



FINANCIAL REPORTING

***IAS 7: Statement of cash
flows***

OBJECTIVE OF THE STANDARD

To ensure that all entities provide information about the historical changes in cash and cash equivalents by means of a statement of cash flows.

To classify cash flows during the period between those arising from operating, investing and financing activities

KEY CONCEPTS DEFINED

Cash flows: inflows and outflows of cash and cash equivalents

Cash: comprises cash on hand and demand deposits.

Cash equivalents: short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Operating activities: the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities: activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

PRESENTATION OF A STATEMENT CASH FLOWS

IAS 7 does not prescribe a format for statements of cash flows, but it requires the cash flows to be classified into:

- ❑ Operating activities
- ❑ Investing activities
- ❑ Financing activities

Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents.

Cash flows from operating activities

These help show the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing.

Since these cash flows are derived from the principal revenue-producing activities of the entity, they therefore, generally result from the transactions and other events that enter into the determination of profit or loss. Examples of such cash flows include;

- ❑ cash receipts from the sale of goods and the rendering of services
- ❑ cash receipts from royalties, fees, commissions and other revenue
- ❑ cash payments to suppliers for goods and services
- ❑ cash payments to and on behalf of employees
- ❑ cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities
- ❑ cash receipts and payments from contracts held for dealing or trading purposes

PRESENTATION OF A STATEMENT CASH FLOWS CONT'D

Cash flows from investing activities

These represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. These include following;

- ❑ cash payments to acquire property, plant and equipment, intangibles and other long-term assets
- ❑ cash receipts from sales of property, plant and equipment, intangibles and other long-term assets
- ❑ cash payments to acquire equity or debt instruments of other entities and interests in joint ventures
- ❑ cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures
- ❑ cash advances and loans made to other parties (other than advances and loans made by a financial institution)
- ❑ cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution)

Cash flows from financing activities

These are useful in predicting claims on future cash flows by providers of capital to the entity. They include the following;

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

PRESENTATION OF A STATEMENT CASH FLOWS CONT'D

Reporting cash flows from operating activities

when calculating cash flows generated from operations, two methods can be used, either:

Direct method: major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method: where the profit before tax is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Therefore, net cash flows from operating activities is determined by adjusting profit before tax for effects of;

changes during the period in inventories and operating receivables and payables

non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses

all other items for which the cash effects are investing or financing cash flows.

PRESENTATION OF A STATEMENT CASH FLOWS CONT'D

Statement of cash flows

Cash flows from operating activities:

Cash generated from operations	X	
Interest paid	(X)	
Tax paid	(X)	

Net cash from operating activities		X(X)

Cash flows from investing activities:

Purchases of property, plant and equipment	(X)	
Proceeds of sale of property, plant and equipment	X	
Proceeds from government grants	X	
Interest received	X	
Dividends received	X	

Net cash from investing activities		X(X)

Cash flows from financing activities:

Proceeds from issue of shares	X	
Proceeds from long-term borrowings	X	
Payment of lease liabilities	(X)	
Dividends paid	(X)	

Net cash used in financing activities		X(X)

Net increase/decrease in cash and cash equivalents

Cash and cash equivalents at beginning of the period

X/(X)
X

X

PRESENTATION OF A STATEMENT CASH FLOWS CONT'D

Cash flows from operating activities (under the indirect method)

Profit before tax	X
Adjustments for:	
Finance costs	X
Investment income	(X)
Depreciation	X
Profit on sale of non-current assets	(X)
Provisions increase/decrease	X(X)
Government grant amortization	(X)
Increase/decrease in prepayments	(X)X
Increase/decrease in accruals	X(X)

Operating profit before working capital changes	X
Increase/decrease in inventories	(X)X
Increase/decrease in trade receivables	(X)X
Increase/decrease in trade payables	X(X)

Cash generated from operations	X

PRESENTATION OF A STATEMENT CASH FLOWS CONT'D

Analysis of cash and cash equivalents

	This year	Last year
	UGX	UGX
Cash on hand and balances with banks	X/(X)	X/(X)
Short-term investments	X	X
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Cash and cash equivalents	X(X)	X(X)
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Common computations made

Interest paid:

Interest liability b/f	X
Finance cost per SPL	X
Interest liability c/f	(X)

Interest paid	(X)

Tax Paid:

Liabilities b/f (both current and deferred)	X
Tax charge per SPL	X
Deferred tax on revaluations of PPE	X
Liabilities c/f (both current and deferred)	(X)

Tax paid	(X)

PRESENTATION OF A STATEMENT CASH FLOWS CONT'D

PPE

Balance b/f	X
Additions	X
Revaluation	X
Disposals	(X)
Depreciation	(X)

Balance c/f	X

Lease liabilities paid

Liabilities b/f (both current and non-current)	X
New lease additions	X
Liabilities c/f (both current and non-current)	(X)

Lease liabilities paid	X

Dividends paid

Retained earnings b/f	X
Profit for the year	X
Retained earnings c/f	(X)

Dividends paid	X
