

Accounting Standards Advisory Form
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Principles of Disclosure:
Issues relating to cash flow statements
and related disclosures

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Disclaimer

The work on this topic is being undertaken by the UK Financial Reporting Council, who have been working with the IASB's Disclosure Initiative team.

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Agenda

- High level overview of proposals
- Seeks views on:
 - capital expenditure
 - interest
 - line item disclosures

Overview

- Statement of cash flows should summarise cash receipts and payments
 - to assist assessment of liquidity
- A reconciliation of operating profit and cash generated from operations should be required
 - explains relationship between performance and cash generation
 - provides information on working capital management

Cash flows from operating activities

- Should include expenditure on PPE
- Should not include interest on finance
- Detail of line items should be given

Cash paid for property, plant & equipment

- In operating activities, not investing (but separately disclosed)
- Information on 'maintenance' and 'expansion' should be encouraged (as IAS 7)
- Cash consideration to acquire a business should be in investing
 - but returns will generally be in operating cash flows

Questions for ASAF members

- *What are your views on presentation of cash paid for PPE?*
- *Should only 'replacement' expenditure be in operating, with 'expansion' in investing?*
- *Should 'investing' be restricted to purchase of investments, for a financial return?*

The problem of interest

- Accruals accounting requires distinction between principal and interest
- For a zero coupon bond, no cash flows until maturity
- Should final payment be analysed into principal and interest?
 - and perhaps interest is in cash flow from operating activities?
- Is interest a relevant concept for cash flow reporting?

Interest

- Cash flows relating to debt should be classified as financing
- Cash flows relating to operating liabilities should be in operating, eg:
 - provisions for environmental clean up
 - warranty provisions
 - payments to suppliers on deferred terms (?)

Question for ASAF members

- *What are your views on the presentation of interest in the statement of cash flows?*



Line item disclosures

- Neither direct nor indirect method should be required (or prohibited)
- Indirect type of reconciliation is required
- Some information on line items should be considered
- Difficult to judge cost and benefits

Line item disclosures

- Disclose cash collected from customers?
- Separate receivables into trade and other?
 - enables cash from customers to be derived if only movements are sales and cash
- Disclose all movements on trade receivables?
- Which line items are important?



Questions for ASAF members

- *Which 'line items' should be disclosed as they are particularly important?*
- *Should the cash flows be disclosed, or related working capital?*
- *Should all movements in related working capital be disclosed?*