



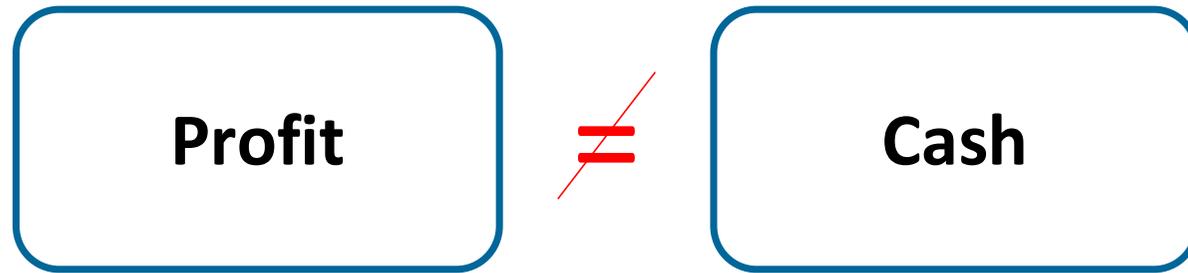
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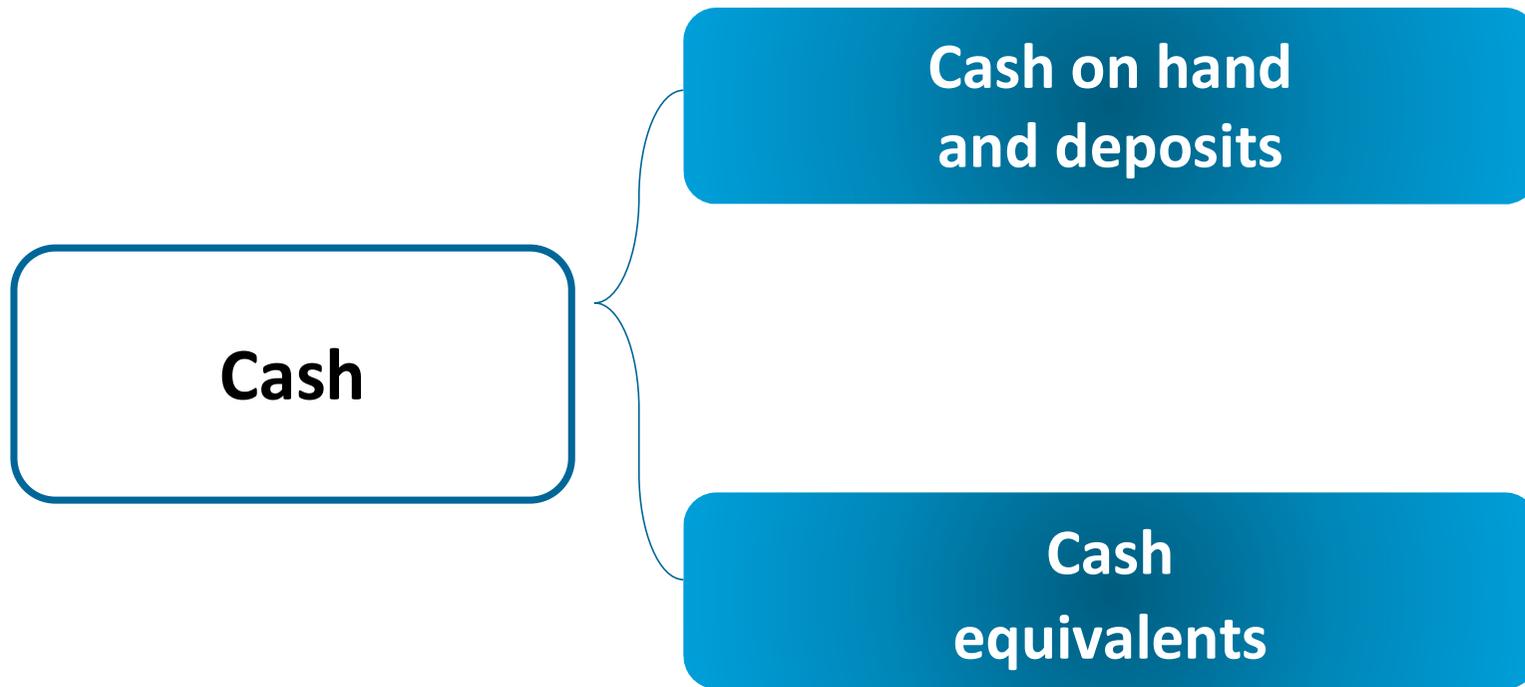
## IAS® Standard 7 Statement of Cash Flows



# SCOPE AND KEY DEFINITIONS



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# THE FORMAT OF THE STATEMENT OF CASH FLOWS

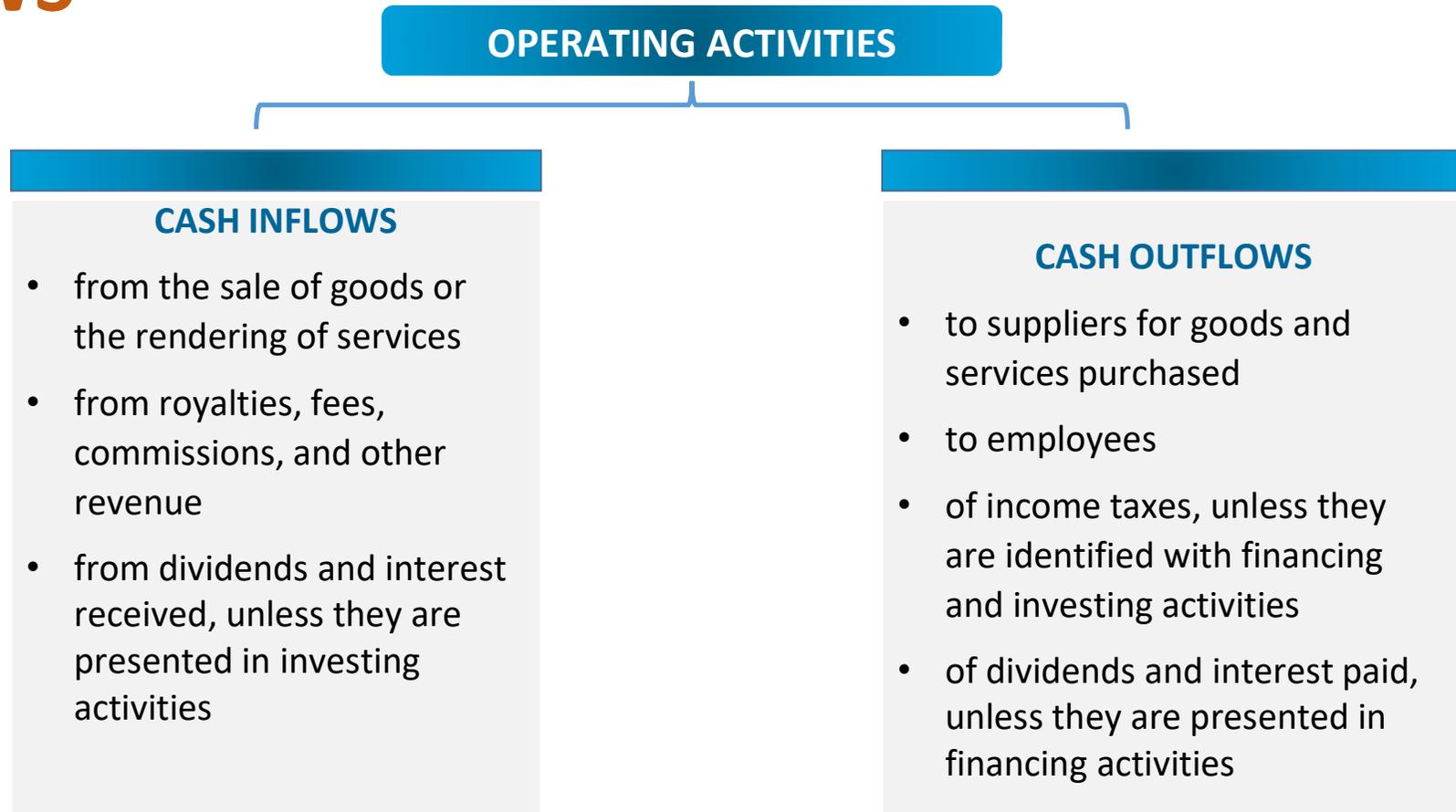
## Statement of cash flows for the year N

Cash flows from <b>operating</b> activities	X(X)
Cash flows from <b>investing</b> activities	X(X)
<u>Cash flow from <b>financing</b> activities</u>	<u>X(X)</u>
Net increase/ (decrease) in cash and cash equivalents during period	X(X)
Cash and cash equivalents at the beginning of the period	X(X)
Cash and cash equivalents at the end of the period	X(X)

# PRESENTATION OF THE STATEMENT OF CASH FLOWS



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## INVESTING ACTIVITIES

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graph TD; A[INVESTING ACTIVITIES] --- B[CASH INFLOWS]; A --- C[CASH OUTFLOWS]
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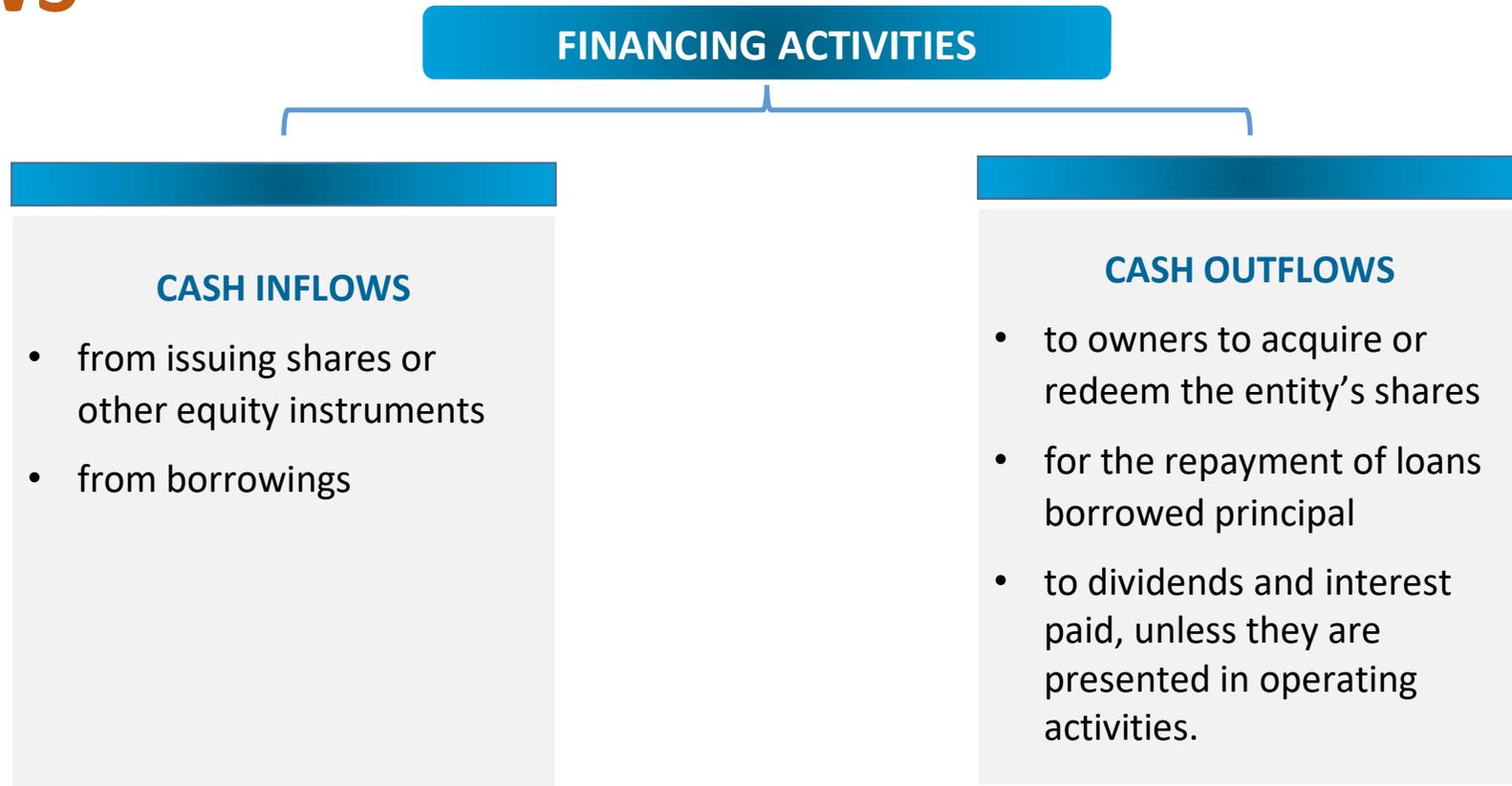
### CASH INFLOWS

- from the sale of long-term assets (property, plant and equipment, intangibles)
- from the sale of equity or debt instruments of other entities (shares or bonds)
- from the repayment of loans granted to other parties
- from dividends and interest received, unless they are presented in operating activities

### CASH OUTFLOWS

- to suppliers of long-term assets (such as property, plant and equipment, or intangibles)
- to acquire equity or debt instruments
- from loans granted to other parties

# PRESENTATION OF THE STATEMENT OF CASH FLOWS



# EXAMPLE SCF

Entity SCF began the year 2022 with cash amounting to CU30,000. During the year 2022, the entity:

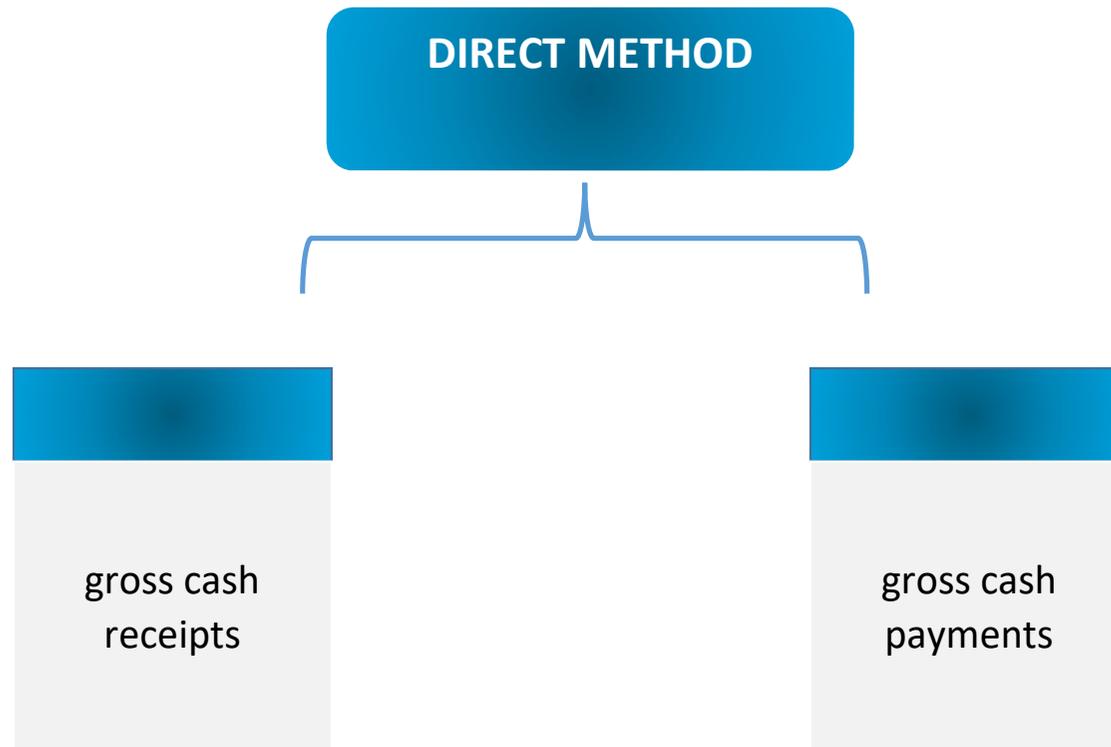
- sold finished goods for CU10,000 in cash and for CU50,000 on credit
- purchased raw materials for CU40,000, while only paying CU20,000 to suppliers
- contracted a bank loan for CU35,000
- acquired a machine for CU40,000, and paid it entirely in cash; and
- sold for cash 100 shares issued by another entity for CU10,000.

# EXAMPLE SCF solution

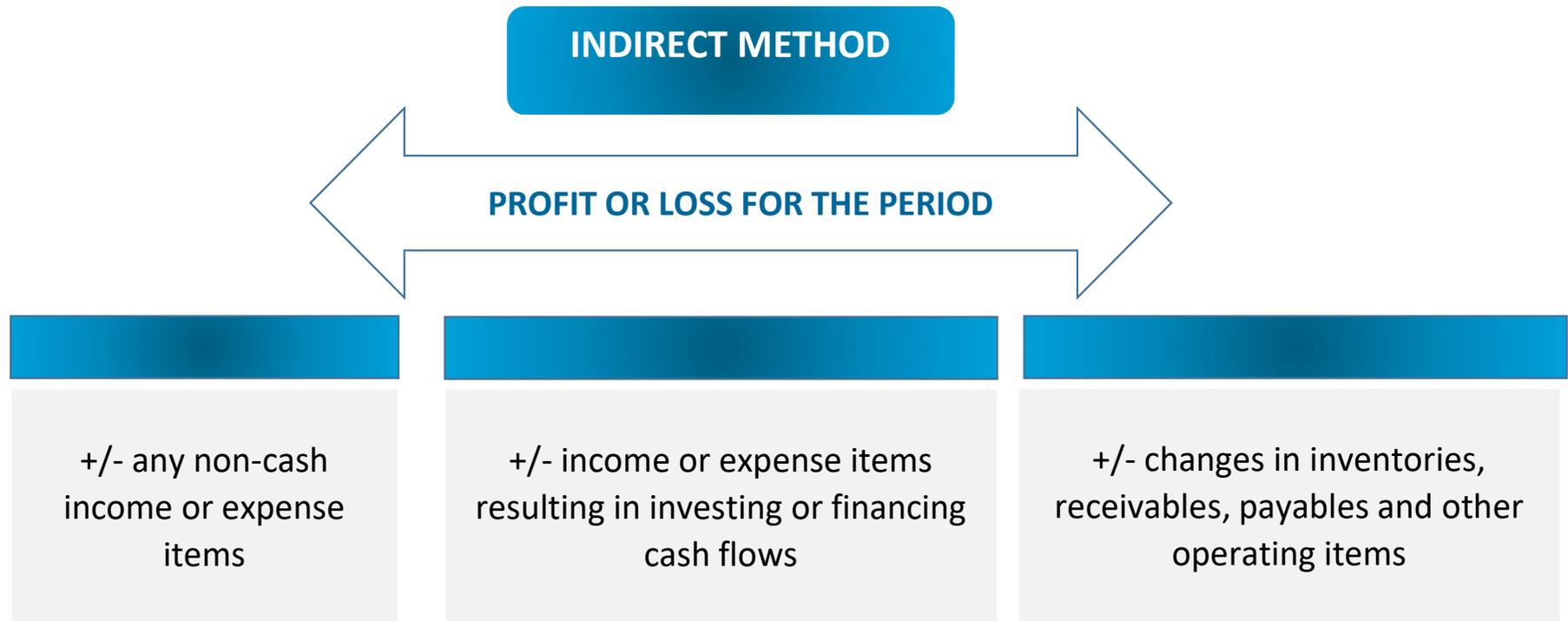
## Statement of cash flows for the year 2022 (all in CU)

<b>Cash flows from operating activities</b>	
Cash receipts from customers	10,000
- Cash payments made to suppliers	(20,000)
= Net cash flow from operating activities (I)	<b>=(10,000)</b>
<b>Cash flows from investing activities</b>	
Cash receipts from selling shares	10,000
- Cash payments to suppliers of non-current assets	(40,000)
= Net cash flow from investing activities (II)	<b>=(30,000)</b>
<b>Cash flows from financing activities</b>	
Cash received from bank loans	35,000
= Net cash flow from financing activities (III)	<b>=35,000</b>
<b>Total net cash flow (IV) = (I) + (II) + (III)</b>	<b>(5,000)</b>
<b>Cash and cash equivalents as of 01.01.2022 (V)</b>	<b>30,000</b>
<b>Cash and cash equivalents as of 31.12.2022 (VI) = (IV) + (V)</b>	<b>25,000</b>

# REPORTING CASH FLOWS FROM OPERATING ACTIVITIES (CFO)



# REPORTING CASH FLOWS FROM OPERATING ACTIVITIES



# TREATMENT OF OPERATING WORKING CAPITAL ITEMS

	<b>Operating Assets</b>	<b>Operating Liabilities</b>
Increase	Negative impact on CFO	Positive impact on CFO
Decrease	Positive impact on CFO	Negative impact on CFO

# TREATMENT OF OPERATING WORKING CAPITAL ITEMS

	<b>Operating Assets</b>	<b>Operating Liabilities</b>
Increase	Negative impact on CFO	Positive impact on CFO
Decrease	Positive impact on CFO	Negative impact on CFO

# EXAMPLE SCF compilation

The following items have been extracted from the financial statements of SCF Co. for the year 2022 (all amounts in CU):

Item	Amount
Sales	5,000
Cost of goods sold	(2,000)
Wages expense	(1,000)
Depreciation expense	(500)
Profit	1,500

Item	Opening balances	Ending balances
Accounts receivable	600	100
Inventories	200	1,200
Accounts payable	300	700
Wages payable	600	0

Prepare the entity's statement of cash flows for the year 2022.

## SOLUTION - DIRECT METHOD

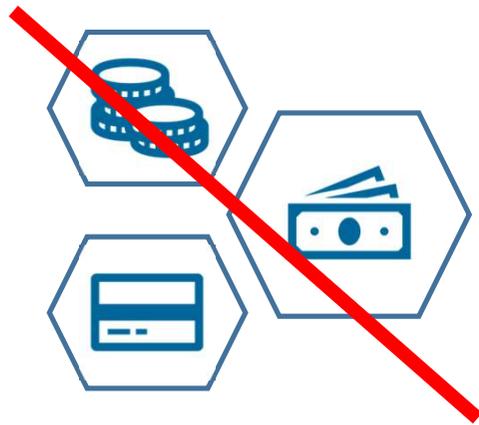
Item	Amount
Cash collections from customers*	5,500
-Cash payments to suppliers**	(2,600)
-Cash payments to employees***	(1,600)
<b>=Cash flow from operating activities</b>	<b>1,300</b>

<b>* 5,500</b>	sales + opening balance accounts receivable – ending balance accounts receivable	$5,500 = 5,000 + 600 - 100$
<b>** (2,600)</b>	Purchases = cost of goods sold + ending balance inventories - opening balance inventories Payments to suppliers = purchases + opening balance accounts payable – ending balance accounts payable	$3,000 = 2,000 + 1,200 - 200$  $(2,600) = 300 + 3,000 - 700$
<b>*** (1,600)</b>	Payments to employees = wages expense + opening balance wages payable – ending balance wages payable)	$(1,600) = (1,000 + 600 - 0)$

## SOLUTION - INDIRECT METHOD

Item	Amount
<b>Profit</b>	1,500
<b>Adjustment of non-cash items</b>	
Depreciation expense	500
<b>Changes in operating working capital items</b>	
Decrease of accounts receivable	500
-Increase in inventories	(1,000)
Increase in accounts payable	400
-Decrease in wages payable	(600)
<b>Cash flow from operating activities</b>	1,300

# NON-CASH TRANSACTIONS



NO

indirect  
method  
retreatmen  
t

YES

STATEMENT OF  
CASH FLOWS

# DISCLOSURE

- a reconciliation of the amounts in their statement of cash flows and the equivalent items reported in the statement of financial position
- any significant amounts of cash held by the entity that are not available for the group
- segmental cash flows

## EXAMPLE – direct and indirect method

SCF Co. is incorporated on December 6, 2021, by a contribution in cash from its shareholders, entirely paid up, of CU3,000.

SCF then takes a loan on December 7, for CU2,000. It repays CU250 of this loan by year end 2021. Interest has accrued on the loan for CU10 by year end, but it will be paid for later.

On December 8, SCF buys merchandise, for CU700, of which it only pays CU300 in 2021.

SCF then sells half the merchandise on hand, for CU500, on account, on December 10.

SCF finally purchases a computer for cash, for CU500, on December 11. The computer is depreciated for CU50 by the year end.

It is then sold on December 31, for CU475 in cash.

# EXAMPLE

Based on these transactions, the statement of the financial position and the statement of the profit or loss are:

Sales	500
Cost of merchandise sold/merchandise expense	(350)
Depreciation expense	(50)
Gain on the sale of non-current assets	25
Interest expense	(10)
<b>Profit</b>	<b>115</b>

Prepare SCF's statement of cash flows using the direct and the indirect method, knowing that interest paid is classified as an operating cash flow.

<b>Assets</b>	<b>31.12.2021</b>
<b>Current assets</b>	<b>5,275</b>
Inventories	350
Accounts receivable	500
Cash and cash equivalents	4,425
<b>Total assets</b>	<b>5,275</b>
<b>Equity and liabilities</b>	
Share capital	3,000
Profit	115
<b>Total equity</b>	<b>3,115</b>
<b>Non-current liabilities</b>	<b>1,750</b>
Bank loans	1,750
<b>Current liabilities</b>	<b>410</b>
Accounts payable	400
Interest payable	10
<b>Total liabilities</b>	<b>2,160</b>
<b>Total equity and liabilities</b>	<b>5,275</b>

## SOLUTION - DIRECT METHOD

<b>Cash flows from operating activities</b>	
Cash payments made to suppliers of merchandise	(300)
= Net cash flow from operating activities (I)	<b>=(300)</b>
<b>Cash flows from investing activities</b>	
Cash payments to non-current asset suppliers	(500)
Cash receipts from selling non-current assets	475
= Net cash flow from investing activities (II)	<b>=(25)</b>
<b>Cash flows from financing activities</b>	
Cash receipts from capital contribution	3,000
Cash receipts from loans raised	2,000
Cash reimbursements of loans	(250)
= Net cash flow from financing activities (III)	<b>=4,750</b>
<b>Total net cash flow (IV) = (I) + (II) + (III)</b>	<b>4,425</b>
<b>Cash and cash equivalents as of 06.12.2021 (V)</b>	<b>0</b>
<b>Cash and cash equivalents as of 31.12.2021 (VI) = (IV) + (V)</b>	<b>4,425</b>

## SOLUTION - INDIRECT METHOD

<b>Profit</b>	<b>115</b>
<b>Adjustment for non-cash income or expense items</b>	
Depreciation expense	50
<b>Adjustment for income or expense resulting in investing or financing cash flows</b>	
Gain on the sale of non-current assets	(25)
<b>Changes in inventories, receivables, payables and other operating items</b>	
Increase in merchandise	
Increase in accounts receivable	(350)
Increase in accounts payable	(500)
Increase in interest payable	400
	10
<b>Cash flow from operating activities</b>	<b>(300)</b>

The cash flows from investing and financing activities remain the same.



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