

LKAS 7: Statement of Cash Flows

Introduction

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize 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 statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Definitions

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. For example, investment in treasury bills can be taken as an cash equivalent.

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

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

Operating activities

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

- cash receipts from the sale of goods and the rendering of services (cash sales and receipts from debtors)
- cash receipts from royalties, fees, commissions and other revenue
- cash payments to suppliers for goods and services (cash purchases and payments to creditors)
- cash payments to and on behalf of employees (salaries paid)
- cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities (income tax paid)
- cash receipts and payments from contracts held for dealing or trading purposes

Investing activities

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

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. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

Examples of cash flows from investing activities are:

- 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. For example, construction cost of a building and purchase cost of machinery can be taken as investment activities.
- cash receipts from sales of property, plant and equipment, intangibles and other long-term assets. Example: Sales proceed received from selling a motor vehicle by a trading company.
- cash payments to acquire equity or debt instruments of other entities. Example: cash paid to purchase share or debentures of another entity etc.
- cash receipts from sales of equity or debt instruments of other entities. Example: cash received by selling shares which were purchased from another entity.
- cash advances and loans made to other parties (other than advances and loans made by a financial institution)
- cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution)

Financing activities

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

- cash proceeds from issuing shares or other equity instruments. Example: Cash received from a share issue.
- cash payments to owners to acquire or redeem the entity's shares.
- cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings. Example: cash received from a bank loan.
- cash repayments of borrowed amounts. Example: cash payments to settle bank loans.
- cash payments by a lessee for the reduction of the outstanding liability relating to a lease. Example: cash payments to settle lease liabilities.

Interest and dividends

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.

Interest paid is usually classified as operating activity by a trading company. However, there are circumstances where interest paid can also be classified as financing activity.

Dividend paid is usually classified as financing activity by a trading company. However, there are circumstances where dividends paid can also be classified as operating activity.

Reporting cash flows from operating activities

An entity shall report cash flows from operating activities using either:

- a) the **direct method**, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- b) the **indirect method**, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Entities are encouraged to report cash flows from operating activities using the direct method.

Format: (Direct Method)

Statement of Cash Flows

Luck PLC - Cash flow statement for the year ended 31.03.20X4

Operating Activities		
Cash receipts from customers	xxx	
Cash paid to suppliers	(xxx)	
Cash payments to employees	(xxx)	
Cash receipts from commissions and other revenue	(xxx)	
Operating expenses payment	(xxx)	
Cash generated/ (used) from operational activities	xxx	
Interest paid	(xxx)	
Tax paid	(xxx)	
Net cash generated/(used) from operational activities		xxx
Investing Activities		
Cash payments to purchase PPE, intangible assets and other long-term assets	(xxx)	
Cash receipts from sale of PPE, intangible assets and other long-term assets	xxx	
Loans and advances given to other parties	(xxx)	
Cash receipts from repayment of loans and advances given to other parties	xxx	
Dividend received	xxx	
Interest received	xxx	
Purchase of investment (not included in cash equivalents)	(xxx)	
Disposal investment (not included in cash equivalents)	xxx	
Net cash generated (used) from investing activities		xxx
Financing activities		
Cash receipts from issue of shares	xxx	
Cash payments to redeem shares	(xxx)	
Cash receipts from debentures or loans	xxx	
Cash payments to repay debentures and loans	(xxx)	
Cash payments to settle the lease liability	(xxx)	
Payment of dividends	(xxx)	
Net cash generated (used) from financing activities		xxx
Net cash flow of the year increase/ decrease		xxx
Cash and cash equivalents at the beginning of the period		xxx
Cash and cash equivalent at the end of the period		xxx

Format: (Indirect Method)

The Statement Cash Flows under indirect method will only vary from direct method in relation to cash flows of operating activities. Cash flows from Investing activities and Financing activities will remain as same with the direct method.

Statement of Cash Flows**Luck PLC - Cash flow statement for the year ended 31.03.20X4**

Operating Activities		
Profit before tax	xxx	
<i>Adjustments</i>		
Depreciation of property, plant & equipment	x	
Profit on sale of property, plant & equipment	(x)	
Loss on sale of property, plant & equipment	x	
Loss on disposal of investments	x	
Dividend income	(x)	
Investment income	(x)	
Interest income	(x)	
Interest expenses	x	
Revaluation deficit	x	
Operating profit before working capital changes	xxx	
(Increase)/Decrease in inventories	(xxx)	
(Increase)/Decrease in debtors	(xxx)	
(Increase)/Decrease in other receivables	(xxx)	
Increase/(Decrease) in creditors	xxx	
Increase/(Decrease) in other payables	xxx	
Cash generated (used) from operational activities	xxx	
Interest paid	(xxx)	
Tax paid	(xxx)	
Net cash generated/(used) from operational activities		xxx
Investing Activities		
Cash payments to purchase PPE, intangible assets and other long-term assets	(xxx)	
Cash receipts from sale of PPE, intangible assets and other long-term assets	xxx	
Loans and advances given to other parties	(xxx)	
Cash receipts from repayment of loans and advances given to other parties	xxx	
Dividend received	xxx	
Interest received	xxx	

Purchase of investment (not included in cash equivalents)	(xxx)	
Disposal investment (not included in cash equivalents)	xxx	
Net cash generated (used) from investing activities		xxx
Financing activities		
Cash receipts from issue of shares	xxx	
Cash payments to redeem shares	(xxx)	
Cash receipts from debentures or loans	xxx	
Cash payments to repay debentures and loans	(xxx)	
Cash payments to settle the lease liability	(xxx)	
Payment of dividends	(xxx)	
Net cash generated (used) from financing activities		xxx
Net cash flow of the year increase/ decrease		xxx
Cash and cash equivalents at the beginning of the period		xxx
Cash and cash equivalent at the end of the period		xxx