HKAS 7

Revised ~~August 2022~~May 2024

Hong Kong Accounting Standard 7

Statement of Cash Flows

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

COPYRIGHT

CONTENTS

HONG KONG ACCOUNTING STANDARD 7
STATEMENT OF CASH FLOWS

Hong Kong Accounting Standard 7 *Statement of Cash Flows* (HKAS 7) is set out in paragraphs 1-63. All the paragraphs have equal authority. HKAS 7 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Hong Kong Accounting Standard 7
Statement of Cash Flows[1]

Objective

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 utilise 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.

Scope

1 An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

2 This Standard supersedes SSAP 15 *Cash Flow Statements* revised in 2001.

3 Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information

4 A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

5 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

[1] As a consequence of the revision of HKAS 1 *Presentation of Financial Statements* in December 2007, the title of HKAS 7 was amended from *Cash Flow Statements* to *Statement of Cash Flows*.

Definitions

6 The following terms are used in this Standard with the meanings specified:

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.**

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

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

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

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

Cash and cash equivalents

7 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment 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 unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

8 Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

9 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a statement of cash flows

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

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

12 A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified

as a financing activity.

Operating activities

13 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments 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.

14 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:

(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) [deleted]

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and

(g) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of HKAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

16 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 arising from investing activities are:

(a) 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;

(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 considered to be cash equivalents or those held for dealing or trading purposes);

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

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

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

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

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

17 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:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(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 lease.

Reporting cash flows from operating activities

18 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.

19 Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

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

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of comprehensive income 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.

20 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 taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

Reporting cash flows from investing and financing activities

21 An entity shall report 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 22 and 24 are reported on a net basis.

Reporting cash flows on a net basis

22 Cash flows arising from 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 entity; and

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

23 Examples of cash receipts and payments referred to in paragraph 22(a) are:

(a) the acceptance and repayment of demand deposits of a bank;

(b) funds held for customers by an investment entity; and

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

23A Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:

(a) principal amounts relating to credit card customers;

(b) the purchase and sale of investments; and

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

24 Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

(b) the placement of deposits with and withdrawal of deposits from other financial institutions; and

(c) cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

25 Cash flows arising from transactions in a foreign currency shall be recorded in an entity'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.

26 The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

27 Cash flows denominated in a foreign currency are reported in a manner consistent with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, HKAS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

28 Unrealised 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 held or due in a foreign currency is reported in the statement of cash flows 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 and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

29 [Deleted]

30 [Deleted]

Interest and dividends

31 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.

32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with HKAS 23 *Borrowing Costs*.

33 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

34 Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

Taxes on income

35 Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

36 Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. 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, taxes paid 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 is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in subsidiaries, associates and joint ventures

37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38 An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

Changes in ownership interests in subsidiaries and other businesses

39 The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

40 An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

(a) the total consideration paid or received;

(b) the portion of the consideration consisting of cash and cash equivalents;

(c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and

(d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

40A An investment entity, as defined in HKFRS 10 *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.

41 The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the 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 losing control are not deducted from those of obtaining control.

42 The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in HKFRS 10, and is required to be measured at fair value through profit or loss.

42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see HKFRS 10), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

Non-cash transactions

43 Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

44 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 entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as 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 lease;

(b) the acquisition of an entity by means of an equity issue; and

(c) the conversion of debt to equity.

Changes in liabilities arising from financing activities

44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) the effect of changes in foreign exchange rates;

(d) changes in fair values; and

(e) other changes.

44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Supplier finance arrangements

44F An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

44G Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.

44H To meet the objectives in paragraph 44F, an entity shall disclose in aggregate for its supplier finance arrangements:

(a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.

(b) as at the beginning and end of the reporting period:

(i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.

(ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.

(iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges).

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 43).

Components of cash and cash equivalents

45 **An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position.**

46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with HKAS 1 *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other disclosures

48 **An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.**

49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

(a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;

(b) [deleted]

(c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and

(d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see HKFRS 8 *Operating Segments*).

51 The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

52 The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

Effective date and transition

53 This Hong Kong Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 2005. Earlier application is encouraged.

54 HKAS 27 (as amended in 2008) amended paragraphs 39–42 and added paragraphs 42A and 42B. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies HKAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period. The amendments shall be applied retrospectively.

55 Paragraph 14 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply paragraph 68A of HKAS 16.

56 Paragraph 16 was amended by *Improvements to HKFRSs* issued in May 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

57 HKFRS 10 and HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 37, 38 and 42B and deleted paragraph 50(b). An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

58 *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27), issued in December 2012, amended paragraphs 42A and 42B and added paragraph 40A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

59 HKFRS 16 *Leases*, issued in May 2016, amended paragraphs 17 and 44. An entity shall apply those amendments when it applies HKFRS 16.

60 *Disclosure Initiative* (Amendments to HKAS 7), issued in January 2016, added paragraphs 44A–44E. An entity shall apply those amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.

61 HKFRS 17 *Insurance Contracts*, issued in January 2018, amended paragraph 14. An entity shall apply that amendment when it applies HKFRS 17.

62 *Supplier Finance Arrangements*, issued in July 2023, added paragraphs 44F–44H. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

63 In applying *Supplier Finance Arrangements*, an entity is not required to disclose:

(a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments.

(b) the information otherwise required by paragraph 44H(b)(ii)–(iii) as at the beginning of the annual reporting period in which the entity first applies those amendments.

(c) the information otherwise required by paragraphs 44F–44H for any interim period presented within the annual reporting period in which the entity first applies those amendments.

Basis for Conclusions on IAS 7 *Statement of Cash Flows*

This Basis for Conclusions accompanies, but is not part of, IAS 7.

HKAS 7 is based on IAS 7 *Statement of Cash Flows*. In approving HKAS 7, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 7. Accordingly, there are no significant differences between HKAS 7 and IAS 7. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 7 referred to below generally correspond with those in HKAS 7.

BC1 This Basis for Conclusions summarises the considerations of the International Accounting Standards Board in reaching its conclusions on amending IAS 7 *Statement of Cash Flows* as part of *Improvements to IFRSs* issued in April 2009. Individual Board members gave greater weight to some factors than to others.

BC2 IAS 7 was developed by the International Accounting Standards Committee in 1992 and was not accompanied by a Basis for Conclusions. This Basis refers to clarification of guidance on classification of cash flows from investing activities.

Classification of expenditures on unrecognised assets

BC3 In 2008 the International Financial Reporting Interpretations Committee (IFRIC) reported to the Board that practice differed for the classification of cash flows for expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs. Some entities classified such expenditures as cash flows from operating activities and others classified them as investing activities. Examples of such expenditures are those for exploration and evaluation activities, which IFRS 6 *Exploration for and Evaluation of Mineral Resources* permits to be recognised as either an asset or an expense depending on the entity's previous accounting policies for those expenditures. Expenditures on advertising and promotional activities, staff training, and research and development could also raise the same issue.

BC4 The IFRIC decided not to add this issue to its agenda but recommended that the Board should amend IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activity.

BC5 In 2008, as part of its annual improvements project, the Board considered the principles in IAS 7, specifically guidance on the treatment of such expenditures in the statement of cash flows. The Board noted that even though paragraphs 14 and 16 of IAS 7 appear to be clear that only expenditure that results in the recognition of an asset should be classified as cash flows from investing activities, the wording is not definitive in this respect. Some might have misinterpreted the reference in paragraph 11 of IAS 7 for an entity to assess classification by activity that is most appropriate to its business to imply that the assessment is an accounting policy choice.

BC6 Consequently, in *Improvements to IFRSs* issued in April 2009, the Board removed the potential misinterpretation by amending paragraph 16 of IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

BC7 The Board concluded that this amendment better aligns the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position, reduces divergence in practice and, therefore, results in financial statements that are easier for users to understand.

BC8 The Board also amended the Basis for Conclusions on IFRS 6 to clarify the Board's view that the exemption in IFRS 6 applies only to recognition and measurement of exploration and evaluation assets, not to the classification of related expenditures in the statement of cash flows, for the same reasons set out in paragraph BC7.

Changes in liabilities arising from financing activities (paragraphs 44A–44E)

Background to the January 2016 Amendments

BC9 In January 2016 the Board amended IAS 7 to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments were in response to requests from users, including those received at the Board's *Financial Reporting Disclosure Discussion Forum* in January 2013 and reflected in the resulting Feedback Statement ('the Feedback Statement'), which was issued in May 2013. Users highlighted that understanding an entity's cash flows is critical to their analysis and that there is a need for improved disclosures about an entity's debt, including changes in debt during the reporting period. The Feedback Statement noted that users had been consistently asking for the Board to introduce a requirement for entities to disclose and explain a net debt reconciliation.

BC10 In early 2014, to understand the reasons for their requests for more disclosure about net debt, the Board undertook a survey of investors. The survey sought information about why investors seek to understand the changes in debt between the beginning and the end of a reporting period. The survey also sought input on disclosures about cash and cash equivalents. On the basis of the survey, the Board identified that investors use a net debt reconciliation in their analysis of the entity:

(a) to check their understanding of the entity's cash flows, because it provides a reconciliation between the statement of financial position and the statement of cash flows;

(b) to improve their confidence in forecasting the entity's future cash flows when they can use a reconciliation to check their understanding of the entity's cash flows;

(c) to provide information about the entity's sources of finance and how those sources have been used over time; and

(d) to help them understand the entity's exposure to risks associated with financing.

BC11 The survey helped the Board to understand why investors were calling for improved disclosures about changes in debt during the reporting period. The Board noted that one challenge in responding to this need was that debt is not defined or required to be disclosed in current IFRS Standards. The Board noted that finding a commonly agreed definition of debt would be difficult. However, the Board decided that it could use the definition of financing activities in IAS 7. It therefore decided to propose a requirement to disclose a reconciliation between the amounts in the opening and the amounts in the closing statements of financial position for liabilities for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows.

BC12 IAS 7 defines financing activities as activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. The Board proposed that a reconciliation of liabilities arising from financing activities would provide the information about debt that users of financial statements were requesting.

BC13 In December 2014 the Board published an Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) ('the 2014 Exposure Draft') seeking views on the proposals for a reconciliation of liabilities arising from financing activities.

Feedback on the proposals set out in the Exposure Draft

BC14 The feedback received on the 2014 Exposure Draft provided evidence that the disclosure would provide users of financial statements with the information they were seeking in order to analyse an entity's cash flows. The Board decided to finalise the amendments to IAS 7 ('the 2016 Amendments'); paragraphs BC15–BC24 set out how the Board responded to the feedback received on the 2014 Exposure Draft.

The objective of the disclosure

BC15 Feedback on the 2014 Exposure Draft noted that the proposal did not set out a disclosure objective, and consequently it was not sufficiently clear how entities would determine the most appropriate way to provide the required disclosure. The Board agreed with this feedback and included an objective within the requirement set out in paragraph 44A of the 2016 Amendments.

BC16 In setting the disclosure objective the Board decided the objective should reflect the needs of the users of financial statements, including those summarised in paragraph BC10.

Application of the 2016 Amendments to financial institutions

BC17 Some respondents to the 2014 Exposure Draft from financial institutions stated that the proposals would provide little or no relevant information to users of their financial statements because:

(a) only some of the sources of finance for a financial institution are classified as 'financing activities' (for example, deposits from customers provide finance but in practice the resulting cash flows are typically classified as operating cash flows). A reconciliation may therefore provide an incomplete picture of the changes in the financing structure of a financial institution; and

(b) other disclosure requirements (for example, comprehensive regulatory disclosure requirements) may already result in sufficient disclosure about an entity's financing structure.

BC18 After taking into consideration the feedback from respondents from financial institutions, the Board decided that the disclosure requirement could be satisfied in various ways, and not only by providing a reconciliation. The Board noted that when an entity is considering whether it has fulfilled the disclosure requirement, it should take into consideration:

(a) the extent to which information about changes in liabilities arising from financing activities provides relevant information to its users, considering the needs of users summarised in paragraph BC10; and

(b) whether the entity is satisfying the disclosure requirement through other disclosures included in the financial statements.

BC19 The Board therefore decided that a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is one way to fulfil the disclosure requirement but should not be a mandatory format.

Information that supplements the disclosures

BC20 Some respondents to the 2014 Exposure Draft expressed a concern that the proposals in the Exposure Draft were too restrictive because, in their view:

(a) the proposed disclosure would not include liabilities that an entity considers to be sources of finance although the entity does not classify them as financing activities (for example, pension liabilities); and

(b) entities that already provided a net debt reconciliation (a reconciliation of movements in a net balance comprising debt less cash and cash equivalents) would be prevented from providing such a reconciliation, even if users would find it useful.

BC21 The Board did not intend to prevent entities from providing information required by paragraph 44A in a format that combines it with information about changes in other assets and liabilities. For example, an entity could provide that information as part of a net debt reconciliation, as described in paragraph BC20(b). To ensure users can identify the information required by paragraph 44A, the format selected needs to distinguish that information from information about changes in other assets and liabilities. In finalising the 2016 Amendments, the Board clarified these points in paragraph 44E.

Financial assets

BC22 Some respondents to the 2014 Exposure Draft asked the Board to clarify whether changes in financial assets held to hedge financial liabilities could also be included in the disclosure required by the 2016 Amendments. The Board noted that paragraph G.2 of the Guidance on implementing IFRS 9 *Financial Instruments* states that cash flows arising from a hedging instrument are classified as operating, investing or financing activities, on the basis of the classification of the cash flows arising from the hedged item. Consequently, the Board clarified in paragraph 44C that changes in financial assets held to hedge financial liabilities are included in the disclosure required by paragraph 44A.

Cost-benefit considerations

BC23 The Board considered the feedback received on perceived costs and benefits in finalising the 2016 Amendments. The Board noted that there will be initial costs for preparers to update information technology systems to enable changes in liabilities arising from financing activities to be tracked and collated. The Board also acknowledged that disclosing additional information could result in costs relating to extending the existing internal controls and audit processes of the entity. However, the Board noted that much of the information is already available to preparers. It also noted that the 2016 Amendments do not change the recognition or measurement for liabilities arising from financing activities; instead, they track changes in those items. Consequently, the Board concluded that it does not foresee any significant ongoing cost related to providing this information, and that the informational benefits to users of financial statements would outweigh the costs.

Illustrative example

BC24 Some respondents to the 2014 Exposure Draft stated that the example proposed within the Exposure Draft was too simplistic and might not help preparers in disclosing relevant information, because in practice the reconciliation would be more detailed. To address this feedback, the Board inserted a further example in the illustrative examples accompanying IAS 7.

Other disclosures

BC25 To supplement the current disclosure requirements in paragraph 48 of IAS 7 the 2014 Exposure Draft proposed additional disclosure requirements about an entity's liquidity such as restrictions that affect an entity's decision to use cash and cash equivalent balances. However, in the light of the responses, the Board decided that further work is needed before it can determine whether and how to finalise requirements arising from that proposal. The Board decided to continue that work without delaying the improvements to financial reporting that it expects will result from adding paragraphs 44A–44E to IAS 7. The Board may also, in due course, consider adding to its technical work programme a project that would look at liquidity disclosures more broadly.

Transition and effective date

Amendments to IAS 7

BC26 The Board concluded that timely application of the 2016 Amendments would respond to a long-standing request from users of financial statements. Thus, the Board decided that the 2016 Amendments should be applied for annual reporting periods beginning on or after 1 January 2017, with early application permitted.

BC27 Because the 2016 Amendments were issued in January 2016, which is less than one year before the beginning of the period when some entities could be required to apply them, the Board exempted entities from providing comparative information when they first apply the amendments.

Supplier Finance Arrangements (paragraphs 44F–44H)

Background to the 2023 amendments

BC28 In May 2023 the IASB issued *Supplier Finance Arrangements* ('the 2023 Amendments'), which amended IAS 7 to require an entity to provide additional disclosures about its supplier finance arrangements. The Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* (published in December 2020 by the IFRS Interpretations Committee) sets out the requirements in IFRS Accounting Standards that were applicable to supplier finance arrangements prior to the 2023 Amendments. The amendments complement the disclosure requirements set out in the Agenda Decision in response to feedback from users of financial statements about the limitations of those requirements. These targeted amendments are intended to enable users to obtain from financial statements information they need to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another.

Disclosure objectives (paragraph 44F)

BC29 The IASB developed the two disclosure objectives in paragraph 44F of IAS 7 to meet particular information needs of users of financial statements, namely to provide users of financial statements with information to enable them:

(a) to assess how supplier finance arrangements affect an entity's liabilities and cash flows; and

(b) to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

BC30 Some respondents to the IASB's November 2021 Exposure Draft *Supplier Finance Arrangements* ('the 2021 Exposure Draft') asked the IASB to require an entity to calculate and disclose particular effects of its supplier finance arrangements rather than to provide information that users of financial statements would then use to assess the effects. However, other stakeholders informed the IASB that users of financial statements employ various models when assessing the effects of these arrangements and, therefore, users of financial statements need information to make their own calculations. The IASB concluded that users of financial statements would derive greater benefit from making their own calculations, using information an entity discloses, even if those users might incur costs in doing so.

Scope of the 2023 Amendments (paragraph 44G)

BC31 In developing the requirements, the IASB considered various types of supplier finance arrangements and noted that an entity might enter into arrangements with varying structures and for various reasons. For example:

(a) an entity obtains extended payment terms from the finance providers. The finance providers pay suppliers the amount they are due on the invoice due date, while the entity pays the finance providers an amount greater than the invoice amount, at a date later than the related invoice date.

(b) an entity does not obtain extended payment terms from the finance providers, but the entity might have negotiated extended payment terms with its suppliers in the light of supplier finance arrangements being in place. Suppliers that are part of the supplier finance arrangement can choose to be paid a discounted amount by the finance providers earlier than the invoice due date.

BC32 The IASB decided to use the term 'supplier finance arrangements' to refer to the type of arrangements to which the amendments apply and developed the scope of the requirements:

(a) to capture all supplier finance arrangements, irrespective of:

(i) the reason an entity entered into those arrangements;

(ii) the form or labelling of the arrangements; or

(iii) where and how an entity presents the related liabilities and cash flows in its statement of financial position and statement of cash flows.

(b) to remain operable as new practices and arrangements evolve and develop.

(c) to confine the scope to arrangements that finance 'amounts an entity owes its suppliers' (see paragraph 44G of IAS 7). The 2023 Amendments therefore do not apply to an entity's arrangements that finance receivables or inventory. In the IASB's view, a wider scope might have unduly delayed the needed improvements to the disclosures about supplier finance arrangements. The IASB's decisions also mean that an entity is not required to identify other actions its suppliers might have taken to finance their receivables (for example, factoring of receivables).

BC33 The scope excludes finance arrangements that might have some but not all the characteristics of supplier finance arrangements as described in paragraph 44G of IAS 7. This is because it is the characteristics of supplier finance arrangements (as described in paragraph 44G of IAS 7) that give rise to the particular information needs set out in paragraph BC29. Accordingly, arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, an entity uses a credit card to settle the amount owed to a supplier and will instead have an obligation to pay the issuing bank) are not supplier finance arrangements.

Disclosure requirements (paragraph 44H)

BC34 The IASB developed the disclosure requirements in paragraph 44H of IAS 7 to achieve the disclosure objectives in paragraph 44F of IAS 7. An entity is required to disclose:

(a) the terms and conditions of its supplier finance arrangements. This disclosure is to inform users of financial statements that such arrangements are in place and to explain their nature.

(b) the carrying amounts of financial liabilities, and associated line items, as required by paragraph 44H(b)(i) of IAS 7. This disclosure is to show the size of the entity's supplier finance arrangements and the line items in which the financial liabilities that are part of those arrangements are presented.

(c) the carrying amounts of financial liabilities, and associated line items, for which suppliers have already received payment from the finance providers, as required by paragraph 44H(b)(ii) of IAS 7. This disclosure is to enable users of financial statements:

(i) to analyse the entity's liabilities and their effects on operating and financing cash flows; and

(ii) to understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

(d) the range of payment due dates of: financial liabilities that are part of a supplier finance arrangement; and comparable trade payables of the entity that are not part of such an arrangement. This disclosure is to enable users of financial statements to assess how these arrangements affect the entity's cash flows. In response to feedback on the 2021 Exposure Draft, the IASB decided to clarify that for this disclosure, trade payables of the entity that are not part of a supplier finance arrangement need to be comparable to the financial liabilities that are part of such an arrangement.

(e) information required by paragraph 44H(b) of IAS 7 as at the beginning and end of each reporting period. This disclosure is to enable users of financial statements to assess changes during the period in the financial liabilities that are part of a supplier finance arrangement and to understand how these changes affect the entity's cash flows.

Aggregated information

BC35 The 2023 Amendments require an entity to aggregate the information it provides about its supplier finance arrangements. The 2021 Exposure Draft proposed that an entity be permitted to aggregate the information disclosed about supplier finance arrangements only when the terms and conditions of those arrangements are similar. In addition, an entity would have been required to disclose additional information about its supplier finance arrangements if necessary to meet the disclosure objectives.

BC36 After considering feedback on the 2021 Exposure Draft, the IASB decided that, in most cases, aggregated information about an entity's supplier finance arrangements will satisfy the information needs of users of financial statements. This is because supplier finance arrangements share the characteristics described in paragraph 44G of IAS 7, and it is those characteristics that give rise to the information needs of users of financial statements. Therefore, information about each individual supplier finance arrangement is not needed to provide useful information to users of financial statements. However, to avoid material information being omitted or obscured when aggregated, the 2023 Amendments require an entity to disclose:

(a) separately the terms and conditions of arrangements that have dissimilar terms and conditions. Disaggregated information—if required—enables users of financial statements to assess the different types of arrangements an entity has entered into.

(b) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under paragraph 44H(b)(i) of IAS 7. These non-cash changes are those that prevent the carrying amounts at the beginning of the reporting period and the carrying amounts at the end of the reporting period from being comparable to each other. These non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents. (See paragraph BC37 for further discussion of non-cash changes.)

(c) explanatory information about the ranges of payment due dates, or additional ranges, if those ranges are wide. The additional information—if required—is necessary to enable users of financial statements to assess the effect of arrangements on an entity's cash flows.

BC37 As described in paragraph BC36(b), paragraph 44H(c) of IAS 7 requires the disclosure of non-cash changes in the carrying amounts of the financial liabilities disclosed under paragraph 44H(b)(i) of IAS 7. In the IASB's view, it was necessary to highlight these non-cash changes in response to feedback from users of financial statements that these non-cash changes might not be apparent without additional disclosure. Disclosure of this information enables users of financial statements to assess the carrying amounts of financial liabilities on a more comparable basis from one reporting period to the next and to understand how these non-cash changes affect the entity's cash flows. For example, when an entity buys goods and services from suppliers, it would typically classify the cash outflows to settle amounts owed to its suppliers as a cash flow from operating activities. When an amount the entity owes its suppliers becomes part of a supplier finance arrangement, the entity—having considered the terms and conditions of the arrangement—might classify the cash outflow to settle the amount owed as a cash flow from financing activities. In such a circumstance, the entity might not have reported any cash inflow from financing activities, resulting in a non-cash change in liabilities arising from financing activities. The requirement in paragraph 44H(c) of IAS 7 does not alter the requirement in paragraph 44A of IAS 7 for an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

BC38 The IASB noted that paragraphs 29–31 of IAS 1 *Presentation of Financial Statements* require an entity to apply its judgement to determine whether and, if so, how it aggregates (or disaggregates) information in its financial statements to avoid omitting or obscuring material information. Accordingly, the IASB decided it was unnecessary to develop disaggregation requirements in addition to those described in paragraph BC36. For example, the IASB did not develop additional requirements to assist an entity in determining whether the terms and conditions of its supplier finance arrangements are dissimilar.

Costs of complying with the disclosure requirements

BC39 In responding to the 2021 Exposure Draft, stakeholders informed the IASB that the information an entity is required to disclose in applying paragraphs 44H(a), 44H(b)(i) and 44H(b)(iii) of IAS 7 is generally available to entities. The IASB was therefore of the view that an entity's application of these requirements would not result in substantial costs for that entity. However, some stakeholders informed the IASB that the information an entity is required to disclose in applying paragraph 44H(b)(ii) of IAS 7—the carrying amounts, and associated line items, of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers—might not be readily available. Some entities might have to incur costs to produce this disclosure, for example, by amending contractual terms and conditions to access the required information. Other stakeholders, particularly users of financial statements, informed the IASB that without this disclosure, the information provided would be incomplete and would fail to satisfy user information needs (see paragraph BC34(c)). The IASB evaluated the costs and benefits for preparers and users of financial statements and concluded that the benefits of requiring disclosure of this information outweigh the costs.

Effective date and transition of the 2023 Amendments (paragraphs 62–63)

BC40 The IASB decided to require an entity to apply the amendments for annual reporting periods beginning on or after 1 January 2024. The IASB set the effective date and developed the transition requirements described in paragraph 63 of IAS 7 to achieve a balance between providing sufficient time for jurisdictions and entities to prepare for the implementation of the new disclosure requirements and meeting the information needs of users of financial statements (as described in paragraph BC29) on a timely basis.

BC41 In reaching its decisions, the IASB considered:

(a) the time needed by jurisdictions to incorporate the new requirements into their legal systems. The IASB was informed that jurisdictions expect to have completed their endorsement processes by 31 December 2024, but some jurisdictions might be unable to do so in time for interim reporting deadlines during 2024.

(b) the time needed by entities to develop processes and controls to collect and validate information to be disclosed and the time needed by audit firms to audit the information—particularly for the information required by paragraph 44H(b)(ii)–(iii) of IAS 7. Entities will need time to develop processes and controls to collect and validate information by the beginning of the annual reporting period in which an entity first applies the amendments. If an entity were to develop such processes and controls after the beginning of the first annual reporting period, it might not be possible to use those processes and controls, with the necessary reliability, on a retrospective basis.

(c) the nature of the amendments. The amendments do not change recognition or measurement requirements.

(d) the time needed for translation. Translation into other languages is not expected to take substantial time and effort because the amendments do not add a large amount of text to the requirements.

BC42 The IASB concluded that the effective date and transition requirements also meet the information needs of users of financial statements on a timely basis because the disclosure requirements in IFRS Accounting Standards that are already in effect provide users of financial statements with some information about an entity's supplier finance arrangements (as set out in the Agenda Decision (see paragraph BC28)). The IASB also noted that paragraphs 30–31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* require an entity to provide disclosures when new requirements in IFRS Accounting Standards have been issued but are not yet effective and the entity has not yet applied those new requirements.

BC43 The IASB did not change any disclosure requirements applicable to an entity's interim financial reports on an ongoing basis; an entity applies the requirements in IAS 34 *Interim Financial Reporting*. The IASB developed the transition relief in paragraph 63(c) of IAS 7 considering the time needed by jurisdictions and entities to prepare for the implementation of the new disclosure requirements (as described in paragraph BC41).

BC44 The IASB also decided not to provide specific transition requirements for first-time adopters (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*) because of the disclosure-only nature of the amendments.

Dissenting opinion

Dissent of Mr Takatsugu Ochi from *Disclosure Initiative* (Amendments to IAS 7)

DO1 Mr Ochi voted against the publication of *Disclosure Initiative* (Amendments to IAS 7) (the 2016 Amendments). The reasons for his dissent are set out below.

DO2 Mr Ochi believes that financial statements that reflect the 2016 Amendments may provide incomplete information about an entity's management of liquidity. The objective of the 2016 Amendments is to require disclosures that enable users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. However, Mr Ochi thinks that users of financial statements are seeking clearer information about entities' management of liquidity risk. Consequently, he thinks that the information provided by the 2016 Amendments will not meet users' needs. Mr Ochi thinks that the Board has issued these amendments without setting a clear vision of overall improvements to the disclosure about an entity's liquidity risk management. He thinks that this could confuse and mislead users of financial statements.

DO3 The objective mentioned in paragraph DO2 refers to liabilities arising from financing activities. Paragraph 44C specifies that those liabilities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. However, Mr Ochi thinks that specifying the scope of the disclosure requirement in this way does not capture the information that users need. This is because changes in liabilities arising from financing activities are different from the information used to assess liquidity risk management. Because IAS 7 permits an entity to classify some cash flows (such as interest payments) as either operating or financing, the understanding of what constitutes changes in liabilities arising from financing activities may vary among preparers. In Mr Ochi's view, preparers may have a more precise understanding about what constitutes information on liquidity risk than simply understanding changes in liabilities arising from financing activities.

DO4 Mr Ochi also thinks that if an entity provides the disclosures required by paragraph 44A in combination with disclosure of changes in the amount of cash and cash equivalents and does not disclose information about the location and availability of the cash and cash equivalents, the disclosure is sometimes irrelevant to how an entity manages liquidity. If users expect to obtain a full picture of an entity's liquidity risk management as a result of the 2016 Amendments, they may be confused and misled.

DO5 Mr Ochi thinks that providing the disclosure may require excessive work and hence may be inefficient from a preparer's point of view. He notes that the Board may conduct research regarding the effectiveness of IAS 7. Because he regards IAS 7 as having some significant shortcomings, he believes that issuing amendments based on the existing statement of cash flows is not a worthwhile endeavour. He also thinks that it could reduce the clarity of the statement of cash flows.

DO6 Mr Ochi also has a significant concern regarding the costs required to prepare the disclosure. Although the 2016 Amendments are disclosure-only amendments, all reporting entities will need to consider providing this disclosure. For this disclosure, an entity may be required to adjust items already presented as operating and financing activities in a statement of cash flows (for example, interest payments that are classified as operating activities), which may require system changes. Concurrently, an entity may also have to initiate system changes to prepare for applying IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* (both effective on 1 January 2018) as well as IFRS 16 *Leases* (effective on 1 January 2019). Mr Ochi believes that the costs that will be incurred by entities as a consequence of those other changes will be considerable and he thinks that this fact is not reflected in the conclusion the Board had reached as a consequence of its assessment of costs pertaining to this disclosure. Taking these matters into consideration, Mr Ochi believes that the costs of the 2016 Amendments will outweigh the benefits.

Illustrative Examples

These illustrative examples accompany, but are not part of, IAS 7.

A Statement of cash flows for an entity other than a financial institution

1. The examples show only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements*.

2. Information from the statement of comprehensive income and statement of financial position is provided to show how the statements of cash flows under the direct method and indirect method have been derived. Neither the statement of comprehensive income nor the statement of financial position is presented in conformity with the disclosure and presentation requirements of other Standards.

3. The following additional information is also relevant for the preparation of the statements of cash flows:

   - all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	100
Accounts receivable	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

   - 250 was raised from the issue of share capital and a further 250 was raised from long-term borrowings.
   - interest expense was 400, of which 170 was paid during the period. Also, 100 relating to interest expense of the prior period was paid during the period.
   - dividends paid were 1,200.
   - the liability for tax at the beginning and end of the period was 1,000 and 400 respectively. During the period, a further 200 tax was provided for. Withholding tax on dividends received amounted to 100.
   - during the period, the group acquired property, plant and equipment and right-of-use assets relating to property, plant and equipment with an aggregate cost of 1,250 of which 900 related to right-of-use assets. Cash payments of 350 were made to purchase property, plant and equipment.
   - plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
   - accounts receivable as at the end of 20X2 include 100 of interest receivable.

Consolidated statement of comprehensive income for the period ended 20X2[(a)]

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Investment income	500
Foreign exchange loss	(40)
Profit before taxation	3,350
Taxes on income	(300)
Profit	3,050

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2.

Consolidated statement of financial position as at end of 20X2

		20X2		**20X1**
Assets				
Cash and cash equivalents		230		160
Accounts receivable		1,900		1,200
Inventory		1,000		1,950
Portfolio investments		2,500		2,500
Property, plant and equipment at cost	3,730		1,910	
Accumulated depreciation	(1,450)		(1,060)	
Property, plant and equipment net		2,280		850
Total assets		7,910		6,660
Liabilities				
Trade payables		250		1,890
Interest payable		230		100
Income taxes payable		400		1,000
Long term debt		2,300		1,040
Total liabilities		3,180		4,030
Shareholders' equity				
Share capital		1,500		1,250
Retained earnings		3,230		1,380
Total shareholders' equity		4,730		2,630
Total liabilities and shareholders' equity		7,910		6,660

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380
Cash flows from investing activities		
Acquisition of subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issuance of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Dividends paid[a]	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

(a) This could also be shown as an operating cash flow.

Indirect method statement of cash flows (paragraph 18(b))

		20X2
Cash flows from operating activities		
Profit before taxation	3,350	
Adjustments for:		
Depreciation	450	
Foreign exchange loss	40	
Investment income	(500)	
Interest expense	400	
	3,740	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380
Cash flows from investing activities		
Acquisition of subsidiary X net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Dividends paid[(a)]	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

(a) This could also be shown as an operating cash flow.

Notes to the statement of cash flows (direct method and indirect method)

A. Obtaining control of subsidiary

During the period the Group obtained control of subsidiary X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of subsidiary X acquired	(40)
Cash paid to obtain control, net of cash acquired	550

B. Property, plant and equipment

During the period, the Group acquired property, plant and equipment and right-of-use assets relating to property, plant and equipment with an aggregate cost of 1,250, of which 900 related to right-of-use assets. Cash payments of 350 were made to purchase property, plant and equipment.

C. 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 statement of cash flows comprise the following amounts in the statement of financial position:

	20X2	**20X1**
Cash on hand and balances with banks	40	25
Short-term investments	190	135
Cash and cash equivalents as previously reported	230	160
Effect of exchange rate changes	–	(40)
Cash and cash equivalents as restated	230	120

Cash and cash equivalents at the end of the period include deposits with banks of 100 held by a subsidiary which are not freely remissible to the holding company because of currency exchange restrictions.

The Group has undrawn borrowing facilities of 2,000 of which 700 may be used only for future expansion.

D. Segment information

	Segment A	Segment B	Total
Cash flows from:			
Operating activities	1,520	(140)	1,380
Investing activities	(640)	160	(480)
Financing activities	(570)	(220)	(790)
	310	(200)	110

E. Reconciliation of liabilities arising from financing activities

	20X1	Cash flows	Non-cash changes		20X2
			Acquisition	New leases	
Long-term borrowings	1,040	250	200	–	1,490
Lease liabilities	–	(90)	–	900	810
Long-term debt	1,040	160	200	900	2,300

Alternative presentation (indirect method)

As an alternative, in an indirect method statement of cash flows, operating profit before working capital changes is sometimes presented as follows:

Revenues excluding investment income	30,650	
Operating expense excluding depreciation	(26,910)	
Operating profit before working capital changes		3,740

B Statement of cash flows for a financial institution

1 The example shows only current period amounts. Comparative amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements.*

2 The example is presented using the direct method.

		20X2
Cash flows from operating activities		
Interest and commission receipts	28,447	
Interest payments	(23,463)	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
	4,224	
(Increase) decrease in operating assets:		
Short-term funds	(650)	
Deposits held for regulatory or monetary control purposes	234	
Funds advanced to customers	(288)	
Net increase in credit card receivables	(360)	
Other short-term negotiable securities	(120)	
Increase (decrease) in operating liabilities:		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
Net cash from operating activities before income tax	3,440	
Income taxes paid	(100)	
Net cash from operating activities		3,340
Cash flows from investing activities		
Disposal of subsidiary Y	50	
Dividends received	200	
Interest received	300	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
Net cash from investing activities		650

continued …

… continued

Cash flows from financing activities		
Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
Net cash from financing activities		200
Effects of exchange rate changes on cash and cash equivalents		600
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
Cash and cash equivalents at end of period		8,840

C Reconciliation of liabilities arising from financing activities

1 This example illustrates one possible way of providing the disclosures required by paragraphs 44A–44E.

2 The example shows only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements*.

	20X1	Cash flows	Non-cash changes			20X2
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	22,000	(1,000)	–	–	–	21,000
Short-term borrowings	10,000	(500)	–	200	–	9,700
Lease liabilities	4,000	(800)	300	–	–	3,500
Assets held to hedge long-term borrowings	(675)	150	–	–	(25)	(550)
Total liabilities from financing activities	35,325	(2,150)	300	200	(25)	33,650