.18 The separate presentation 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 capital assets and other long-term assets (these payments include those relating to capitalized development costs and self-constructed capital assets including interest paid and capitalized before the assets are substantially complete and ready for productive use);

(b) cash receipts from sales of capital assets and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other enterprises and interests in joint arrangements (other than payments for those instruments considered to be cash equivalents or those held for trading purposes);

(d) cash receipts from sales of equity or debt instruments of other enterprises and interests in joint arrangements (other than receipts for those instruments considered to be cash equivalents and those held for trading purposes);

(e) cash advances and loans made to other parties;

(f) cash receipts from the repayment of advances and loans made to other parties;

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for 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 trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable current or anticipated position, the cash flows of the contract may be classified in the same manner as the cash flows of the position being hedged provided that this accounting policy is disclosed.

Financing activities

.19 The separate presentation of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital and debt financing to the enterprise. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing equity instruments;

(b) cash payments to owners to acquire or redeem the enterprise'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;

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a capital lease; and

(f) cash payments of dividends and interest charged to retained earnings.

CASH FLOWS FROM OPERATING ACTIVITIES

.20 *An enterprise shall report cash flows from operating activities using either the direct method or the indirect method.*

.21 Examples of the major classes of cash flows from operating activities are contained in paragraph 1540.16. Enterprises are encouraged to report such cash flows using the direct method. The direct method provides information that may be useful in estimating future cash flows and that is not available under the indirect method. Under the direct method, the major classes of gross cash receipts and gross cash payments are presented. This information may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales, interest income and expense and other items in the income statement for:

  (i) non-cash items;

  (ii) changes during the period in inventories and operating receivables and payables;

  (iii) other deferrals or accruals of past or future operating cash receipts or payments; and

  (iv) items for which the cash effects are investing or financing cash flows.

.22 Under the indirect method, the net cash flow from operating activities is determined by adjusting net income or loss for the effects of:

(a) non-cash items such as depreciation, provisions for losses, future taxes, unrealized foreign currency gains and losses and undistributed profits of equity-accounted investees;

(b) changes during the period in inventories and operating receivables and payables;

(c) other deferrals or accruals of past or future operating cash receipts or payments; and

(d) revenues, expenses, gains or losses associated with investing or financing cash flows.

CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

.23 *An enterprise shall present 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* 1540.25-*.26 are presented on a net basis.*

.24 Examples of the major classes of investing activities are contained in paragraph 1540.18. Examples of the major classes of financing activities are contained in paragraph 1540.19.

CASH FLOWS ON A NET BASIS

.25 *Cash flows arising from each of 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 enterprise; and

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

.26 (a) Examples of cash receipts and payments referred to in paragraph 1540.25(a) are:

(i) funds held for customers by an investment enterprise; and

(ii) rents collected on behalf of, and paid over to, the owners of properties.

(b) Examples of cash receipts and payments referred to in paragraph 1540.25(b) are advances made for, and the repayment of:

(i) principal amounts relating to credit card customers;

(ii) the purchase and sale of trading assets; and

(iii) other short-term borrowings (for example, those that have a maturity period of three months or less).

FOREIGN CURRENCY CASH FLOWS

.27 *Cash flows arising from transactions in a foreign currency shall be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow.*

.28 *The cash flows of integrated foreign operations, as well as those arising from the investing and financing activities of self-sustaining foreign operations, shall be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows. Cash flows from the operating activities of self-sustaining foreign operations shall be translated at the exchange rates at which the respective items are translated for income statement purposes.*

.29 Cash flows denominated in a foreign currency are reported in a manner consistent with FOREIGN CURRENCY TRANSLATION, Section 1651. This permits use of an appropriately weighted average exchange rate for the period for the translation of revenues, expenses, gains and losses. However, use of the exchange rate at the balance sheet date when translating the cash flows of a foreign subsidiary would not be appropriate unless that rate is a reasonable approximation of the actual rates at the dates of the cash flows.

.30 Unrealized 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 denominated 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.

INTEREST AND DIVIDENDS

.31 *Cash flows from interest and dividends received and paid and included in the determination of net income shall be classified as cash flows from operating activities. Interest and dividends not included in the determination of net income shall be classified according to their nature. Dividends and interest paid and charged to retained earnings shall be presented separately as cash flows used in financing activities. Cash flows from dividends paid by subsidiaries to non-controlling interests shall be presented separately as cash flows used in financing activities.*

.32 When an enterprise acquires a financial asset or issues a financial liability at a discount, the amortization of the discount over the term of the instrument does not reflect a cash flow and would not be included in the cash flow statement.

.33 When an enterprise acquires a financial asset or issues a financial liability at a premium, the excess of the periodic interest payments, based on the stated rate, over the effective yield recognized in income is, in substance, a repayment of principal. Cash flows from operating activities would reflect interest income or expense recognized in income. The excess of actual cash flows over amounts recognized in income would be classified as cash flows from investing or financing activities.

INCOME TAXES

.34 *Cash flows arising from income taxes shall 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.*

.35 Income taxes arise on transactions 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, income tax payments and recoveries 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 may be classified as an investing or financing activity as appropriate.

INVESTMENTS IN EQUITY-ACCOUNTED SUBSIDIARIES, INVESTEES AND JOINT ARRANGEMENTS

.36 When an investment in an entity is accounted for by use of the equity 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).

.37 When an enterprise has an interest in a joint arrangement and accounts for that interest in accordance with INTERESTS IN JOINT ARRANGEMENTS, paragraphs 3056.17-.18, the enterprise includes in its consolidated cash flow statement its share of the joint arrangement's cash flows.

BUSINESS COMBINATIONS AND DISPOSALS OF BUSINESS UNITS

.38 *The aggregate cash flows arising from each of business combinations and disposals of business units shall be presented separately and classified as cash flows from investing activities.*

.39 The separate presentation of the cash flow effects of business combinations accounted for as purchases and disposals of business units, together with the separate disclosure of the total 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.

.40 The aggregate amount of the cash paid or received as purchase or sale consideration is presented in the cash flow statement net of cash and cash equivalents acquired or disposed of.

NON-CASH TRANSACTIONS

.41 *Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement.*

.42 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 enterprise. 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 by assuming directly related liabilities;

(b) the acquisition of assets by means of a capital lease;

(c) the acquisition of an enterprise in exchange for shares of the acquirer; and

(d) the conversion of debt to equity.

An example of a transaction that would be considered a cash inflow followed by a cash outflow rather than a non-cash transaction is the acquisition of a building financed by a third party mortgage when the lender pays the vendor directly.

DISCLOSURE

Cash and cash equivalents

.43 *An enterprise shall disclose the policy that it adopts in determining the composition of cash and cash equivalents and present a reconciliation of the amounts presented in its cash flow statement with the equivalent items presented in the balance sheet.*

.44 *An enterprise shall disclose the amount of cash and cash equivalents for which use is restricted.*

.45 As discussed in paragraph 1540.09, in certain circumstances an enterprise may classify investments that qualify to be treated as cash equivalents, as trading assets or investments. In such circumstances, the policy for determining components of cash and cash equivalents would be disclosed. Any change in the policy for determining the components of cash and cash equivalents (for example, a change in the classification of financial instruments previously considered to be part of an enterprise's investment portfolio), would be disclosed in accordance with ACCOUNTING CHANGES, Section 1506.

.46 Paragraph 1540.07 discusses cash subject to restrictions that prevent its use for current purposes. In other circumstances, cash and cash equivalents may be available for current purposes but on a restricted basis. Examples of the latter type of restriction that would be disclosed include:

(a) cash and cash equivalent balances held by a regulated subsidiary that operates in a country where exchange controls or other legal restrictions apply with the result that the balances are not available for general use by the consolidated entity; and

(b) cash and cash equivalent balances held by a joint arrangement that are restricted to use within the joint arrangement when the joint arrangement is accounted for in accordance with INTERESTS IN JOINT ARRANGEMENTS, paragraphs 3056.17-.18.

Business combinations and disposals of business units

.47 *An enterprise shall disclose, in aggregate, in respect of both business combinations and disposals of business units during the period:*

(a) the total purchase or disposal consideration;

(b) the portion of the purchase or disposal consideration composed of cash and cash equivalents; and

(c) the amount of cash and cash equivalents acquired or disposed of.

Non-cash transactions

.48 *Investing and financing transactions that do not require the use of cash or cash equivalents shall be disclosed in the notes to the financial statements in a way that provides all the relevant information about these investing and financing activities.*

EFFECTIVE DATE AND TRANSITION

.49 Except as specified in paragraphs 1540.50-.52, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.50 Amendments to paragraph 1540.22(a), issued in October 2013, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.

.51 Amendments to paragraphs 1540.18(c)-(d), 1540.37 and 1540.46(b), issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.52 Amendments to paragraph 1540.47, issued in April 2021, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2022. Earlier application is permitted.

ILLUSTRATIVE EXAMPLE
PREPARATION OF CASH FLOW STATEMENTS

This material is illustrative only.

This example indicates how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

This example illustrates the preparation of cash flow statements under both the indirect and direct methods for Company ABC Inc., a manufacturing company with foreign operations. Other formats or levels of detail may be appropriate in other circumstances. The example shows only current period amounts. In accordance with GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1400, comparative information is required to be presented, unless it is not meaningful or accounting standards for private enterprises permit otherwise.

Information from the income statement and balance sheet is provided to show how the statements of cash flows under the indirect method and direct method have been derived.

The following additional information concerning specific transactions and other changes during the period is also relevant for the preparation of the statements of cash flows:

(a) All of the shares of Subsidiary X were acquired for $590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	$100
Accounts receivable	100
Cash	40
Capital assets	650
Trade payables	100
Long-term debt	200

(b) During the period, capital assets were acquired at an aggregate cost of $1,250, of which $900 were acquired by means of capital leases. Cash of $350 was paid to purchase capital assets.

(c) Capital assets with an original cost of $80 and accumulated depreciation of $45 were sold for $20.

(d) Additional compensation of $210 was received during 20X2 for an expropriation of land accounted for in a prior period.

(e) $200 was raised from long-term borrowings.

(f) The principal component of payments in respect of capital leases was $90.

(g) $250 was raised from the issue of share capital.

(h) Dividends paid were $1,200.

(i) A foreign exchange loss of $40 arose in respect of cash balances carried in a foreign currency that devalued in relation to the reporting currency during 20X2.

(j) Dividends of $150 were received from Company Y, an investee accounted for using the equity method.

(k) Interest expense was $400 of which $170 was paid during the period. $100 relating to interest expense of the prior period was also paid during the period.

(l) The liability for current income taxes at the beginning and end of the period was $1,000 and $400 respectively. Current tax expense for the period was $250.

(m) The liability for future income taxes at the beginning and end of the period was $200 and $250 respectively.

Company ABC Inc.

Consolidated Income Statement

For the period ended December 31	20X2
Sales	$ 30,650
Cost of sales	(26,000)
Gross profit	4,650
Income from investee accounted for using the equity method	285
Gain on expropriation of land (Note 2)	210
Interest income	500
	5,645
EXPENSES	
Amortization of capital assets	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Loss on disposal of capital assets	(15)
Foreign exchange loss	(40)
Income before income taxes	3,830
Income taxes	(330)
Net income	$3,500
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See accompanying notes to consolidated financial statements.

Company ABC Inc.

Consolidated Balance Sheet

As at December 31	20X2	20X1
ASSETS		
Current assets		
Cash and cash equivalents	$ 560	$ 160
Accounts receivable	1,800	1,200
Interest receivable	100	—
Inventory	1,000	1,950
Total current assets	3,460	3,310
Portfolio investments	2,500	2,500
Investment in Company Y	1,235	1,100
Capital assets, net (Note 1)	2,265	850
Total assets	$9,460	$7,760
	=====	=====
LIABILITIES		
Current liabilities		
Trade payables	$ 250	$1,890
Interest payable	230	100

Current income taxes payable	400	1,000
Total current liabilities	880	2,990
Future income taxes payable	250	200
Capital leases	810	—
Long-term debt	2,340	1,940
Total liabilities	4,280	5,130
SHAREHOLDERS' EQUITY		
Share capital	1,500	1,250
Retained earnings	3,680	1,380
Total shareholders' equity	5,180	2,630
Total liabilities and shareholders' equity	$9,460	$7,760
	=====	=====

See accompanying notes to consolidated financial statements.

Indirect method (paragraph 1540.22)

Company ABC Inc.

Consolidated Cash Flow Statement

For the period ended December 31	20X2
Cash flows from operating activities	
Net income	$3,500
Items not affecting cash:	
Income — Company Y	(285)
Dividend — Company Y	150
Amortization of capital assets	450
Loss on disposal of capital assets	15
Compensation for expropriation of land	(210)
Foreign exchange loss	40
Future income tax expense	50
	210
Changes in non-cash working capital (net of effects of acquisition of subsidiary):	
Increase in trade and other receivables	(500)
Increase in interest receivable	(100)
Decrease in inventories	1,050
Decrease in trade payables	(1,740)
Decrease in current income taxes payable	(600)
Increase in interest payable	130
	(1,760)
Net cash provided by (used in) operating activities	1,950
Cash flows from investing activities	

Acquisition of Subsidiary X, net of cash acquired (Note 3)	(550)
Purchase of capital assets (Note 1)	(350)
Proceeds from sale of equipment	20
Compensation for expropriation of land	210
Net cash provided by (used in) investing activities	(670)
Cash flows from financing activities	
Repayment of capital lease liability	(90)
Proceeds from long-term borrowings	200
Proceeds from issue of share capital	250
Dividends paid	(1,200)
Net cash provided by (used in) financing activities	(840)
Foreign exchange loss on cash held in foreign currency	(40)
Net increase (decrease) in cash and cash equivalents	400
Cash and cash equivalents at beginning of period (Note 4)	160
Cash and cash equivalents at end of period (Note 4)	$ 560
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See accompanying notes to consolidated financial statements.

Direct method (paragraph 1540.21)

Company ABC Inc.

Consolidated Cash Flow Statement

For the period ended December 31	20X2
Cash flows from operating activities	
Cash receipts from customers	$ 30,150
Cash paid to suppliers and employees	(27,600)
Dividend from Company Y	150
Interest received	400
Interest paid	(270)
Income taxes paid	(880)
Net cash provided by (used in) operating activities	1,950
Cash flows from investing activities (Details same as indirect method)	______
Net cash provided by (used in) investing activities	(670)
Cash flows from financing activities (Details same as indirect method)	______
Net cash provided by (used in) financing activities	(840)
Foreign exchange loss on cash held in foreign currency	(40)
Net increase (decrease) in cash and cash equivalents	400
Cash and cash equivalents at beginning of period (Note 4)	160
Cash and cash equivalents at end of period (Note 4)	$ 560

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See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1: Capital assets

	20X2	20X1
Cost of capital assets	$ 3,730	$ 1,910
Accumulated amortization	(1,465)	(1,060)
Net book value	$ 2,265	$ 850
	=====	=====

During the period, capital assets were acquired at an aggregate cost of $1,250, of which $900 were acquired by means of capital leases. Cash payments of $350 were made to purchase the assets.

Note 2: Gain on expropriation of land

During the period, the Company received compensation of $210 for an expropriation of land accounted for in a prior period.

Note 3: Business combination

During the period, Subsidiary X was acquired. The fair values of assets acquired and liabilities assumed were as follows:

Cash	$ 40
Total assets other than cash	850
Total liabilities	(300)
Total purchase price	590
Less: Cash of Subsidiary X	(40)
Cash paid net of cash acquired	$ 550
	====

Note 4: 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:

	20X2	20X1
Cash on hand and balances with banks:	$ 125	$ 25
Short-term investments	435	135
Total cash and cash equivalents	$ 550	$ 160
	====	====

Worksheets for the direct method of presenting cash flows from operating activities

Net income and changes in balance sheet items result from cash flows classified as operating, investing and financing activities. For many enterprises, operating activities include numerous transactions of relatively small individual amounts while investing and financing activities generally involve fewer transactions of larger amounts. For these reasons, it may be cost-effective first to determine the effects of investing and financing activities by individual transaction, and secondly to derive the effects of operating activities in aggregate by deducting the effects of investing and financing activities from total net income and balance sheet changes during the period.

Worksheet 1 summarizes the effects on income and changes in balance sheet items resulting from investing, and financing cash flows during the period as well as the foreign exchange loss.

Worksheet 2 utilizes this information in determining cash flows from operating activities on an aggregate basis.

Worksheet 1
(debit) / credit

Non-operating cash flows by balance sheet line

This worksheet summarizes the accounting entries made during the period for all transactions not classified as operating activities. Profit and loss entries are netted within retained earnings. The "Cash and cash equivalents" line reflects the amounts recorded in the related sections of the cash flow statement.

	Investing			
	Subsidiary acquisition	Capital assets	Expropriation of land	Total investing
Balance sheet item				
Transaction reference 1a	(a)	(b), (c)	(d)	
Cash and cash equivalents	550	330	(210)	670
Accounts receivable	(100)	—	—	(100)
Inventory	(100)	—	—	(100)
Capital assets	(650)	(270)	—	(920)
Accumulated amortization	—	(45)	—	(45)
Trade payables	100	—	—	100
Capital leases	—	—	—	—
Long-term debt	—	200	—	200
Share capital	—	—	—	—
Retained earnings	—	(15)	210	195

	Financing				
Balance sheet item	Debt	Equity	Total financing	Foreign exchange loss	Total
Transaction reference 1a	(e), (f)	(g), (h)		(i)	
Cash and cash equivalents	(110)	950	840	40	1,550
Accounts receivable	—	—	—	—	(100)
Inventory	—	—	—	—	(100)
Capital assets	—	—	—	—	(920)
Accumulated amortization	—	—	—	—	(45)
Trade payables	—	—	—	—	100
Capital leases	(90)	—	(90)	—	(90)
Long-term debt	200	—	200	—	400
Share capital	—	250	250	—	250
Retained earnings	—	(1,200)	(1,200)	(40)	(1,045)

Worksheet 2
(debit) / credit

Operating cash flows by balance sheet line — direct method

This worksheet adjusts the opening balance sheet for the effects of non-operating cash flows as determined in worksheet 1. The opening balance sheet is also adjusted for the effects of non-cash transactions and income statement items during the period to arrive at a hypothetical ending balance sheet that excludes the effects of cash flows from operating activities. The differences between this balance sheet and the actual ending balance sheet reflect cash flows from operating activities as presented using the direct method.

Balance sheet 20X1	Non-operating cash flows	Balance sheet 20X2

Balance sheet item 2a			Non-cash transactions	Operating income	Sub-total		Operating cash flows
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
					(Sum 1-4)		(6)-(5)
Cash and cash equivalents	(160)	1,550	—	—	1,390	(560)	(1,950)
Accounts receivable	(1,200)	(100)	—	(30,650)	(31,950)	(1,800)	30,150
Interest receivable	—	—	—	(500)	(500)	(100)	400
Inventory	(1,950)	(100)	—	26,000	23,950	(1,000)	(24,950)
Portfolio investments	(2,500)	—	—	—	(2,500)	(2,500)	0
Investment Company Y (j)	(1,100)	—	—	(285)	(1,385)	(1,235)	150
Capital assets (b)	(1,910)	(920)	(900)	—	(3,730)	(3,730)	0
Accumulated amortization	1,060	(45)	—	450	1,465	1,465	0
Trade payables	1,890	100	—	910	2,900	250	(2,650)
Interest payable (k)	100	—	—	400	500	230	(270)
Current income taxes payable (l)	1,000	—	—	280	1,280	400	(880)
Future income taxes payable (m)	200	—	—	50	250	250	0
Capital leases (b)	—	(90)	900	—	810	810	0
Long-term debt	1,940	400	—	—	2,340	2,340	0
Share capital	1,250	250	—	—	1,500	1,500	0
Retained earnings	1,380	(1,045)	—	3,345 3a	3,680	3,680	0

Column 1 contains the opening balance sheet.

Column 2 reflects the amounts determined in the total column of worksheet 1.

Column 3 relates to the non-cash transaction that occurred during the period.

Column 4 represents the income statement for the period net of the income effects of investing and financing 4a activities and the foreign exchange loss as included in column 2. Again, all profit and loss entries are netted within retained earnings. The adjusted income statement is, in effect, posted to the opening balance sheet.

Column 5 represents the opening balance sheet adjusted for non-operating cash flows, non-cash transactions and the income statement.

Column 6 contains the closing balance sheet.

Column 7 reflects the differences between the adjusted opening balance sheet and the actual closing balance sheet. The charge to inventory of $24,950 in this column is combined with the charge to trade payables of $2,650 to arrive at the total of $27,600, which appears in the direct method cash flow statement as "Cash paid to suppliers and employees".

Footnotes

1a. Refer to transactions described at the beginning of this example.

1a. Refer to transactions described at the beginning of this example.

2a. Bracketed letters refer to the transactions described at the beginning of this example.

3a. Total income $3,500 less the income effect of investing activities $195 and the foreign exchange loss $(40).

4a. The financing activities included in this example did not result in charges or credits to income.

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