IFRS Adviser Alert

Insights into IAS 7 *Statement of Cash Flows*

June 2026

Executive summary

Grant Thornton International Ltd has published the first article in its new *Insights into IAS 7* series, entitled *IAS 7 at a Glance*.

IAS 7 *Statement of Cash Flows* was introduced in 2001 and the accounting principles have remained largely unchanged since. The increasing attention on an entity's cash generation and liquidity position has led to greater focus on the statement of cash flows by financial statement users, regulators and other commentators. However, this additional focus and closer scrutiny have also highlighted some common errors and inconsistencies in the application of IAS 7.

The new *Insights into IAS 7* series is aimed at simplifying the requirements of the standard by explaining the fundamentals of reporting cash flows using relatively simple language and providing insights to help entities cut through some of the complexities associated with these requirements.

This first article in the series provides an overview of the objective, scope and requirements of IAS 7.

Resources

The publication mentioned above follows this *IFRS Adviser Alert*.

Follow us

rcgt.com

About Raymond Chabot Grant Thornton

Raymond Chabot Grant Thornton is a leading accounting and advisory firm providing audit, tax, and advisory services to private and public organizations. Together with Doane Grant Thornton in Canada, Raymond Chabot Grant Thornton has more than 5,650 people in offices across Canada. Raymond Chabot Grant Thornton is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.

Insights into IAS 7

IAS 7 at a glance

IAS 7 'Statement of Cash Flows' was introduced in 2001 and the accounting principles have remained largely unchanged since. The increasing attention on an entity's cash generation and liquidity position has led to greater focus on the statement of cash flows by financial statement users, regulators and other commentators. However, this additional focus and scrutiny has also highlighted some common errors and inconsistencies in the application of IAS 7.

Our 'Insights into IAS 7' series is aimed at simplifying the requirements of the Standard by explaining the fundamentals of reporting cash flows using relatively simple language and providing insights to help entities cut through some of the complexities associated with the requirements. This introductory article provides an overview of the objective, scope and requirements of IAS 7.

Objective of IAS 7

All entities need cash to run their day-to-day operations, pay their obligations and provide returns to investors, regardless of their particular line of business or geographic location. How the entity generates and uses cash and cash equivalents, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

As a result, the overall objective of IAS 7 is to require entities to report their historical changes in cash and cash equivalents by means of a statement of cash flows for each financial reported in the financial statements.

Scope of IAS 7

When does IAS 7 apply?

All entities must prepare a statement of cash flows (which is more commonly referred to as a 'cash flow statement'). The statement of cash flows forms part of an entity's 'complete' set of financial statements under IFRS Accounting Standards as required by IAS 1 'Presentation of Financial Statements'. The statement of cash flows must therefore be presented with equal prominence with the other statements.

"This introductory article provides an overview of the objective, scope and requirements of IAS 7."

Key definitions

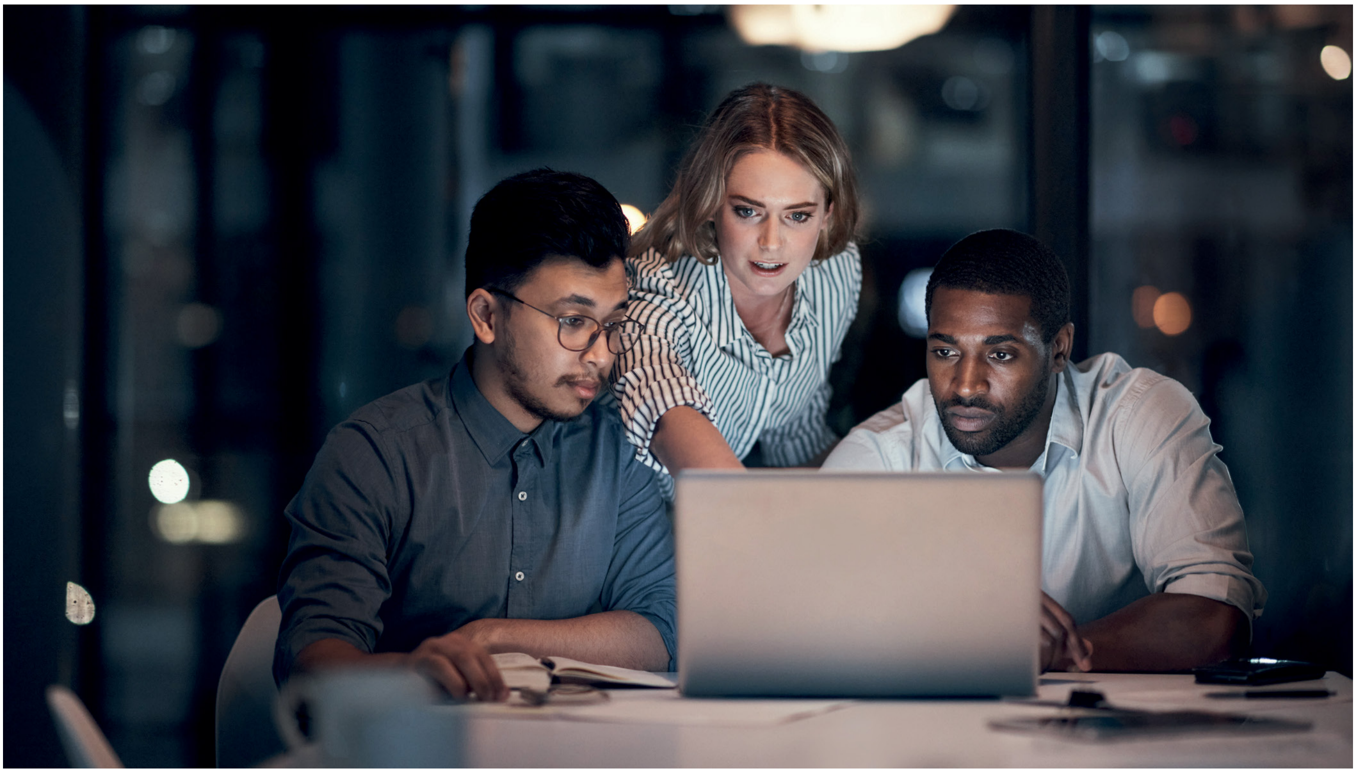
The principles outlined in IAS 7 are based on the following key definitions:

Term	Definition
Cash	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.
Cash flows	Inflows and outflows of cash and cash equivalents.
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 and the receipt of interest and dividends.
Financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Summary of requirements

The principles in IAS 7 require disclosure that enhances the comparability of how operating performance is reported between entities by eliminating the effects of using different accounting treatments for the same transactions and events.

To achieve this, IAS 7 requires the cash flows for each period to be classified as either operating, investing or financing activities based on the definitions above. The classification of each cash flow is applied consistently for each period reported.



Practical insight – Changes in classification of cash flows

The classification of cash flow as either operating, investing or financing activities is considered an accounting policy choice. If there is a change in classification, it is a change in accounting policy in accordance with IAS 8 'Basis of Preparation of Financial Statements', ie the change must be applied retrospectively.

Once an entity has classified all its cash flows for the period, IAS 7 provides guidance on how those cash flows are presented. A summary of this guidance is in the table below.

Reporting cash flows

In practice, in the statement of cash flows, the operating activities are reported first, followed by the investing activities and financing activities respectively.

IAS 7 requires material gross cash receipts and gross cash payments to be reported separately in the statement of cash flow, except in certain circumstances when they can be reported on a net basis. These circumstances are when the cash flows reflect the activities of the customer rather than those of the entity, or for activities with short maturities.

For cash flows classified as operating activities, IAS 7 allows an entity the choice to report the cash flows using either the direct method or indirect method. If an entity elects to use the the direct method, material gross cash receipts and gross cash payments are disclosed. In contrast, if an entity elects to use the indirect method, the operating profit or loss amount is disclosed and adjusted for non-cash activities, eg depreciation.

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows. Such transactions must be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Foreign currency cash flows

IAS 7 requires cash flows arising from transactions in a foreign currency to be recorded in an entity's functional currency. The cash flows are translated to the functional currency using the exchange rate on the date of the cash flow.

Interest and dividends

Cash flows from interest and dividends received and paid must be classified consistently in each reporting period as either financing or investing. These cash flows are required to be presented separately.

Taxes on income

Cash flows arising from taxes on income must be classified as cash flows from operating activities unless they can be clearly linked to financing or investing activities. These cash flows need to be presented separately.

Investments in subsidiaries, associates and joint ventures

Cash flows from a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates the cash flows occur.

The aggregate cash flows resulting from obtaining or losing control of subsidiaries or other businesses must be presented separately and classified as investing activities.

When accounting for an investment in associates, joint ventures or subsidiaries using the equity method or at cost, the investor limits its reporting in the statement of cash flows to the cash flows arising from its transactions directly with the investee, eg dividends and advances.

Changes in liabilities arising from financing activities

Entities must disclose information that enables users of financial statements to assess changes in liabilities arising from financing activities, including changes arising from both cash flows and non-cash changes.

Supplier finance arrangements

IAS 7 requires entities to disclose details of its supplier finance arrangements that enables users of financial statements to understand the impact of those arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.

Cash and cash equivalents

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

An entity must disclose, together with management commentary, any significant cash and cash equivalent balances held by the entity that are not available for use by the group.

Impact of IFRS 18 'Presentation and Disclosure in Financial Statements'

In April 2024 the International Accounting Standards Board (IASB) issued a new Standard – IFRS 18, which significantly changes the presentation of financial statements. Although its effective date is for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted, its impact on IAS 7 is notable and requires advance planning.

IFRS 18 results in consequential amendments to IAS 7 in two areas:

- Firstly, IFRS 18 requires that entities use the 'operating profit or loss' subtotal as the starting point for the indirect method of reporting cash flows from operating activities. This amendment aims to provide consistency, as according to the IASB's research there are variations in practice, with many entities using either 'profit before tax' or 'profit for the period', and with a minority of entities using operating profit or earnings before interest, tax, deprecation or amortisation (EBITDA). This is discussed further in our article '**Insights into IAS 7: Presentation issues**'.
- Secondly, to eliminate the presentation alternatives for cash flows in relation to interest and dividends both received and paid. This discussed further in our article '**Insights into IAS 7: Classifying cash flows**'

Maintenance of IAS 7

As the economic environment evolves, the IASB amends IFRS Accounting Standards to ensure that financial reporting reflects a true and fair view of the financial performance and position of entities. These amendments can have a significant impact on the reported cash flows.

As part of the standard-setting process, the IFRS Interpretations Committee (IFRIC) will either issue agenda decisions to assist with the application of IFRS Accounting Standards as they contain explanatory material or recommend to the IASB that a Standard setting project is required.

Agenda decisions

A number of agenda decisions have been released by IFRIC in relation to the application of IAS 7. A full list of the agenda decisions is disclosed below.

Decision date	Title	Matter discussed	Insight article reference (if applicable)
August 2005	Value Added Tax	Clarification regarding if cash flows should include VAT	Presentation issues
March 2008	Classification of expenditures	Only an expenditure that results in a recognised asset can be classified as a cash flow from investing activity	Classifying cash flows
July 2009	Determination of cash equivalents	Classification of investments in shares or units of money market funds that are redeemable at any time can be classified as cash equivalents	Identifying cash and cash equivalents
May 2013	Identification of cash equivalents – financial assets	Basis of classification of financial assets as cash equivalents in accordance with IAS 7	Identifying cash and cash equivalents
June 2018	Classification of short-term loans and credit facilities	Types of borrowings an entity includes in its statement of cash flows as a component of cash and cash equivalents	Identifying cash and cash equivalents
September 2019	Disclosure of Changes in Liabilities Arising from Financing Activities	Disclosure requirements related to changes in liabilities arising from financing activities	Presentation issues
December 2020	Supply Chain Financing Arrangements – Reverse Factoring	Disclosure requirements related to reverse factoring	Presentation issues
April 2022	Demand Deposits with Restrictions on Use arising from a Contract with a Third Party	Classification of demand deposits as cash equivalents	Identifying cash and cash equivalents
February 2025	Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts	Disclosure requirements related to cash flows related to variation margin call payments made on contracts to purchase or sell commodities at a predetermined price and at a specified time in the future.	Presentation issues

IFRIC released the following agenda decision regarding other IFRS Accounting Standards, which also affects the application of IAS 7.

Decision date	Title	Matter discussed	Insight article reference (if applicable)
June 2019	Holdings of Cryptocurrencies	Application of the definition of cash and cash equivalents to crypto assets	Identifying cash and cash equivalents

Practical insight – IFRS Interpretations Committee agenda decisions

Any changes resulting from the application of an IFRIC agenda decision must be accounted for as a change in accounting policy in accordance with IAS 8, ie the change must be applied retrospectively.

Current project on the statement of cash flows and related matters

In September 2024, the IASB launched a project focused on the statement of cash flows and related issues, following feedback received during its Third Agenda Consultation. Before initiating the project, the IASB also gathered input from a joint meeting of the Capital Markets Advisory Committee and the Global Preparers Forum.

Stakeholders pointed out several perceived shortcomings in the current requirements of IAS 7. These included concerns about the presentation of cash flows—such as the classification into operating, investing, and financing activities—as well as the lack of information on non-cash effects of certain transactions. Many respondents, particularly users of financial statements, identified this topic as a high priority.

At the date of writing the IASB has decided to add the project to its standard-setting work plan, under which any consultative document the IASB might later publish would be an exposure draft. The IASB has also decided not to set up a consultative group for the project.

To keep abreast of the IASB's latest decisions you may wish to refer to the **IASB's dedicated project page**.

How we can help

We hope you find the information in this article helpful in giving you some insight into IAS 7. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

Grant Thornton