

Annex F

Section 7 – *Statement of cash flows*

Scope of this section

G7.1 This section sets out the information that is to be presented in a statement of cash flows and how to present it. The statement of cash flows provides information about the changes in cash and cash equivalents of an NPO for a reporting period, showing separately changes from operating activities, investing activities and financing activities.

Cash equivalents

G7.2 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. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, 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. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an NPO's cash management, bank overdrafts are a component of cash and cash equivalents.

Information to be presented in the statement of cash flows

G7.3 An NPO shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.

Operating activities

G7.4 Operating activities are the principal ~~revenue-producing~~ activities of the NPO. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. Examples of cash flows from operating activities are:

- a. cash receipts from grants and donations to fund operations (excluding grants to purchase assets);
- b. cash receipts from the rendering of services and the sale of goods;
- c. cash receipts from royalties, fees, commissions and other revenue;
- d. cash payments to suppliers for goods and services;
- e. cash payments to and on behalf of employees;
- f. cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities; and

- g. cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale.

Some transactions, such as the sale of an item of plant or equipment ~~by a manufacturing entity~~, may give rise to a gain or loss that is included in surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

G7.5 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

- a. cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets;
- b. cash receipts to acquire property, plant and equipment, intangible assets and other long-term assets from grants;
- c. cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- d. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading);
- e. cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading);
- f. cash advances and loans made to other parties (except for those provided consistent with the NPO's operations, which should be treated as operating);
- g. cash receipts from the repayment of advances and loans made to other parties (except for those received consistent with the NPO's operations, which should be treated as operating);
- h. cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and
- i. cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge (see Section 12 Other Financial Instrument Issues), an NPO shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.

Financing activities

G7.6 Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of an NPO. Examples of cash flows arising from financing activities are:

- a. cash proceeds from capital contributions or other equity instruments (including the issue of shares);
- b. cash payments to contributors to acquire or redeem the NPO's capital contributions;
- c. cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- d. cash repayments of amounts borrowed; and
- e. cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

G7.7 An NPO shall present cash flows from operating activities using either:

- a. the indirect method, whereby surplus or deficit is adjusted for the effects of non-cash transactions, 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; or
- b. the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

G7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit for the effects of:

- a. changes during the period in inventories and operating receivables and payables;
- b. non-cash items such as depreciation, provisions, deferred tax, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of associates and non-controlling interests, donations of inventory; and
- c. all other items for which the cash effects relate to investing or financing.

Direct method

G7.9 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

- a. from the accounting records of the NPO; or
- b. by adjusting income, expenses and other items in the statement of income and expenses (or the income statement, if presented) for:
 - i. changes during the period in inventories and operating receivables and payables;
 - ii. other non-cash items; and
 - iii. other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from investing and financing activities

G7.10 An NPO shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities.

Foreign currency cash flows

G7.11 An NPO shall record cash flows arising from transactions in a foreign currency in the NPO's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. Paragraph G30.19 explains when an exchange rate that approximates the actual rate can be used.

G7.12 The NPO shall translate cash flows of a foreign controlled entity at the exchange rates between the NPO's functional currency and the foreign currency at the dates of the cash flows.

G7.13 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the statement of cash flows. Consequently, the NPO shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The NPO shall present the resulting unrealised gain or loss separately from cash flows from operating, investing and financing activities.

Interest and dividends

G7.14 An NPO shall present separately cash flows from interest and capital distributions (including dividends) received and paid. The NPO shall classify cash flows consistently from period to period as operating, investing or financing activities.

G7.15 An NPO may classify interest paid and interest and dividends received as operating cash flows because they are included in surplus or deficit. Alternatively, the NPO may classify interest paid and interest and dividends received as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

G7.16 An NPO may classify capital distributions as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the NPO may classify capital distributions as a component of cash flows from operating activities because they are paid out of operating cash flows.

Income tax

G7.17 An NPO shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the NPO shall disclose the total amount of taxes paid.

Non-cash transactions

G7.18 An NPO shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An NPO shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities.

G7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an NPO. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- a. the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
- b. the acquisition of an entity by means of an equity issue; and
- c. the conversion of debt to equity.

Components of cash and cash equivalents

G7.20 An NPO shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the **statement of financial position**. However, an NPO is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the **statement of financial position**.

Other disclosures

G7.21 An NPO shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the NPO that are not available for use by the NPO. Cash and cash equivalents held by an NPO may not be available for use by the NPO because of, among other reasons, foreign exchange controls or legal restrictions. *Cash and cash equivalents shall therefore be split between restricted and unrestricted cash in either the notes or on the face of the statement.*

G7.22 *An NPO shall disclose cash received by way of donations and grants for either operations or investing activities that is not available for general use by the NPO because the receipts are restricted in accordance with the definition in Section 2.x.*

Basis for conclusions - Section 7 *Statement of cash flows*

- BC7.1 This Basis for Conclusions summarises the considerations made during the update of Section 7 *Statement of cash flows*. No major revisions have been made to the principles established in the *IFRS for SMEs* Standard for the Statement of cash flows in ED1. Any updates have been limited to terminology or use of language specific to NPOs. This section of the document is shaded grey to show that it has not been fully reviewed.
- BC7.2 The financial statements have been included as a priority topic for phase 1 of the Guidance. The Statement of cash flows was included in the scope of this topic, primarily to consider whether the cash flow could be used as a basis for general purpose financial reporting to meet the needs of donors and funders. This was based on feedback that donors and funders frequently require cash based information to meet their reporting requirements.
- BC7.3 The possibility of an additional donor/project statement was included in alternative 3 of topic 7 in Part 2 of the Consultation Paper. Around one third of respondents supported the development of a donor/project statement. It was acknowledged that if donors are willing to rely on such statements, and not ask for special-purpose financial reports, this could reduce burdens, costs and complexity. However, other respondents felt that donors' requirements are best met by special-purpose financial reports, not general-purpose financial reports. There was also a concern that any proposals would only be helpful to some NPOs and that this could come at the cost of additional complexity.
- BC7.4 The objective of producing supplementary project/programme information as part of the NPOs 'general purpose financial statements requires coordinated outreach with donors, which was supported by consultation respondents. As a result, the development of a supplementary information statement, will be explored with the IFR4NPO Donor Reference Group.
- BC7.5 Respondents to the consultation supported the availability of guidance on the form and content of supplementary information if it is required as it would assist consistency. A guidance based approach would allow each organisation to balance the cost/benefit of preparing supplementary information in its own context. As a consequence, respondents were of the view that reporting on material projects should be optional and not a mandatory requirement. Given the likely varied circumstances of each non-profit organisation the Secretariat supports this approach.
- BC7.6 The process to develop a supplementary information schedule is expected to take time. At its earliest a proposal for a new statement may be ready for inclusion in ED 3, but it may not be ready until a later phase of the Guidance. If a supplementary information statement is not developed as part of ED3, generic guidance setting out the issues NPOs will need to consider in developing their own donor or project

statements, should they choose to do so, will be developed. This will be included as a separate Section of this Guidance.

- BC7.7 It was noted that cashflow statements that are developed using the direct method maybe helpful in supporting the development of donor or project/programme statements. The identification of receipts and payments from the cashflow statement may aid the reconciliation of such statements with audited NPO financial information.

Section 7 - *Statement of Cash Flows*

IFRS for SMEs to INPAG mapping

IFRS for SMEs	INPAG
Scope of this section	Scope of this section
7.1 This section sets out the information that is to be presented in a statement of cash flows and how to present it. The statement of cash flows provides information about the changes in cash and cash equivalents of an entity for a reporting period , showing separately changes from operating activities , investing activities and financing activities .	G7.1 This section sets out the information that is to be presented in a statement of cash flows and how to present it. The statement of cash flows provides information about the changes in cash and cash equivalents of an NPO for a reporting period , showing separately changes from operating activities , investing activities and financing activities .
Cash equivalents	Cash equivalents
7.2 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. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, 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. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.	G7.2 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. They are held to meet short-term cash commitments instead of for investment or other purposes. Consequently, 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. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an NPO's cash management, bank overdrafts are a component of cash and cash equivalents.
Information to be presented in the statement of cash flows	Information to be presented in the statement of cash flows
7.3 An entity shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.	G7.3 An NPO shall present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, investing activities and financing activities.
Operating activities	Operating activities

7.4 Operating activities are the principal revenue-producing activities of the entity. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of profit 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 payments or refunds of income tax, unless they can be specifically identified with financing and investing activities; and f. cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale. Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.	G7.4 Operating activities are the principal ~~revenue-producing~~ activities of the NPO. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. Examples of cash flows from operating activities are: a. cash receipts from grants and donations to fund operations (excluding grants to purchase assets); b. cash receipts from the rendering of services and the sale of goods; c. cash receipts from royalties, fees, commissions and other revenue; d. cash payments to suppliers for goods and services; e. cash payments to and on behalf of employees; f. cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities; and g. cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale. Some transactions, such as the sale of an item of plant ~~or equipment by a manufacturing entity~~, may give rise to a gain or loss that is included in surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.
Investing activities	Investing activities
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constructed property, plant and equipment), intangible assets and other long-term assets; b. cash receipts from sales of property, plant and equipment, intangibles and other long-term assets; c. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading); d. cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading); 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 dealing or trading, 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 dealing or trading, or the receipts are classified as financing activities. When a contract is accounted for as a hedge (see Section 12 <i>Other Financial Instrument Issues</i>), an entity shall classify the cash flows of the contract in the same manner as the cash flows of the item being hedged.	constructed property, plant and equipment), intangible assets and other long-term assets; b. cash receipts to acquire property, plant and equipment, intangible assets and other long-term assets from grants; c. cash receipts from sales of property, plant and equipment, intangibles and other long-term assets; d. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading); e. cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading); f. cash advances and loans made to other parties (except for those provided consistent with the NPO's operations, which should be treated as operating); g. cash receipts from the repayment of advances and loans made to other parties (except for those received consistent with the NPO's operations, which should be treated as operating); h. cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the payments are classified as financing activities; and i. cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading, or the receipts are classified as financing activities.
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Financing activities	Financing activities
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Reporting cash flows from operating activities	Reporting cash flows from operating activities
7.7 An entity shall present cash flows from operating activities using either: a. the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, 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; or b. the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.	G7.7 An NPO shall present cash flows from operating activities using either: a. the indirect method, whereby surplus or deficit is adjusted for the effects of non-cash transactions, 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; or b. the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.
Indirect method	Indirect method

7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of: a. changes during the period in inventories and operating receivables and payables; b. non-cash items such as depreciation, provisions, deferred tax, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of associates and non-controlling interests; and c. all other items for which the cash effects relate to investing or financing.	G7.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit for the effects of: a. changes during the period in inventories and operating receivables and payables; b. non-cash items such as depreciation, provisions, deferred tax, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of associates and non-controlling interests, donations of inventory; and c. all other items for which the cash effects relate to investing or financing.
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