



IAS 7 - *Statement of Cash Flows*

Learning objectives

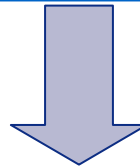
- ◆ **Upon completion of this module you should be able to**
 - **Describe** the scope of and definitions within IAS 7
 - **Assess and Identify** required components in the statement of cash flows
 - **Discuss** specific disclosure requirements in the financial statements

Agenda

- ◆ **Scope and Definitions**
- ◆ **Structure of a statement of cash flows**
- ◆ **Specific disclosure requirements**

Scope

All entities must present a statement of cash flows



For each period financial statements are presented

Definitions

◆ Cash:

- Cash on hand and demand deposits

◆ Cash equivalents:

- Short-term, highly liquid investments
- Readily convertible to known amounts of cash
- Subject to an insignificant risk of changes in value
- Most importantly, used to meet day-to-day cash needs, and not for investing or longer term funding

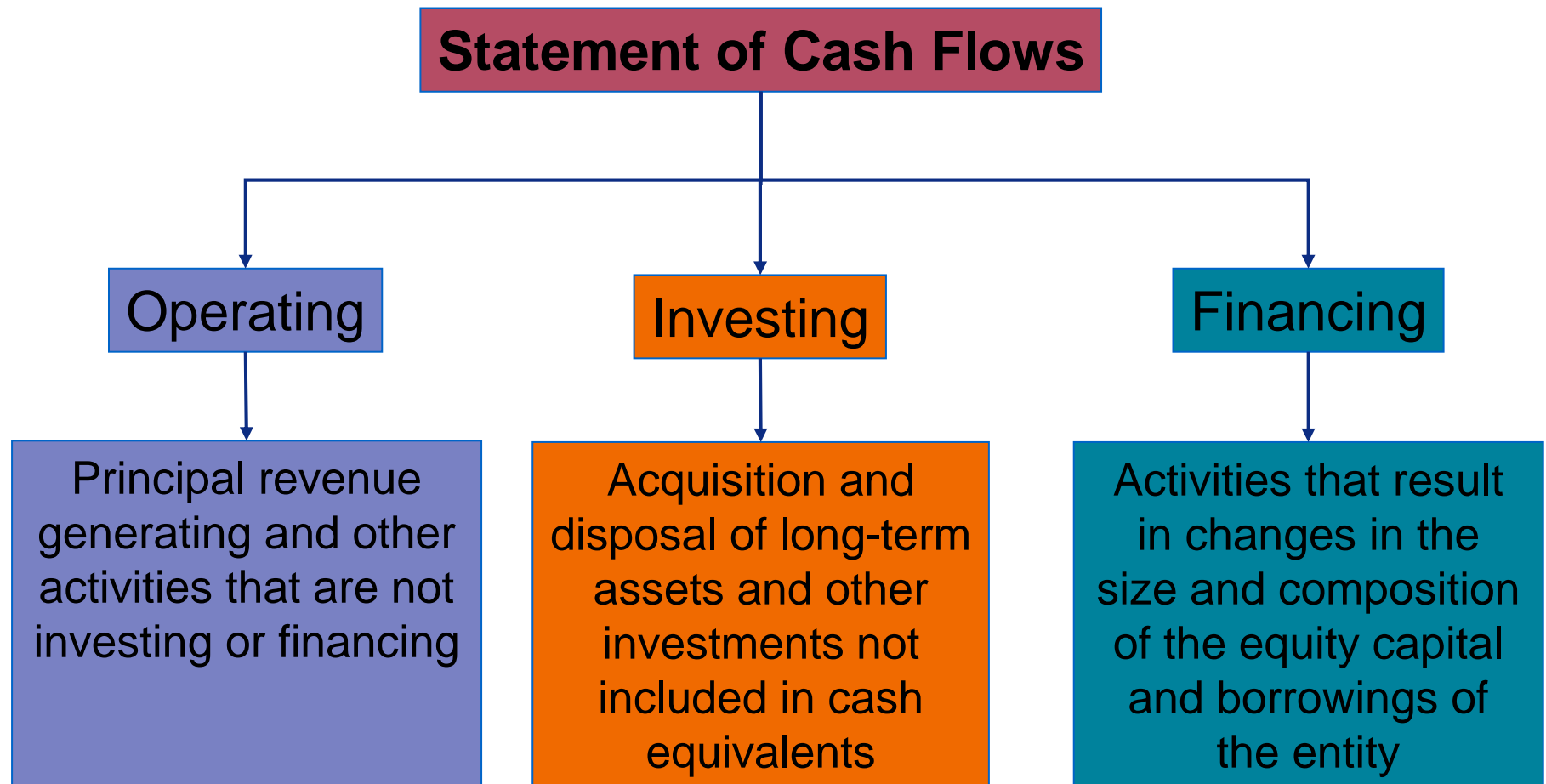
◆ Cash flows:

- Inflows and outflows of cash and cash equivalents

Agenda

- ◆ Scope and Definitions
- ◆ Structure of a statement of cash flows
- ◆ Specific disclosure requirements

Statement of Cash Flows



Cash flows from operating activities



Choose between

◆ The direct method (recommended)

- Major classes of gross cash receipts and gross cash payments are disclosed

◆ The indirect method (most common)

- Profit or loss is adjusted for:
 - effects of transactions of a non-cash nature,
 - deferrals/accruals of past or future operating cash receipts or payments, and
 - items of income/expense associated with investing and financing cash flows

Operating activities - Direct method

◆ **Information about major classes of gross cash receipts and gross cash payments may be obtained either:**

- From the accounting records of the entity, or
- By adjusting sales, cost of sales and other items in the statement of cash flows for:
 - Changes during the period in inventories and operating receivables and payables
 - Other non-cash items
 - Other items for which the cash effects are investing or financing cash flows

Operating activities - Direct method (cont.)

Cash receipts from customers	X
Cash paid to suppliers and employees	-X
Cash generated from operations	X
Interest paid	-X
Income taxes paid	-X
Net cash from operating activities	X

Operating activities - Indirect method

◆ Determine net cash flow from operating activities by:

- Adjusting net profit or loss for the effects of:
 - Changes during the period in inventories, operating receivables and payables,
 - Non-cash items, and
 - Items for which the cash effects are investing or financing
- Alternatively, present the net cash flow 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

Operating activities - Indirect method (cont.)

PROFIT OR LOSS FOR THE PERIOD	X
ADJUSTMENTS FOR:	
DEPRECIATION	X
FOREIGN EXCHANGE LOSS	X
INVESTMENT INCOME	-X
INTEREST EXPENSE	X
INCOME TAX EXPENSE (DEFERRED & CURRENT)	X
OPER. PROFIT BEFORE WORK. CAP. CHANGES	X
INCREASE IN TRADE AND OTHER RECEIVABLES	-X
DECREASE IN INVENTORIES	X
DECREASE IN TRADE PAYABLES	-X
CASH GENERATED FROM OPERATIONS	X
INTEREST PAID	-X
INCOME TAXES PAID	-X
NET CASH FROM OPERATING ACTIVITIES	X

Cash flows from investing and financing activities

- ◆ **Generally, report separately major classes of gross cash receipts and gross cash payments**
- ◆ **Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**
 - 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
 - Cash receipts and payments for items in which:
 - The turnover is quick,
 - The amounts are large, and
 - The maturities are short

Practical example (1)

Comparison of 2009 and 2010 statements of financial position

	31.12.2009	31.12.2010	Difference
Property, plant and equipment	1000	1100	100
Accounts Receivable	100	50	-50
Inventory	300	550	250
Cash	200	100	-100
Total Assets	1600	1800	200
Equity	500	600	100
Pension Liability	300	350	50
Accounts Payable	200	100	-100
Bank loans	600	750	150
Total liabilities and equity	1600	1800	200

Practical example (2)

Accounting

	Change in financial position	Operating activities	Investing activities	Financing activities
Property, plant and equipment	100			
Additions	120		-120	
Depreciation	-20	20		
Accounts Receivables	-50	50		
Inventory	250	-250		
Cash & Cash Equivalent				
Equity	100			
Profit of the Year	200	200		
Dividends	-100			-100
Pension Liability	50	50		
Accounts Payable	-100	-100		
Bank Loans	150			150
Change in cash & cash equivalents		-30	-120	50

Foreign currency cash flows

- ◆ **Translate at the exchange rate at the date of cash flows:**
 - Cash flows in foreign currencies
 - Cash flows of foreign subsidiaries
- ◆ **Unrealised gains and losses from changes in foreign currency exchange rates are not cash flows**
- ◆ **The effect of exchange rate changes on cash and cash equivalents in foreign currencies is shown as a reconciling item between cash and cash equivalents at the beginning and end of period**

Agenda

- ◆ Scope and Definitions
- ◆ Structure of a statement of cash flows
- ◆ Specific disclosure requirements

Interest, dividends and income taxes

◆ **Disclose separately in the statement of cash flows:**

- Interest and dividends received and paid
 - Classify consistently as operating, investing or financing activities
- Taxes on income
 - Classify as operating activities unless specifically identified with financing and investing activities
 - Disclose total amount of taxes paid if allocated over more than one class

Acquisitions and disposals of subsidiaries and other businesses

- ◆ **Disclose separately the aggregate cash flows from acquisitions and from disposals of subsidiaries and other businesses**
 - Classify as investing activities
- ◆ **Disclose, in aggregate, in respect of both acquisitions and disposals during the period:**
 - Consideration paid or received
 - Portion of the consideration paid or received settled by means of cash and cash equivalents
 - Amount of cash/cash equivalents acquired/disposed
 - Amount of the assets and liabilities other than cash/cash equivalents acquired/disposed (summarised)

Other disclosures

◆ Non-cash transactions

- Investing and financing activities not requiring the use of cash and cash equivalents
- Not part of the statement of cash flows

◆ Cash and cash equivalents

- Components of cash and cash equivalents
- A reconciliation of the amounts in the statement of cash flows with the equivalent items reported in the statement of financial position
- The amount of significant cash and cash equivalents not available for use

◆ Future developments

- IS Alert 2010/13: ED proposal to eliminate the indirect method



*IAS 8/10 – Accounting Policies, Changes in Accounting
Estimates and Errors / Events after the Reporting
Period*

Learning objectives

◆ Upon completion you will be able to:

- **Determine** the differences between a change in an accounting policy, accounting estimate and a prior period error
- **Assess** what a change in accounting policy is, how to account for it and what are the disclosure requirements
- **Assess** what a change in accounting estimate is, how to account for it and what are the disclosure requirements
- **Assess** what a prior period error is, how to account for its correction and what are the disclosure requirements

Learning objectives (continued)

◆ Upon completion you will be able to:

- **Identify** events after the end of the reporting period that need to be considered in preparing financial statements
- **Analyze and Classify** adjusting and non- adjusting events after the reporting period

Agenda

- ◆ **Objective and scope of IAS 8**
- ◆ **Accounting policies**
- ◆ **Accounting estimates**
- ◆ **Prior period errors**
- ◆ **Events after the reporting period IAS 10**
- ◆ **Adjusting and non-adjusting events**

Objective and scope of IAS 8

- ◆ **Selecting and applying accounting policies**
- ◆ **Accounting for changes in:**
 - Accounting policies
 - Accounting estimates
- ◆ **Corrections of prior period errors**

Agenda

- ◆ Objective and scope of IAS 8
- ◆ Accounting policies
- ◆ Accounting estimates
- ◆ Prior period errors
- ◆ Events after the reporting period IAS 10
- ◆ Adjusting and non-adjusting events

Accounting policies

◆ Accounting policies

- Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements

Selection and application of accounting policies

◆ Accounting policy determined by

- Applying a specific IFRS
- Considering any relevant implementation guidance

◆ In absence of a specific IFRS

- Use judgement to develop an accounting policy that results in relevant and reliable information
 - First, refer to IFRSs dealing with similar and related issues and second, to framework
 - Consider pronouncement of other setters or industry practices if consistent with above

Consistency of accounting policies

- ◆ **Select and apply accounting policy consistently for similar transactions, other events and conditions**

- Example: equity method for all jointly controlled entities

- ◆ **May adopt different policies**

- When an IFRS requires or permits categorisation of items for which different policies may be appropriate
- But accounting policy selected and applied should be consistent to each category

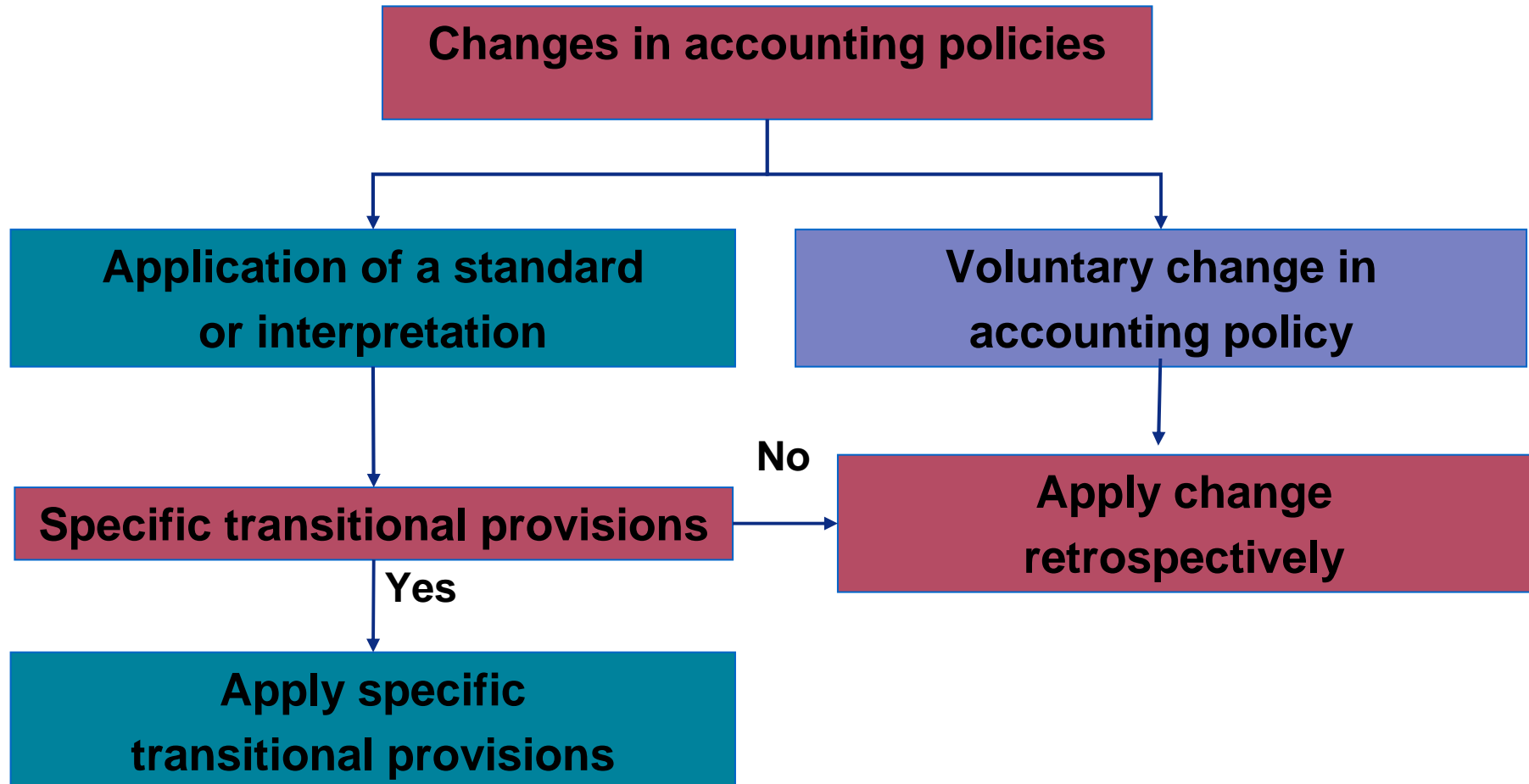
Disclosure – Judgment and estimation

- ◆ **Disclose the judgements made by management**
 - that have the most significant effect
- ◆ **Disclose information about key assumptions**
 - concerning the future, and other key sources of estimation uncertainty
 - disclose for those assets and liabilities
 - their nature; and
 - their carrying amount at the end of the reporting period

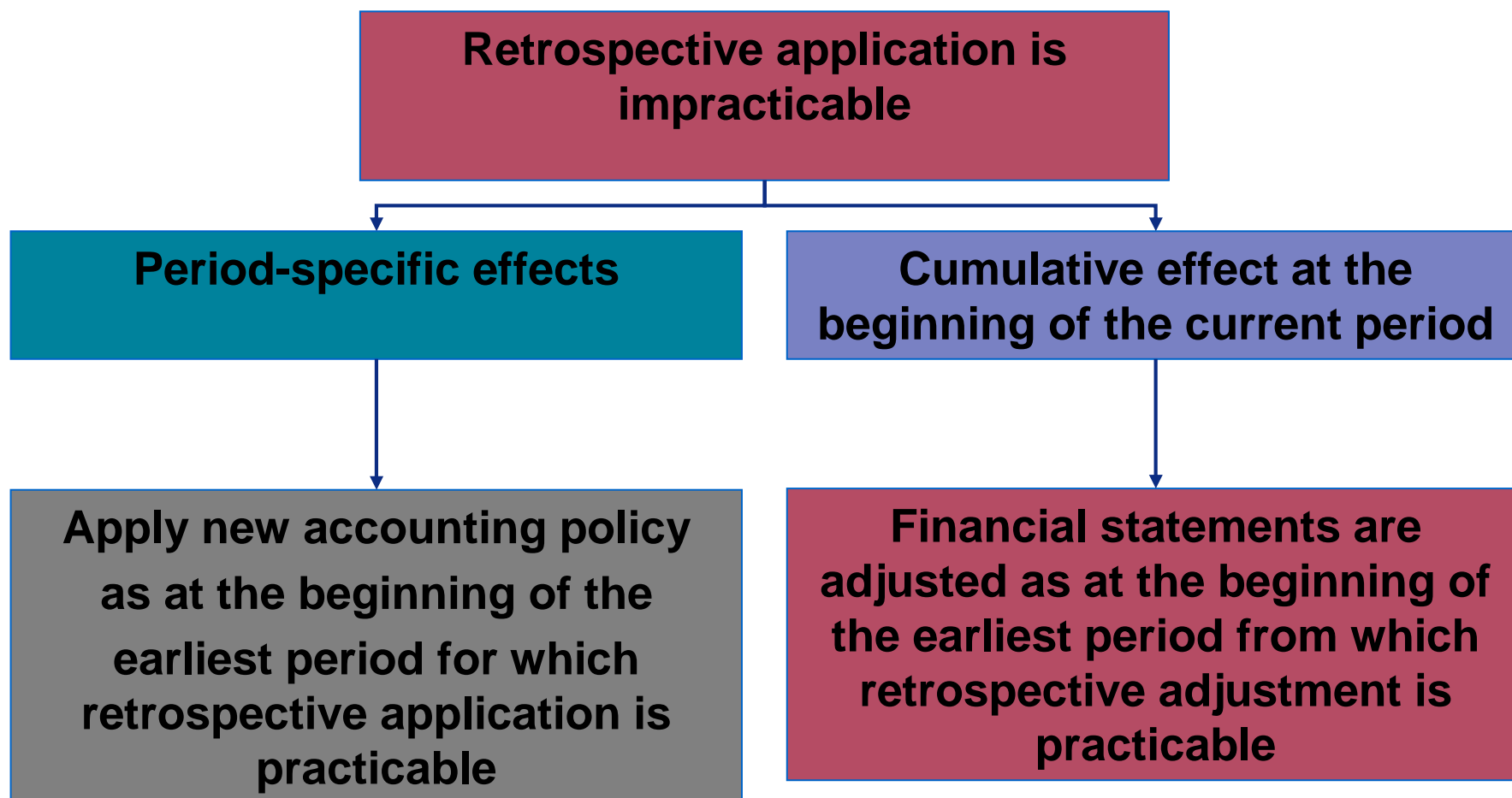
Changes in accounting policies

- ◆ **Consistency is important**
- ◆ **Change an accounting policy only if the change:**
 - is required by an IFRS; or
 - results in the financial statements providing reliable and more relevant information

Applying changes in accounting policies



Applying changes in accounting policies (continued)



Retrospective application - Impracticability

- ◆ **Use only information that**
 - Provides evidence of circumstances at the time; and
 - Would have been available when the financial statements of that period were authorised for issue
- ◆ **If a significant estimate requires the use of information that does not meet these criteria then**
 - Retrospective application is impracticable

Changes in accounting policies – Disclosure

- ◆ **When an entity restates, IAS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period**
- ◆ **When initial application of a standard or an interpretation has an effect, disclose**
 - Change in accordance with transitional provisions
 - For current period and each prior period presented the amount of the adjustment for each financial line item affected and for basic and diluted earnings per share, if IAS 33 applies
 - The amount of the adjustment relating to periods before those presented, to the extent practicable
 - If retrospective application is required but impracticable, the circumstances and a description
- ◆ **Need not repeat these disclosures in subsequent periods**

Changes in accounting policies – Disclosure (continued)

◆ When a voluntary change:

- Has an effect on the current period or any prior period
- Would have such an effect except that it is impracticable to determine the amount of the adjustment; or
- Might have an effect on future periods

◆ Then we are required to disclose:

- Why the change provides reliable and more relevant information
- For current period and each prior period presented the amount of the adjustment for each line item affected
- The amount of the adjustment relating to periods before those presented
- If retrospective application is impracticable, the circumstances and a description

◆ Need not repeat these disclosures in subsequent periods

Changes in accounting policies - Disclosure (continued)

- ◆ **When not applying a new IFRS that has been issued but is not yet effective, disclose**
 - This fact
 - Known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the financial statements in the period of initial application

Agenda

- ◆ Objective and scope of IAS 8
- ◆ Accounting policies
- ◆ Accounting estimates
- ◆ Prior period errors
- ◆ Events after the reporting period IAS 10
- ◆ Adjusting and non-adjusting events

Changes in accounting estimates

- ◆ **Include the effect of a change in an accounting estimate in net profit or loss in**
 - The period of the change, if the change affects the period only, or
 - The period of the change and future periods, if the change affects both
- ◆ **If difficult to distinguish between change in accounting estimate and in accounting policy**
 - Treat the change as a change in accounting estimate

Changes in accounting estimates (continued)

- ◆ **Disclose the nature and amount of a change in an estimate:**
 - That has an effect in the current period, or
 - Is expected to have an effect in the future periods
- ◆ **If impracticable to quantify the amount, disclose that fact**

Agenda

- ◆ Objective and scope of IAS 8
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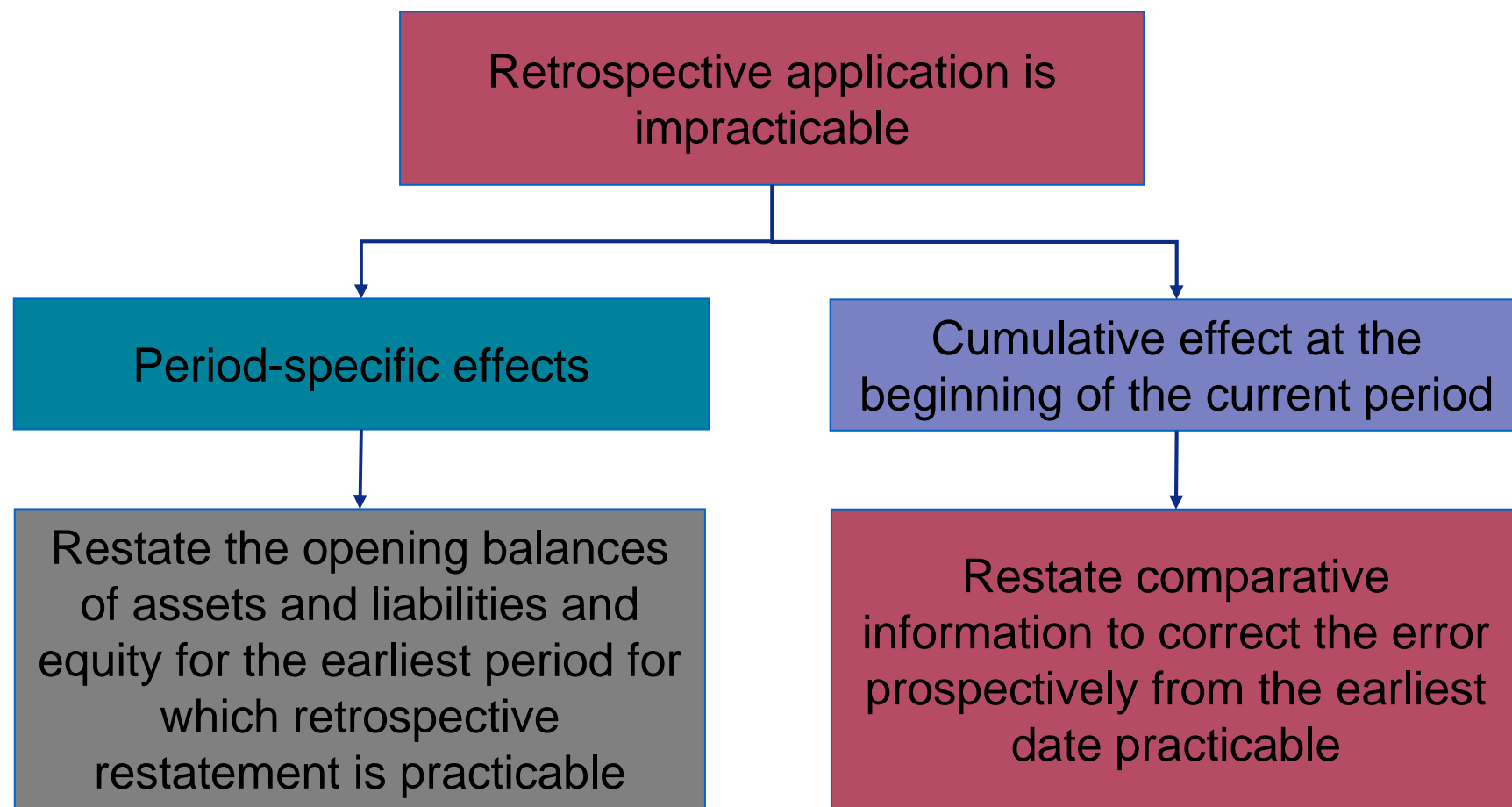
Prior period errors

- ◆ **Errors in respect of recognition, measurement, presentation or disclosure**
- ◆ **Prior period errors**
 - Omission and misstatements for one or more prior periods arising from a failure to use, or misuse of, reliable information
- ◆ **Such errors include**
 - The effects of mathematical mistakes in applying accounting policies
 - Oversights or misinterpretations of facts
 - Fraud

Correction of material prior period errors

- ◆ **Correct material prior period errors retrospectively in the first set of financial statements authorised for issue after discovery by:**
 - Restating the comparative amounts for the prior period presented in which the error occurred; or
 - If the error occurred before the earliest prior period presented, restating the opening balances for the earliest prior period presented

Correction of material prior period errors (continued)



Revised IAS 1 requirements

Disclosure of prior period errors correction

- ◆ **When an entity restates, IAS 1 requires an entity to prepare an additional statement of financial position as at the beginning of the comparative period**
- ◆ **Extensive disclose requirements**
 - Disclose the nature of the prior period error
 - For each prior period presented the amount of the correction
 - The amount of the correction at the beginning of the earliest prior period presented
 - If retrospective restatement is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected
- ◆ **Need not repeat these disclosures in subsequent periods**

Agenda

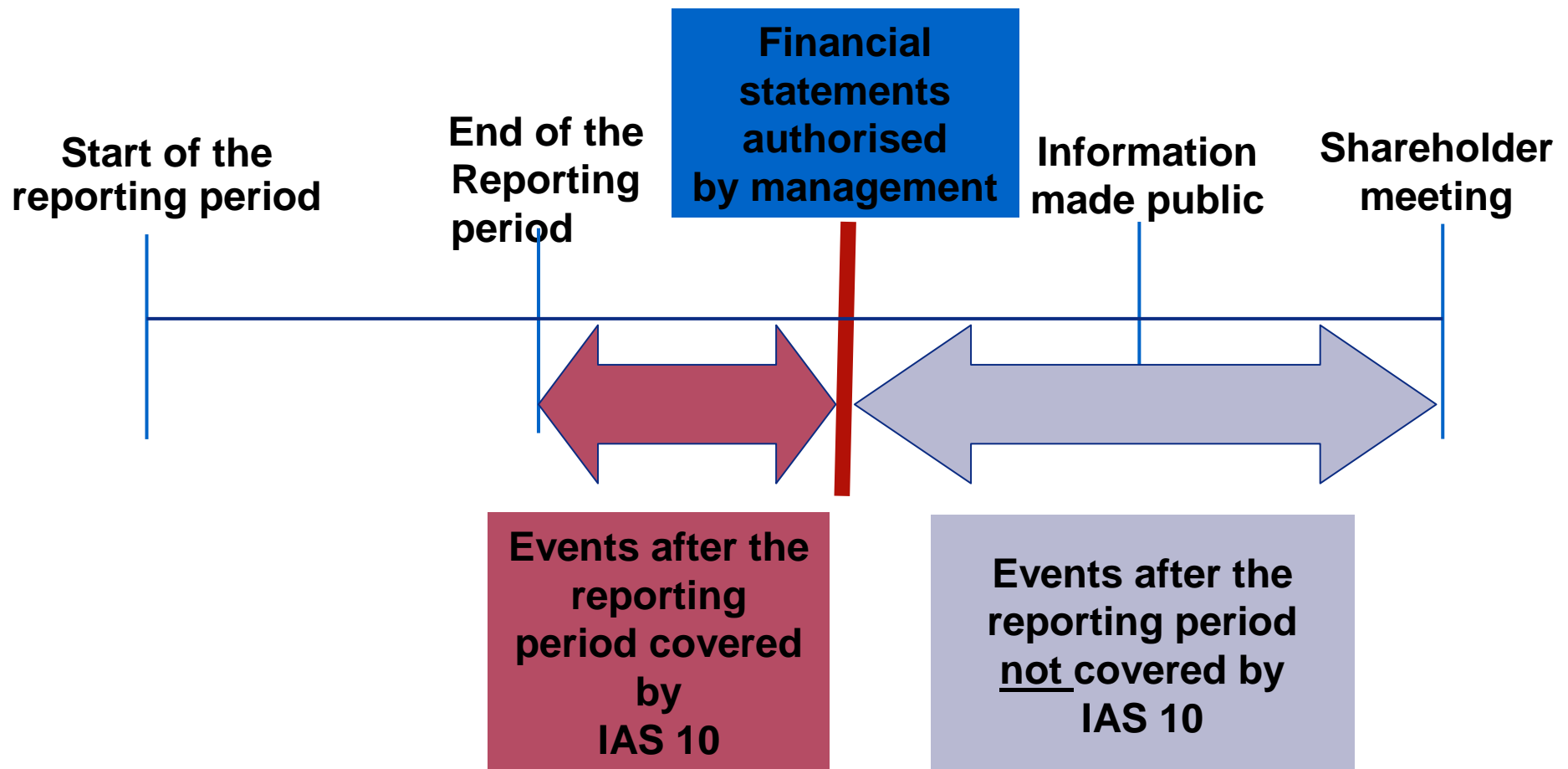
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- ◆ Prior period errors
- ◆ Events after the reporting period IAS 10
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Scope of IAS 10

◆ Events after the reporting period

- Accounting
- Disclosures

Events after the reporting period to consider



Date that financial statements authorized for issue

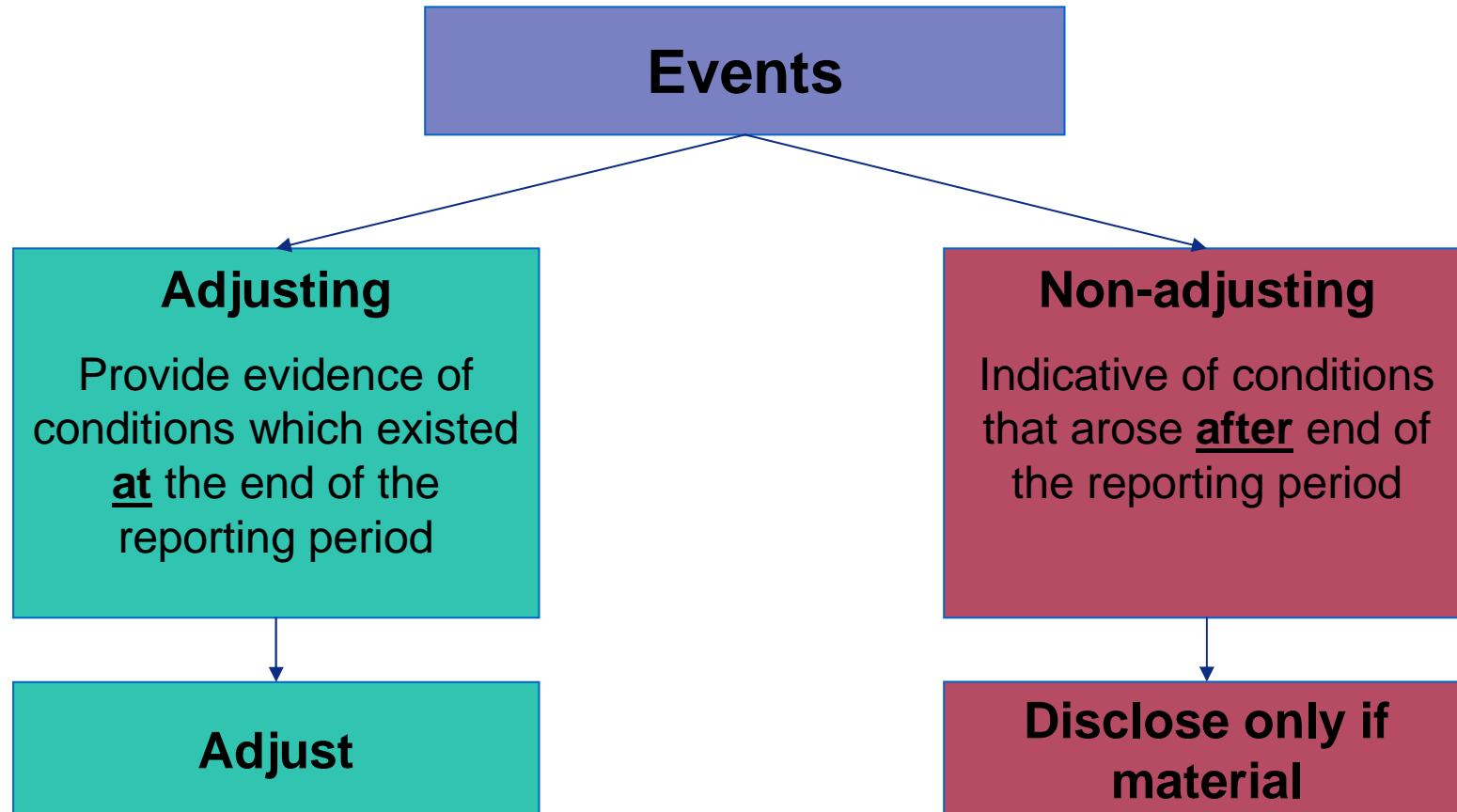
Generally the date that financial statements are authorised and issued by management

- ◆ to supervisory board or shareholders
- ◆ even if shareholders or supervisory board are required to approve

Agenda

- ◆ Objective and scope of IAS 8
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Adjusting and non-adjusting events



Examples of adjusting and non-adjusting events

Adjusting

- ◆ **Settlement of a court case**
 - May confirm a present obligation at the end of the reporting period
 - If so, then adjust any previously recognised provision
- ◆ **Bankruptcy of a customer**
 - Usually confirms that a loss already existed at the end of the reporting period
- ◆ **Discovery of fraud**

Non-adjusting

- ◆ **Destruction of a plant by fire**
- ◆ **Decline in market value of investments**
- ◆ **A major business combination**
- ◆ **Announcing a major restructuring**
- ◆ **Abnormally large changes in asset prices or foreign exchange rates**
- ◆ **Entering into significant commitments**

Special issues – Classification of debt as current or non-current

- ◆ Classification of long-term debt as current or non-current reflects circumstances at the end of the reporting period
- ◆ Post-reporting refinancing, amendments, waivers etc. are not considered
- ◆ *But* if at the end of the reporting period an entity expects, and has the discretion, to refinance or to reschedule payments on a long-term basis, then the debt is classified as *non-current*

Special issues – Dividends and going concern

◆ Dividends

- Dividends “**declared**” after the end of the reporting period should not be recognised as a liability then but are disclosed in notes
- “**Declared**”: appropriately authorised and no longer at the discretion of the entity

◆ Going concern

- If the going concern assumption becomes inappropriate after the end of the reporting period, then the financial statements should not be prepared on a going concern basis

Special issues – Earnings per share

◆ Earnings per share is restated

- To include the effect on the number of shares of some transactions occurring after the end of the reporting period, even though they are non-adjusting events
- For example, bonus issue, share split

Disclosures

- ◆ **Date of authorisation of financial statements for issue**
- ◆ **Who gave authorisation**
- ◆ **If someone has the power to amend the financial statements after issuance**
- ◆ **Updating of disclosures about conditions existing at the end of the reporting period**
- ◆ **Material non-adjusting events:**
 - Nature of the event
 - An estimate of its financial effect, or that such an estimate cannot be made

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