DIGITAL CFO SOLUTIONS • IFRS SERIES

ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 7 — Statement of Cash Flows

How cash moves through operating, investing and financing activities — and what that movement tells users about an entity

BD

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PART I — OBJECTIVE, SCOPE & DEFINITIONS

Why Cash Flow Reporting Matters

Profit is an opinion; cash is a fact. IAS 7 makes sure every entity tells that fact the same way.

Objective & Scope

Cash flow information gives users of financial statements a basis to assess the entity's ability to generate cash and cash equivalents, and the needs of the entity to utilise those cash flows.

1 Applies to All Entities

IAS 7 requires all entities to present a statement of cash flows as an integral part of their financial statements for each period presented.

2 Historical Cash Movement

It reports the historical changes in cash and cash equivalents during the period, classified by operating, investing and financing activities.

Key Definitions

1

Cash

Cash on hand and demand deposits

2

Cash Equivalents

Short-term, highly liquid investments readily convertible to known amounts of cash, subject to insignificant risk of changes in value — typically original maturity of three months or less

3

Cash Flows

Inflows and outflows of cash and cash equivalents

Three Categories of Cash Flow Activity

1

Operating Activities

The principal revenue-producing activities of the entity, and other activities that are not investing or financing

2

Investing Activities

Acquisition and disposal of long-term assets and other investments not included in cash equivalents

3

Financing Activities

Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity

PART II — OPERATING ACTIVITIES

Operating Activities

Cash flows from the entity's principal revenue-producing activities — usually the largest, and most closely watched, of the three categories.

Definition & Typical Examples

Operating cash flows are generally the consequence of transactions and other events that enter into the determination of profit or loss.

1. Cash receipts from the sale of goods and rendering of services
2. Cash receipts from royalties, fees, commissions and other revenue
3. Cash payments to suppliers for goods and services
4. Cash payments to and on behalf of employees
5. Cash payments or refunds of income taxes, unless specifically identified with financing or investing activities
6. Cash receipts and payments from contracts held for dealing or trading purposes

PART III — INVESTING ACTIVITIES

Investing Activities

Cash flows representing the extent to which expenditures have been made for resources intended to generate future income and cash flows.

INVESTING ACTIVITIES

Definition & Typical Examples

Only expenditures that result in a recognised asset in the statement of financial position qualify for classification as investing activities.

1. Cash payments to acquire property, plant & equipment, intangibles and other long-term assets, including capitalised development costs
2. Cash receipts from sales of property, plant & equipment, intangibles and other long-term assets
3. Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than instruments held for trading)
4. Cash receipts from sales of such equity or debt instruments and interests in joint ventures
5. Cash advances and loans made to other parties, and cash receipts from their repayment
6. Cash payments/receipts for futures, forward, option and swap contracts, except where held for dealing or classified as financing

PART IV — FINANCING ACTIVITIES

Financing Activities

Cash flows that help predict claims on future cash flows by providers of capital to the entity.

Definition & Typical Examples

Financing cash flows help users predict claims on future cash flows by providers of capital — both equity and debt.

1. Cash proceeds from issuing shares or other equity instruments
2. Cash payments to owners to acquire or redeem the entity's own shares
3. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings
4. Cash repayments of amounts borrowed
5. Cash payments by a lessee for the reduction of the outstanding liability relating to a lease

PART V — REPORTING OPERATING CASH FLOWS

Direct vs Indirect Method

IAS 7 permits two methods for reporting operating cash flows — and actively encourages the more informative of the two.

Direct Method

Discloses major classes of gross cash receipts and gross cash payments. IAS 7 encourages entities to report operating cash flows using the direct method.

Cash Flows from Operating Activities (Direct)	Amount
Cash receipts from customers	X,XX,XXX
Cash paid to suppliers and employees	(X,XX,XXX)
Cash generated from operations	**X,XX,XXX**
Interest paid	(XX,XXX)
Income taxes paid	(XX,XXX)
Net cash from operating activities	**X,XX,XXX**

Illustration — Direct Method

Zenith Manufacturing Ltd — Statement of Cash Flows for the Year Ended 31 December 2026

Cash Flows from Operating Activities (Direct)	$
Cash receipts from customers	9,850,000
Cash paid to suppliers and employees	(6,920,000)
Cash generated from operations	**2,930,000**
Interest paid	(180,000)
Income taxes paid	(420,000)
Net cash from operating activities	**2,330,000**

Investing, Financing & Reconciliation	$
Cash Flows from Investing Activities:	
— Purchase of property, plant & equipment	(620,000)
— Proceeds from sale of equipment	45,000
— Interest received	60,000
Net cash used in investing activities	**(515,000)**
Cash Flows from Financing Activities:	
— Proceeds from issue of share capital	500,000
— Repayment of borrowings	(350,000)
— Dividends paid	(300,000)
Net cash used in financing activities	**(150,000)**
Net increase in cash & cash equivalents	**1,665,000**
Cash & cash equivalents at beginning of year	845,000
Cash & cash equivalents at end of year	**2,510,000**

The direct method restates each item in the operating section on a cash basis. Investing and financing sections are identical under either method.

Indirect Method

Profit or loss is adjusted for the effects of non-cash transactions, deferrals or accruals, and items of income or expense associated with investing or financing cash flows.

Cash Flows from Operating Activities (Indirect)	Amount
Profit before tax	X,XX,XXX
Adjustments for: depreciation, FX loss, investment income, interest expense	XX,XXX
Operating profit before working capital changes	**X,XX,XXX**
Increase in trade & other receivables	(XX,XXX)
Decrease in inventories	XX,XXX
Decrease in trade payables	(XX,XXX)
Cash generated from operations	**X,XX,XXX**
Interest paid	(XX,XXX)
Income taxes paid	(XX,XXX)
Net cash from operating activities	**X,XX,XXX**

Illustration — Indirect Method

Zenith Manufacturing Ltd — Statement of Cash Flows for the Year Ended 31 December 2026

Cash Flows from Operating Activities (Indirect)	$
Profit before tax	1,750,000
Adjustments for:	
— Depreciation	480,000
— Interest expense	180,000
— Investment income	(60,000)
Operating profit before working capital changes	**2,350,000**
— Increase in trade receivables	(100,000)
— Decrease in inventories	300,000
— Increase in trade payables	380,000
Cash generated from operations	**2,930,000**
— Interest paid	(180,000)
— Income taxes paid	(420,000)
Net cash from operating activities	**2,330,000**

Investing, Financing & Reconciliation	$
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Cash & cash equivalents at end of year	**2,510,000**

Both methods report identical net cash from operating activities ($2,330,000) — they differ only in how that figure is derived.

Comparing the Two Methods

Direct Method

- Shows actual cash receipts and payments — closer to a cash budget
- Provides information that may be useful in estimating future cash flows, not available under the indirect method
- IAS 7 encourages its use
- Can be more costly to prepare, as it requires re-analysing cash transactions

Indirect Method

- Starts from profit or loss and adjusts for non-cash items and working capital movements
- Reconciles profit or loss to net operating cash flow — useful in itself
- Simpler and cheaper to prepare from existing accrual-basis records
- Far more common in practice

PART VI — SPECIAL REPORTING TOPICS

The Detail That Trips People Up

Gross versus net presentation, foreign currency, interest and dividends, taxes, group changes, and non-cash transactions.

Reporting Investing & Financing Flows

An entity shall report major classes of gross cash receipts and gross cash payments arising from investing and financing activities separately — netting is generally not permitted.

Exceptions — Net Reporting Is Permitted For:

1. Cash receipts and payments on behalf of customers, where the flows reflect the customer's activities rather than the entity's — e.g. rent collected on behalf of, and paid over to, property owners

2. Cash receipts and payments for items with quick turnover, large amounts, and short maturities — e.g. principal amounts for credit card customers, purchase/sale of investments, other short-term borrowings of three months or less

Foreign Currency Cash Flows

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Cash flows from transactions in a foreign currency are recorded in the entity's functional currency, applying the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

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Unrealised gains and losses from changes in foreign exchange rates are not cash flows. The effect of exchange rate changes on cash and cash equivalents held in a foreign currency is reported separately from operating, investing and financing activities, to reconcile cash and cash equivalents at the beginning and end of the period.

Interest, Dividends & Taxes on Income

Interest Paid & Received

Disclosed separately and classified consistently, period to period. For a financial institution, usually operating. For other entities, may be operating (they affect profit or loss) or financing/investing (they represent the cost or return on capital).

Dividends Paid & Received

Dividends paid may be financing (cost of obtaining finance) or operating (to help users assess the ability to pay dividends from operating cash flows). Dividends received follow the same logic as interest received.

Taxes on Income

Disclosed separately and classified as operating, unless specifically identifiable with financing or investing activities — tax cash flows often cannot be matched to a single transaction.

Subsidiaries, Associates, Joint Ventures & Control Changes

1 Equity or Cost-Accounted Investments

When accounting for an investment in an associate, subsidiary, or joint venture using the equity or cost method, the investor restricts its reporting to the cash flows between itself and the investee — for example, dividends and advances.

2 Obtaining or Losing Control

The aggregate cash flows from obtaining or losing control of subsidiaries or other businesses are presented separately, classified as investing activities. Disclosures include total consideration, the cash/cash equivalents portion, and the cash and non-cash assets/liabilities of the business acquired or disposed of.

Non-Cash Transactions

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows — they are disclosed elsewhere in the financial statements.

1

Acquisition of assets by assuming directly related liabilities, or by means of a finance lease

2

Acquisition of an entity by means of an equity issue

3

Conversion of debt to equity

PART VII — DISCLOSURES

Making the Numbers Traceable

How components of cash and cash equivalents reconcile to the balance sheet, and what else IAS 7 asks entities to disclose.

Components of Cash & Cash Equivalents

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

DISCLOSURES

Other Recommended Disclosures

1

Restricted Balances

The amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group — e.g. due to exchange controls or legal restrictions

2

Undrawn Borrowing Facilities

The amount of undrawn facilities that may be available for future operating activities and to settle capital commitments, with any restrictions on their use

3

Segment Cash Flows

Aggregate cash flows arising from operating, investing and financing activities of each reportable segment

Impact of IFRS 18 on the Statement of Cash Flows

IFRS 18 (effective 1 January 2027) makes consequential amendments to IAS 7 — though the IASB did not seek to align the meaning of the cash flow categories with the new income statement categories.

New Starting Point for the Indirect Method

1. The reconciliation now starts from "Operating profit" — the new IFRS 18 subtotal — instead of profit before tax
2. "Cash generated from operations" is replaced by "Cash from operating activities before income taxes"
3. Because operating profit already excludes most investing and financing items, fewer reconciling adjustments are needed

Interest & Dividends — Choice Removed

Item	Before	After IFRS 18
Interest paid	Operating or Financing	**Financing**
Interest received	Operating or Investing	**Investing**
Dividends paid	Operating or Financing	**Financing**
Dividends received	Operating or Investing	**Investing**

Exception: entities with a "specified main business activity" of investing or providing finance to customers apply a single category per item, largely operating.

Supplier Finance Arrangements & Cash Flow Disclosures

Issued May 2023, effective for annual periods beginning on or after 1 January 2024. Adds new disclosures to IAS 7 (paragraphs 44F–44H) and IFRS 7 — without changing how the cash flows themselves are classified.

1. Terms and conditions of the arrangement — extended payment terms, security or guarantees provided
2. Carrying amount of financial liabilities that are part of the arrangement, and the balance sheet line items they sit within
3. Carrying amount of liabilities under the arrangement for which suppliers have already received payment from the finance provider
4. Range of payment due dates for liabilities under the arrangement, compared with comparable trade payables outside it
5. Type and effect of non-cash changes in the carrying amount of these liabilities
6. Liquidity risk information — including concentration risk if the arrangement were withdrawn (IFRS 7)

Why it matters: reverse factoring can flatter operating cash flow, since the payable stays classified as trade payables even though it behaves like financing. These disclosures expose that risk without moving the cash flow itself.

THANK YOU

IAS 7 — Statement of Cash Flows

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A Career Built on Making IFRS Understandable

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

- ✓ Published author of the Pocketbook of IFRS series
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Digital CFO Solutions provides institutional-grade Excel-based CFO workbooks, fractional CFO advisory, and published finance literature on IFRS, US GAAP, business valuation and financial due diligence.

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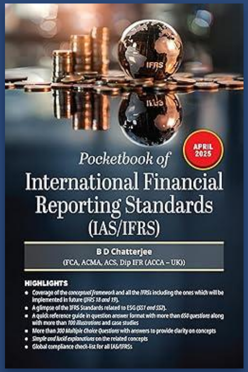
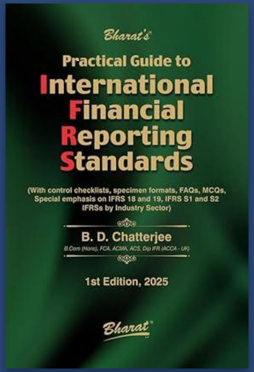
Books by B D Chatterjee — IFRS Library

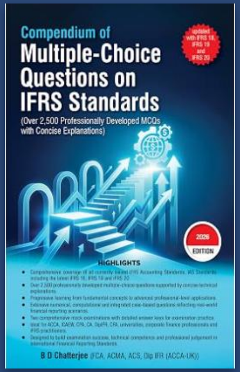


Pocketbook of International Financial Reporting Standards (IAS/IFRS)

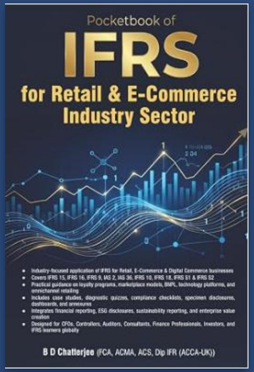


Practical Guide to International Financial Reporting Standards

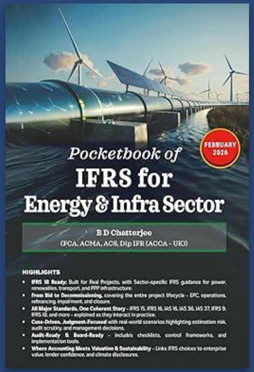
Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



Pocketbook of IFRS for Retail & E-Commerce Industry Sector



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