

SSAP 15, Cash Flow Statements

Background

SSAP 15 (revised) came into effect for financial statements covering periods beginning on or after 1 January 2002.

Questions and answers on SSAP 15 appear below.

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Feedback welcomed

We welcome your comments and feedback. Comments and suggestions on the material in this document should be addressed to Mr. Simon Riley, Deputy Director – Accounting, Hong Kong Society of Accountants, e-mail: commentletters@hksa.org.hk.

Relevant links

SSAP 15..... http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2_115.htm

Summary of SSAP 15..... <http://www.hksa.org.hk/professionaltechnical/accounting/standards/ssap15.pdf>

HKSA Financial Reporting home page <http://www.hksa.org.hk/professionaltechnical/accounting/>

Reference materials page <http://www.hksa.org.hk/professionaltechnical/accounting/rm>

SSAP 15.01-1 Reconciliation between profit before tax and net cash flow from operating activities

Q: *For the direct method of presentation, does the revised SSAP 15 require a reconciliation between profit before taxation (and interest for non-financial companies) reported in the income statement and the net cash flow from operating activities?*

A: The previous version of SSAP 15 (paragraph 26) required that “a reconciliation between profit after taxation (and interest for non-financial companies) reported in the profit and loss account and the net cash flow from operating activities should be given as a note the cash flow statement. This reconciliation should disclose separately the movements in stocks, debtors and creditors related to operating activities and other differences between cash flows and profits.”

This requirement does not apply in the revised version of SSAP 15 for the direct method of presentation.

SSAP 15.01-2 Retirement scheme – requirement to present a cash flow statement

Q: *Under Industry Accounting Guideline Statement 2.302, paragraph 37(d), a retirement scheme must prepare a cash flow statement in accordance with SSAP 15. SSAP 15 provides an exemption for entities that have revenue of less than HK\$20 million per annum provided that the entity is neither listed on a stock exchange nor is a dealer registered under the Securities Ordinance.*

How would “revenue” be assessed for a retirement scheme for the purpose of the SSAP 15 exemption?

A: For a retirement scheme, “revenue” would be assessed on the basis of total investment income, plus other income, as reported in the revenue statement per Statement 2.302 paragraph 78.

SSAP 15.05-1 Distinction between operating, financing and investing activities for a retirement scheme

Q: *Should a retirement scheme’s investment of beneficiaries’ funds be reported as an operating activity or as an investing activity in the cash flow statement?*

A: One of the main operating activities of a retirement scheme is the investment of scheme funds with a view to maximising the return on beneficiaries’ retirement savings. Consistent with the approach in SSAP 15 paragraph 15, where securities and loans are held for dealing or trading purposes (as would be the case for a retirement scheme’s investment of beneficiaries’ funds), the related cash flows are classified as operating activities.

SSAP 15.17-1 Reconciliation of net profit or loss to cash flows from operating activities – indirect method of presentation

Q: *For the indirect method of presentation, does SSAP 15 require the adjustment of net profit or loss for the period (the reconciliation to cash flow from operating activities) to be presented on the face of the cash flow statement or may such information be presented in a note?*

A: For the indirect method of presentation, SSAP 15 does not specify whether the reconciliation should be presented on the face of the cash flow statement or in a note but, because the requirement in SSAP 15 paragraph 17(b) is integral to the presentation of a cash flow statement under the indirect method, it would appear more appropriate to include the adjustment/reconciliation on the face of the cash flow statement.

SSAP 15.27-1 The effect of exchange rate changes on cash and cash equivalents

Q: Does SSAP 15 require a separate line for the “effect of exchange rate changes on cash and cash equivalents” to be presented on the face of the consolidated cash flow statement?

A: Under SSAP 15 paragraph 27, unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes (if any) on cash and cash equivalents held or due in a foreign currency is reported on the face of the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.