IAS - 7

Cash Flow Statements

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International Accounting Standard No. 7 (IAS 7)

Cash flow statements

This standard, revised in 1992, will run for financial statements covering periods beginning on or after January 1 1994, replacing the previous IAS 7 Statement of Changes in Financial Position, adopted by the Board in October 1997.

Note: The Appendices cited in the text of the Standard were not included in this release.

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The normative part of this Statement, which appears in bold italics, it must be understood in the context of the explanations and guidelines for implementing them and in line with the Preface to International Accounting Standards. It is not intended that international accounting standards are applied in the case of non-significant (see paragraph 12 of the Prologue).

Objective

Information about cash flows is useful because it provides users of financial statements the basis for assessing the ability of the company to generate cash and cash equivalents, as well as their liquidity requirements. To make economic decisions, users must assess the capacity that the company has to generate cash and cash equivalents, and the dates they occur and the degree of certainty regarding his appearance.
The objective of this Standard is to require companies to furnish information about the historical movements in cash and cash equivalents through the introduction of a cash flow statement, classified as coming from operating activities, investment and financing.

Scope

1. **Companies must make a cash flow statement, in accordance with the requirements of this Standard, and must present it as an integral part of its financial statements for each year they make the presentation of these.**

2. The Standard replaces the old IAS 7 Statement of Changes in Financial Position, adopted in July 1977.

3. Users of financial statements are interested in how the company generates and uses cash and cash equivalents. This need is independent of the nature of the company's activities, even when the cash could be regarded as the product of the company in question, as the case may be of financial institutions. Basically, companies need cash for the same reasons for that are very different activities that constitute their main source of revenue. In fact, all of them need cash to carry out their operations, pay its obligations and provide returns to its investors. Accordingly, this standard requires all companies to present a statement of cash flows.

Benefits of information on cash flows

4. The cash flow statement, when used in conjunction with the rest of the financial statements, provides information that allows users to evaluate changes in net assets of the company, its financial structure (including its liquidity and solvency) and their ability

to change both the amounts and dates of receipts and payments in order to adapt to changing circumstances and opportunities that may arise. Information about cash flows is useful for evaluating the capacity that the company has to generate cash and cash equivalents, allowing users to develop models to assess and compare the present value of net cash flows from different companies. It also allows comparison of information about the performance of the operation of different companies as it eliminates the effects of using different accounting treatments for the same transactions and economic events.

5. Often, information on historical cash flow is used as an indicator of the amount, time of occurrence and certainty of future cash flows. It is also useful for checking the accuracy of past assessments regarding the future flows, as well as to examine the relationship between performance, cash flows and the net impact of price changes.

Definitions

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

   The cash includes both cash and bank deposits in sight.

   Cash equivalents are short-term investments of high liquidity, which are readily convertible into certain amounts of cash, subject to an insignificant risk of changes in value.

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

   Exploitation activities are activities that are the main source of revenue for the company as well as other activities that cannot be classified as investment or financing.

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

   Financing activities are activities that result in changes in the size and composition of equity and loans taken by the company.

Cash and cash equivalents

7. The cash equivalents are, rather than for investment or similar purposes, to meet commitments to pay short-term. To make a financial investment can be described as equivalent to cash, it is necessary that can be readily convertible to a specified amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment will be equivalent to cash when you have expired next, for example three months or less from the date of acquisition. The shares in the capital of other companies are excluded from cash equivalents unless they are substantially equivalent to cash,

such as preferred shares acquired within proximity of their maturity, if they have a specific date of repayment.

8. Bank loans are regarded in general as financing activities. In some countries, however, overdrafts payable at any time by the bank are an integral part of the cash management of the company. Under these circumstances, such overdrafts are included as a component of cash and cash equivalents. A feature of the agreements that regulate bank overdrafts, or similar operations, is that the balance is constantly fluctuating with the bank for payment to a creditor.

9. Cash flows will not include any movement among the items that make up the cash and cash equivalents, since these components are part of the cash management of the company rather than its operating activities, investing or financing. The cash management includes the investment of surplus cash and cash equivalents.

Presentation of the cash flow statement

10. The cash flow statement should report cash flows during the period, ranked in operating activities, investing and financing.

11. Each company presents its cash flows from operating activities, investing and financing, in the manner that is most appropriate to the nature of their activities. The classification of flows according to the above activities provide information that enables users to evaluate the impact of those in the financial position of the company, as well as on the final amount in its cash and other cash equivalents. This structure of information can also be useful in assessing the relationship between such activities.

12. A single transaction can have cash flows that are classified in different ways. For example, when repayments on a loan include principal and interest, the interest can be classified as operating activity, while the share of repayment of the principal amount is classified as a financing activity.

Operating Activities

13. The amount of the cash flows from operating activities is a key indicator of the extent to which these activities have generated sufficient liquid funds to repay loans, to maintain the operating capability of the business, pay dividends and make new investments without resort to external sources of funding. The information about the specific components of the cash flows from operating activities is useful, along with other information to predict future cash flows of such activities.

14. Cash flows from operating activities derive primarily from the transactions that are the main source of revenue for the company. So, come from transactions and other events relevant to the determination of the net gains or losses. Examples of cash flows from

operating activities are as follows:

(a) cash receipts from sales of goods and services;

(b) cash receipts from royalties, fees, commissions and other revenue;

(c) payments to suppliers for the provision of goods and services;

(d) payments to employees and account for them;

(e) cash receipts and payments of insurance premium and benefits, annuities and other liabilities arising from policies underwritten;

(f) payments or refunds of income taxes, unless they can specifically classified within the activities of investment or financing, and

(g) cash receipts and payments under contracts that are taken for brokering or to negotiate with them.

Certain transactions, such as the sale of an item of property, plant and equipment can result in a gain or loss will be included in net profit. However, the flows arising from these transactions will be included among investment activities.

15. A company can have titles or loans for reasons of brokering or other usual commercial agreements, in which case these investments is considered similar to the stocks purchased specifically for resale. Therefore, the cash flows of these operations are classified as coming from operating activities. In a similar way, cash advances and loans made by financial institutions are usually classified among the activities operating since they are associated with activities that constitute the main source of revenue for the company.

Investment Activities

16. The separate presentation of cash flows from investing activities is important, because such cash flows represent the extent to which disbursements were made for reasons of economic resources that will produce revenue and cash flow in future. Examples of cash flows from investing activities are as follows:

(a) payment for the purchase of tangible fixed assets, intangible assets and other long-term, including payments related to capitalized development costs and work performed by the company for its property, plant and equipment;

(b) cash receipts from sales of property, plant and equipment, intangible assets and other long-term;

(c) Payments for the purchase of tools or liabilities of capital securities issued by other companies as well as in joint ventures (other than payments for those same securities and instruments that are considered cash and cash equivalents, and those are taken for dealing or trading in);

(d) cash receipts from sales and redemption of instruments liabilities or equity securities issued by other companies, and investments in joint ventures (other than payments for those same securities and instruments that are considered cash and cash equivalents, and the which are held for dealing or trading in);

(e) cash advances and loans to third parties (other than such operations by financial companies);

(f) charges arising from repayment of loans and advances to third parties (other than the operations of this type made by financial institutions);

(g) payments under forward contracts, futures, options and swap transaction, except where such contracts are maintained on the grounds of dealing or trading routine, or when the previous payments are classified as financing activities, and

(h) cash receipts from forward contracts, futures, options and swap transaction, except where such contracts are held on the grounds of dealing or trading routine, or when the previous charges are classified as financing activities.

When a contract is accounted for as coverage of a particular market or financial position, cash flows of it is classified in the same way as those from the position being hedged.

Financing activities

17. It is important to separate the presentation of cash flows from financing activities, as it is useful to make the prediction of cash requirements to cover commitments to providing capital to the company. Examples of cash flows from financing activities are as follows:

(a) cash receipts from the issuance of shares or other equity instruments;

(b) payments to owners for the purchase or redeem shares of the company;

(c) cash receipts from the issuance of bonds, loans, bonds, mortgage ballots and other funds borrowed, either long or short term;

(d) reimbursement of the funds borrowed, and

(e) payments by the lessee to reduce outstanding debt from a financial lease.

Information on cash flows from operating activities

18. **The company must report the cash flows from operating activities using either of the following methods:**

    (a) direct method, which separately reported the main categories of receipts and payments in gross terms, or

    (b) indirect method, which begins by presenting the gain or loss in net terms, that figure was later corrected by the effects of non-cash transactions, for all sorts of items deferred payments and charges that are the cause of charges and payments in the past or in the future, as well as items of gains or losses associated with cash flows of activities classified as investment or financing.

19. It is advisable to those making the cash flows using the direct method. This method provides information that may be useful in estimating future cash flows, which is not available using the indirect method. In this method, information about major categories of fees or payments in gross terms can be obtained through one of the following:

    (a) using the accounting records of the company, or

    (b) adjusting sales and cost of sales (in the case of financial institutions, interest received and similar income and interest expense and other costs equivalent), as well as elsewhere in the income statement for:

        (i) changes during the year in stocks and headings receivable and payable as a result of the operation;

        (ii) other items not reflected in the cash and

        (iii) other items whose monetary effects are considered cash flows of investment or financing.

20. In the indirect method, the net flow by operating activities is determined by correcting the loss or gain, in net terms, for the purposes of:

    (a) changes during the year in stock and accounts receivable and payable as a result of the operation;

(b) items not reflected in the cash, such as depreciation, provisions, deferred tax write-off of unrealized exchange, participation in undistributed earnings of associated and minority interests, as well as

(c) any other item whose effects are regarded as monetary cash flows of investment or financing.

Alternatively, the net cash flow from operating activities can be made using the same indirect method, showing the items of revenue and expenses in the income statement, along with the changes during the period in inventory and accounts receivable and payable as a result of the exploitation activities.

Information on cash flows from investing activities and financing

21. **The company must report separately on the main categories of gross cash receipts and payments from investment activities and financing, except with respect to the cash flows described in paragraphs 22 and 24, which can be included in net terms.**

Information about cash flows in net terms

22. **The cash flows coming from the following types of exploitation activities, investment and financing, can be presented on a net basis:**

    (a) cash receipts and payments on behalf of clients, as long as the cash flows reflect the activity of the client to a greater extent than the corresponding to the company, and

    (b) cash receipts and payments from items where turnover is high, high amounts and the expiration next.

23. Examples of receipts and payments to those who have been referred to in paragraph 22 (a) are as follows:

    (a) acceptance and repayment of deposits from a bank;

    (b) funds from customers who owns a company dedicated to the financial investment, and

    (c) rents charged by account and paid to the holders of investment property.

    Examples of receipts and payments to those who have been referred to in paragraph 22 (b) are advances and reimbursements made because of:

(a) balances on credit cards from customers (for the main part);

(b) purchase and sale of financial investments and

(c) other short-term borrowing, such as those agreed with maturity periods of three months or less.

24. **The following cash flows from the activities of a financial institution may be presented on a net basis:**

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

    (b) placement and retrieval of deposits in other financial institutions, and

    (c) advances and loans made to customers, including the reimbursement of these items.

Cash flows in foreign currency

25. **Cash flows from transactions in foreign currencies are translated into the functional currency of the entity applying to the amount in foreign currency, the exchange rate between two currencies on the date it occurred every stream in question.**

26. **The cash flows of a foreign subsidiary will be converted using the exchange rate between the functional currency and foreign currency, on the date it occurred every stream in question.**

27. The flows in foreign currency shall be reported in accordance with IAS 21, Effects of Changes in exchange rates of foreign currencies. It allows you to use an exchange rate that approximates the actual change. For example, this means that you can use a weighted average exchange rate from one period to account for transactions in foreign currency or the conversion of the cash flows of an enterprise dependent.

28. The unrealized gains or losses on exchange differences on foreign currency cash flows do not produce. However, the effect of the change in exchange rates have on cash and cash equivalents, maintained or due to foreign currency, will be presented in the statement of cash flows to allow the reconciliation between stocks Cash at the beginning and end of the year. This amount will be presented separately for flows from operating activities, investing and financing, and the same will include the differences, if any, had been having submitted these flows to the change of closure.

29. (Repealed)

30. (Repealed)

Interest and dividends

31. The cash flows related to interest received and paid, as the dividends received and paid, must be disclosed separately. Each of the above items should be classified consistently, each year, as part of operating activities, investing and financing.

32. The total amount of interest paid during the year are presented in the cash flow statement, whether it has been recognized as an expense the same as if it has been capitalized in accordance with IAS 23, borrowing costs.

33. Interest paid, as well as interest and dividends received are classified in the financial institutions as cash flows from operating activities. However, there is no consensus for the classification of such flows in the rest of the companies. Interest paid, as well as interest and dividends received can be classified as coming from operating activities, because they come in determining the net gain or loss. As an alternative, the interest paid can be divided between funding activities, as well as interest and dividends received may belong to investment activities, as the former are the costs of obtaining financial resources and the second represents the return on investment Financial.

34. Dividends paid may be classified as cash flows from financing activities, since they represent the cost of obtaining financial resources. Alternatively, they can be classified as components of the flows from operating activities in order to help users identify the company's capacity to meet the dividends with cash flows from operating activities.

Income Taxes

35. **Cash flows from payments related to income tax must be disclosed separately, and should be classified as cash flows from operating activities, unless they can be specifically associated with investing activities or financing.**

36. Taxes on profits in transactions classified as operating activities, investing or financing in the statement of cash flows. Although spending due on income taxes can easily be associated with certain activities of investment or financing, the cash flows associated with it are often impossible to identify and may arise in a year than the corresponding to the underlying transaction. Therefore, the taxes paid are usually classified as cash flows from operating activities. However, when it is possible to identify the flow of tax to individual transactions, which result in payments classed as investing or financing activities, it is classified as does the transaction to which it refers. In case of distributing the payment for taxes from more than one type of activity, was also informed of the total

amount of taxes paid during the year.

Investments in subsidiaries, associates and joint ventures

37. The investing company, and reckoned investments in subsidiaries and associated companies using the cost method or the participation, limit your information in the statement of cash flows, the cash flows occurred between itself and associated companies. This means, for example, to include in the statement of cash flows and dividend payments.

38. The company report on its participation in a jointly controlled entity, using proportional consolidation (see IAS 31 Interests in joint ventures), will include in its statement of cash flows consolidated its proportionate share of the cash flows in the entity. Moreover, the company to report on this entity using the equity method, included in its cash flow statement Consolidated cash flows incurred by the above-mentioned investments in jointly controlled entity, as well as distributions of profits and other payments and charges between the two companies.

Acquisitions and disposals of subsidiaries and other business units

39. **The aggregate cash flows arising from acquisitions and disposals of subsidiaries and other companies must be submitted separately and classified as investing activities.**

40. **The company must disclose, in aggregate, for each acquisition and disposal of subsidiaries and other companies, occurred during the exercise, each and every one of the following:**

(a) the total derived from the purchase or sale;

(b) the proportion of the consideration previous satisfied or charged by cash or cash equivalents;

(c) the amount of cash and equivalents available to the subsidiary company or otherwise acquired or disposed of, and

(d) the amount of assets and liabilities other than cash and cash equivalents, corresponding to the subsidiary or business acquired or otherwise disposed of, grouped by each major category.

41. The separate presentation, in a single game, the consequences of that in cash and cash equivalents, have been acquisitions and disposals of subsidiaries and other companies, along with the information offered in addition to the amounts of assets and liabilities acquired or disposed , Will help distinguish these cash flows from those arising from

other operating activities, investing and financing. Cash flows from disposals will not be submitted to the relevant offset by acquisitions.

42. In the cash flow statement will include the aggregate amounts have been paid or charged for the purchase or sale of a business, respectively, net of cash and cash equivalents acquired or disposed of as appropriate, on the farm .

Non-cash transactions

43. **The operations of investment or financing not have meant the use of cash or cash equivalents should be excluded from the cash flow statement. However, these transactions should be subject to information anywhere else within the financial statements in order to furnish all relevant information about the activities of investment or financing.**

44. Many activities of investment or financing do not have a direct impact on cash flows for the year, despite affecting the structure of assets and capital employed by the company. The exclusion of these non-cash transactions of the cash flow statement is consistent with the objective of this document, because such items do not produce cash flows in the current financial year. Examples of non-cash transactions of this type are:

(a) the acquisition of assets, either directly by assuming the liabilities for its funding, or through a leasing contract;

(b) the purchase of a company through a capital increase, and

(c) the conversion of debt into equity.

Components of the game cash and cash equivalents

45. **The company should disclose the components of the departure of cash and cash equivalents, and should present a reconciliation of the balances contained in its cash flow statement with the equivalents in the balance sheet.**

46. The companies disclose the criteria used to determine the composition of the departure of cash and cash equivalents due to the variety of management practices and effective banking services associated with it in every country in the world, and to give Pursuant to the provisions of IAS 1, Presentation of Financial Statements.
47. The result of any change in policy determination of cash and cash equivalents, for example, a change in the classification of financial instruments that were previously considered part of the investment portfolio, will be presented in the financial statements of the company, in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors.

Other disclosures

48. **The company must disclose in its financial statements, accompanied by a commentary by management, any significant amount of their balances of cash and cash equivalents that is not available for use by itself or by the group.**

49. There are various circumstances in which the balances of cash and cash equivalents held by the company are not available for use by the group. An example of this situation are the balances of cash and cash equivalents of a subsidiary company which operates in a country where exchange controls or other legal restrictions, so that these balances are not available for use by the parent or the other dependents.

50. It may be relevant to users, meet certain additional information about the company to help them understand their financial position and liquidity. Therefore, it is advisable to companies that publish, together with a commentary by management, information such as the following:

(a) the amount of loans not ready, which may be available for exploitation activities or for the payment of investment operations or funding, indicating the restrictions on the use of such funds;

(b) the aggregate amount of cash flows, distinguishing the activities of operating, investing and financing-related interests in joint ventures that are integrated into the financial statements using proportionate consolidation;

(c) the aggregate amount of cash flows that represent increases in the capacity of the holding, separate from those others who are required to maintain the capacity of the holding of the company; and

(d) the amount of cash flows from operating activities, investing and financing, which come from each of the segments to be reported on (see IFRS 8, Operating Segments).

51. The information, separately, of the cash flows that increase the capacity of the farm, distinguishing them from those that serve to maintain it, it is useful for allowing users to judge whether the company is investing appropriately in order to maintain its ability to operate . Any company that is not investing adequately in the maintenance of its operating capacity may be harming their future performance in exchange for improving the present liquidity and profit distributions to owners.

52. The presentation of cash flows by segment will allow users to gain a better understanding of the relationship between the cash flows of the company as a whole and for each of its constituent parts, as well as the variability and availability of flows of the segments in question.

Effective Date

53. **The International Accounting Standard is effective for financial statements covering periods beginning on or after January 1 1994.**