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Compliance with IAS7 by Issuers of Listed Securities in the Czech Republic

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Abstract:

As the cash flow statement presents important information about the company's operations, its quality and the related disclosure are essential to the financial statements' users. This paper analyses the range and quality of cash flow statements along with the accompanying notes, presented by a sample of selected companies within the Czech business environment. There are four main research areas which discuss the structure of the cash flow statement, approach to questionable items such as interest and dividends, quality of the data and notes provided and quality of the optional data provided. After setting the criteria for the sample of companies, five hypotheses and ten research questions are raised in order to evaluate the level of compliance with the requirements set in the IAS 7 Statement of Cash Flows. The research leads to the conclusion that companies in general comply with the mandatory requirements, but do not go beyond these. None of the companies has disclosed voluntary information and about half of the companies have chosen the easiest way to present interest in the operating part, although the selection of companies excluded financial institutions whose majority of interest transactions are indeed from operations.

Key words: Cash flow statement; IAS 7; IFRS Compliance; Cash flow disclosure.

JEL classification: M41.

1 Introduction

Investors and other financial statements' users do not underestimate the importance of accurate and trustworthy information on cash flows of entities. The International Accounting Standard 7 – Statement of Cash Flows sets a system of requirements and directions on the cash flow statement as a part of the financial statements' package. The cash flow statement is an integral part of external reporting that provides important information to the users. Provided the data that are supposed to be comparable in time and among business entities, the users are able to assess the liquidity of the companies and their solvency situation. However, as typical for International Accounting Standards, rigid rules on the information and their structure are not set and it is up to the managerial judgment to decide on the data presentation. This relates especially to the areas where reporting is a subject to the presentation choice such as the method used, or categorisation of certain items such as interest and dividends. This possibility of

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choice allows the financial data to be classified in line with their purpose instead of filling them to predefined general forms. The disadvantage of this option may lead to reduced ability to compare the companies with each other. Therefore, it is important to disclose relevant data to the statements in the notes in a way that it is easy to read for the statements' users.

The aim of this paper is to evaluate to what extent the issuers of listed securities in the Czech Republic comply with the selected requirements of cash flow reporting set by IAS 7. The main focus is on the requirements which do not strictly define the specific way of reporting but allow a decision on how to report the items discussed, e.g. interest income or dividends. Apart from the compliance evaluation, the results of the paper are expected to show how the Czech companies tackle the opportunity to decide on the way of reporting in order to present the cash transactions to the cash flow statements' users in the most objective view.

2 Literature review

IAS 7 Statement of Cash Flows is considered to be a quality standard. While IOSCO (International Organization of Securities Commissions, 1998) was issuing comments to the core standards, the one and only comment from their side in 1993 was a full approval of the cash flow related standard. However, the standard, being issued in December 1992, is now over 25 years old and might not fully reflect the current business. This is one of the reasons why there was conducted a disclosure initiative to the changes in liabilities arising from financing activities. The amendments are dated to February 2016 and regulate the disclosure of changes in liabilities arising from financing activities. IASB stated that *'Stakeholders have said that financial statements sometimes include too little relevant information, too much irrelevant information and information disclosed ineffectively,'* which was another of key reasons to conduct this initiative.

A similar research to this was conducted in Turkey (Pekdemir, Yonet, 2010) at the occasion of adopting IAS 7 in the country. The research results have not come out satisfactory, as, for example, a number of companies have reported the interest balances in the operating segment where it is possible, but not appropriate. Furthermore, only one company from the selected sample prepared its statement using the direct method as openly recommended by IASB. Discussions are ongoing on the usefulness of the direct method of presentation. Bassam M. Abu-Abbas (2014) presents an extensive summary of advantages and disadvantages of both methods through the collection of opinions of other authors. Among advantages of indirect method he states not only the easiness (Golub and Huffman, 1984) and cost effectiveness (Krishnan and Largay, 2000) of the preparation, but he also emphasises the fact that in the statement is included information on sales figures (Foster et al., 2012) and the link between accrual and cash movements

(Carslaw and Mills, 1991). Moreover, he cites FASB's statement claiming that the cash flow statement prepared by indirect method provides more meaningful information (FASB, 1987, par. 113). On the other hand, the direct method is considered by FASB to bring more consistency with the reporting objectives (FASB, 1987, par. 111) and to provide more information on liquidity management by means of cash collection from customers (Foster et al., 2012). In addition, it provides a higher level of detail for figures entering the comparison of companies (Richardson, 1991) or the variance analysis or, alternatively, cash flow forecasts and projections (Trout et al., 1993). Golub and Huffman (1984) also prefer the indirect method of preparation and stress that the indirect preparation is less costly. Bradbury (2011) strictly disagrees with this approach and questions appropriate evidence of cost effectiveness. He comes to the conclusion that the cost for direct method of preparation shall be taken into consideration in a more complex way and that the presented argument is invalid. Arola (2015) comments on the interest and dividends variable's allocation. In his opinion, there is a threat of jeopardising comparability of the statements, e.g. in case the whole interest figure is stated as operating although it is not the case of the transaction's nature.

Multiple researches on disclosure quality and compliance with IFRS took place not only in the Czech Republic, but also in different countries. Santana Santos et al. (2010) discovered in their research that the compliance index for Brazil companies is less than 34 per cent at the year of the first IFRS adoption. The results of the studies conducted in the Czech environment in general agree that companies are compliant with the mandatory disclosure requirements. However, they tend to neglect the voluntary disclosures and mostly do not go beyond the minimum requirements (Červený, 2017; Dvořák, 2017; Knorová, 2016; Kopecká, 2016; Míková a Valášková, 2013).

3 Methodology

The research is conducted within the Czech environment. Compared to the International Accounting Standards, the Czech legislation generally defines the structure of the statement and provides fewer opportunities for choice or to use own reporting routines. Before the new Czech accounting law came into force in 2016, it was not required to present a cash flow statement as a part of the entities' financial statements. The lack of attention to the Statement of Cash Flows and historically missing emphasis on its contribution leads towards expectation that the Czech companies underestimate importance of the statement. In addition, it is expected that companies do not pay enough attention to the relevant structure of the statement, which could bring beneficial information for the user also by its easiness to read, understand and compare. This is the main assumption used in the hypothesis construction which sets expectations as generally low. Another

assumption comes from the possibility of choice which is granted to the companies' reporting according to IFRS. The Czech companies may be accustomed to strictly defined structure of statements and might incline to choose the easier variant with little or no attention to its relevance (e.g. reporting of interest and dividends in operating segment when inappropriate).

To fulfil the previously stated aim of this paper, the following hypotheses shall be tested and discussed:

- H1: All of the evaluated companies prepare cash flows by indirect method.
- H2: At least 90% of the companies report the complete cash flow structure.
- H3: At least 90% of the companies provide reconciliation to the balance sheet along with the split of individual cash and cash equivalent elements.
- H4: At least 50% of the companies report interest received and paid in the operating part.
- H5: None of the companies report the voluntary information about cash flows by segments.

The hypotheses are constructed based on the belief that in case the entities are free to choose a variant of the cash flow preparation or, alternatively, the treatment of some transaction groups, they will choose the easiest solution (H1, H4, H5) possible. On the other hand, important milestones of the cash flow statements' preparation will be met (H2, H3). The hypotheses are set based on the most likely outcome according to the author's experience.

To fulfil the aim stated and to answer the hypotheses above, it is necessary to split the process into individual steps as follows.

The first step is to extract and adjust the list of the respective companies. The list is available on the Czech National Bank's website¹. As not all the listed companies are active in the same field and therefore their reporting is not consistent for comparison, the selection was made based on the following criteria:

- In the CNB register, the information on the company's ID number (IČO) was used for obtaining financial statements is available,
- The company is not an investment fund, a financial institution (e.g. bank), nor a city,
- Financial statements for years 2015 and/or 2016 are available on the Justice website²,

¹ www.cnb.cz, extracted 16th August 2017 for year 2015 and on 5th September 2018 for year 2016.

² "Justice website" is a Czech official site where are stored the companies' financial statements as well as the other official documents. The financial statements used for the analysis were extracted from www.justice.cz on 16 August 2017 for the year 2015 and on 5 September 2018 for the year 2016.

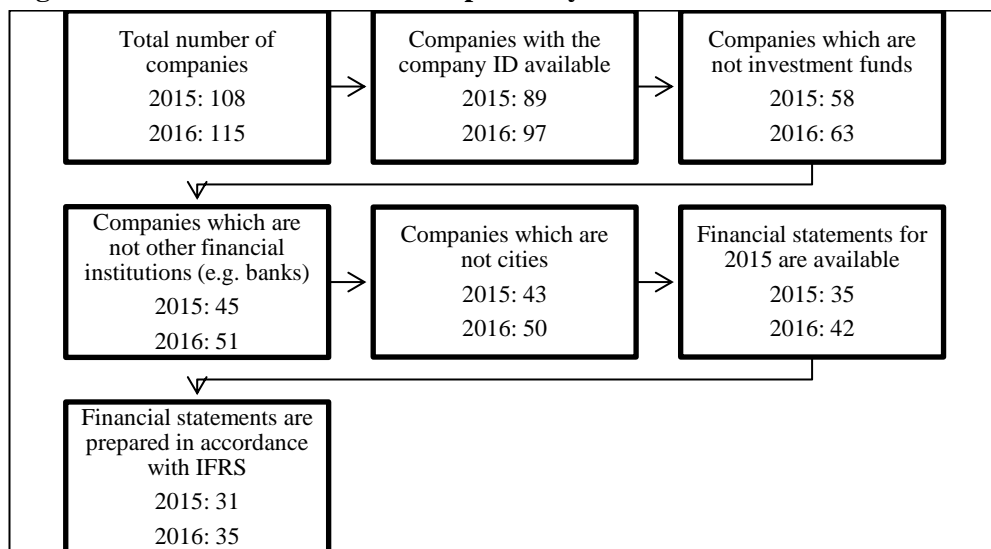
- The financial statements are prepared in accordance with IFRS as adopted by the EU.

For the selection, it is not required that the companies have issued financial statements according to the above stated conditions in both years. If company A is compliant with all the criteria listed above only in 2015 only, company B only in 2016 and company C both in 2015 and 2016, all these companies are accepted to the sample for the relevant year(s).

Several companies issue both consolidated and individual financial statements. In case both variants of statements are prepared in accordance with IFRS, it is expected that they are prepared in the same way and there are no major differences in adopting the standards. Therefore, the consolidated statements are used as the entry data as they are considered to be the main representative of the company's performance. In such a case, the statements are seen as one statement of one company. In case the consolidated financial statements are prepared in accordance with IFRS and the individual reporting comply with the Czech accounting standards, only the consolidated statements are evaluated with respect of the criterion 4 as stated above.

In Fig. 1, there is illustrated the selection of the relevant companies including the selection process by the criteria. In 2015, out of 108 companies listed by the Czech National Bank, 31 companies fulfil the specified criteria. In 2016, 35 companies out of 115 are compliant. The legal structure of companies is mostly the joint-stock company ("a. s."), alternatively a private limited company ("s. r. o."). Only one of the selected companies reports using a fiscal year which differs from the calendar year. To keep consistence of the statements' period, the fiscal year ended June 2015 is taken as 2015 period as officially reported on the Justice website. As there is a legal obligation for the companies to submit their financial statements to the Justice website, this place is used as the only reliable source of financial statements for the analysis. The deadline for financial statements' submission is the end of the subsequent fiscal year which is why the data for 2017 have not been included in the sample. There is no storage of the relevant financial statements directly on the CNB site.

Fig. 1 Selection of the relevant companies by criteria



Source: Author's compilation.

After the companies are selected, it is necessary to determine the evaluation criteria. The following paragraphs of the current version of IAS 7 are subject to the evaluation: 10, 18, 28, 31, 33, 45, 46, 48, and 50d. The list of questions analysed is as follows and contains the number of the respective IAS 7 paragraph.

1. Is the cash flow statement presented using the direct or indirect method? (18)
2. Is the cash flow statement split into the operating, investing and fin. part? (10)
3. How is the change in foreign exchange rates used for reporting and the reconciliation reported? (28)
4. How is the interest paid reported? Is there more information disclosed on these items and their reporting? (31+33)
5. How is the interest received reported? Is there more information disclosed on these items and their reporting? (31+33)
6. How are the dividends paid reported? Is there more information disclosed on these items and their reporting? (31+33)
7. How are the dividends received reported? Is there more information disclosed on these items and their reporting? (31+33)
8. Are the components of cash and cash equivalents disclosed along with the reconciliation to the statement of financial position? (45)
9. Is the information on significant restricted cash balances available? (48)
10. Is the cash flow split by reported segments available? (50d)

Full wording of the respective paragraphs is cited in Appendix 1. The evaluation itself is performed by answers (yes/no; the direction chosen) or by rating between 1 and 5 points where 1 is the best. The evaluation is based on the author's discretion and it is thus rather subjective. This rating is then entered into calculation of weighted average with the corresponding weights as follows:

Tab. 1 Information quality: Evaluated areas

Evaluated area	Weight (%)
Interest received	20
Interest paid	30
Dividends received	15
Dividends paid	10
Reconciliation and categorisation	20
Restricted cash	5

Source: Author's compilation.

The individual areas are bearing different percentage figures to distinguish their importance for the user. For example, detailed information on interest paid and its classification in the cash flow statement can provide important information not only on the financing costs of the entity but also on the financing structure (e.g. leasing, bank loans, etc.). The same idea relates to interest received, and the most common category, cash incoming from the investing activities of the entity. On the other hand, information on dividends disclosure is required by more standards than IAS 7 and in the case of dividends paid, the business case behind is quite straightforward. What is important for the user and more importantly, for the trustworthiness of the financial statements, is the reconciliation between the cash flow statement and the balance sheet statement, which is the reason why the reconciliation bears a noticeable percentage portion. The low percentage chosen for the disclosure of information on the restricted cash is connected with ambivalent wording of the standard's requirements. Based on the statements, it is unclear if the entities are not reporting any restricted cash because they do not comply with IAS 7 or because they simply do not possess any.

In the following table, there are described the levels of quality of the information disclosed. The quality is evaluated by points 1–4 where 1 is the best rating and 5 stands for missing data. These grades enter the weighted average calculation as well.

Tab. 2 Information quality rating

Rating	Description
1	Excellent
2	Good
3	Acceptable
4	Unacceptable
5	Missing data

Source: Author's compilation.

As indicated above, there is a methodological uncertainty on how to treat missing parameters, specifically information about the treatment of interest and dividends while there are no such transactions. In order to keep the structure of the weights, this “missing” information is evaluated as Acceptable (Grade 3). An exception is made for the information on the restricted cash. Although the standard wording does not specify the reporting treatment of zero balances, an investor shall be interested also in the information that the company has no restricted cash as the missing information provides a certain level of ambiguity. For this reason, the missing information on restricted cash is evaluated as “Missing data” (Grade 5). However, impact of this grading is mitigated by the low weight percentage assigned.

At the end, the only number, which is the average of the weighted averages of all the evaluated companies, will show the overall quality of the notes to the respective areas.

4 Results

4.1 Structure

The first point of attention concentrates on the method (direct or indirect) which was used by the companies to present their cash flow statement. As expected by the Hypothesis 1, 100 % of the companies have chosen the indirect method in both analysed periods. Therefore, the operating cash flows were obviously part of the report in all the cases as it is necessary to report at least adjustments to non-cash activities included in the result for the period. Other types of operations-related cash transactions were reported by 26 companies in 2015 and 29 companies in 2016, which translates into a stable portion of 83–84% of all the companies. The transaction types reported in the operating part are most frequently interest and taxes. The investing and financing cash flows were in turn subjected to a more detailed evaluation as their reporting fully depend on the entity's understanding and approach to the IAS 7 standard and report preparation. Around 10% of the

evaluated companies have not presented the investing part of the report whatsoever while other companies reported zeros and hereby confessed to the investment cash flows' structure. Similarly, a minor part of companies (1 in 2015, 3 in 2016) has not reported the financing part of their cash flows while one company has reported zero values – the same company as discussed above. Based on these results there arises a question whether the companies should report zeroes within expected structures while they have not reported any numbers anyway over the past two years (current and comparison period). This would improve convenience of comparison possibilities for the statement's user when searching for some specific criteria; on the other hand, it is difficult to determine the initial range of data applicable for a wide variety of companies and their operations.

Tab. 3 Cash flow statement structure (2015)

Cash Flow statement parts	Number of total 31 companies	Percentage
Operating	31	100
Operating other than adjustments	26	84
Investing	28	90
Financing	30	97
Complete structure	25	81

Source: Authorial computation.

Tab. 4 Cash flow statement structure (2016)

Cash Flow statement parts	Number of total 35 companies	Percentage
Operating	35	100
Operating other than adjustments	29	83
Investing	31	89
Financing	32	91
Complete structure	26	74

Source: Authorial computation.

4.2 Approach to disputable items

IAS 7 allows an entity to decide on reporting interest and dividends received and paid based on the nature of the realised transactions. The standard explicitly requires all the elements to be reported separately. Two companies did not comply with this requirement in 2015 and one in 2016.

In the tables and diagrams below, the proportional split of the reporting decision on these items is illustrated. Four companies (13%) in 2015 and 3 companies (9%) in 2016 have split the reported interest into two categories based on the nature of the interest, which is very beneficial to the user of the statement. The numbers below represent also the companies who have reported zeroes but confessed to which part of the cash flow structure the individual elements belong. Generally, in the notes disclosure directly related to cash and equivalents, the companies fail to justify their reporting decision, and, for the more detailed information, the user must search for relevant data in other parts of the notes.

Tab. 5 Interest and Dividends categorisation (2015)

Categorisation / Number and percentage of total 31 companies	Interest Received	Interest Paid	Dividends Received	Dividends Paid
Operating	13 (42%)	15 (48%)	1 (3%)	-
Investing	11 (35%)	1 (3%)	9 (29%)	-
Financing	-	8 (26%)	1 (3%)	16 (52%)
Operating and Investing	2 (6%)	1 (3%)	-	-
Financing and Investing	-	2 (6%)	-	-
Not reported	5 (17%)	4 (14%)	20 (65%)	15 (48%)

Source: Authorial computation.

Tab. 6 Interest and Dividends categorisation (2016)

Categorisation / Number and percentage of total 35 companies	Interest Received	Interest Paid	Dividends Received	Dividends Paid
Operating	16 (46%)	19 (54%)	2 (6%)	-
Investing	14 (40%)	1 (3%)	11 (31%)	1 (3%)
Financing	-	8 (23%)	-	20 (57%)
Operating and Investing	1 (3%)	1 (3%)	-	-
Financing and Investing	-	1 (3%)	-	-
Not reported	4 (11%)	5 (14%)	22 (63%)	14 (40%)

Source: Authorial computation.

4.3 Quality of the data and notes provided

According to the IAS 7 paragraph 28, the information on impact of changes in foreign currency exchange rates on reporting should be presented (*'...This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.'*). The underlined expression "if any" gives an uncertainty whether the information about the zero impact should be reported or not. However, this piece of information is presented rather for reconciling purposes than in the meaning of giving information on the exchange rate loss impact which is anyway included in the adjustments to the operating part. Out of the analysed sample of 31 companies in 2015 and 35 companies in 2016, 8 companies (23–26%) have reported this number, out of which one has reported zero. One additional company (not counted among those above) mentioned to the information on the cash flows amount per period that the flows are influenced by changes in foreign exchange rates without quantifying the impact – although it is recognisable as unreconciled opening and closing balance.

Another type of reconciliation which is very important to demonstrate the integrity of data presented in the financial statements is reconciliation to the statement of financial position. This reconciliation is expected to be presented along with the split on the components such as cash in hand, bank balances, etc. Ninety to ninety-one per cent of the analysed companies (28 companies in 2015, 32 companies in 2016) have included this information to their notes disclosure, usually in a table format. The number of companies that did not comply with the requirement can be considered as a material percentage as the reconciliation is a basic assurance of trustworthiness of the data, and the split of cash components can uncover data to help assess the cash and risk management of the entities. Furthermore, for some companies (2 in 2015, 3 in 2016) the re-performance of the reconciliation did not match. The first company, which is already discussed above, has a difference probably coming from inconsistent approach to reporting of FX differences whereas the other companies report the origin of the difference to be a movement on cash-pool accounts that are reported in the balance sheet as an intercompany asset account.

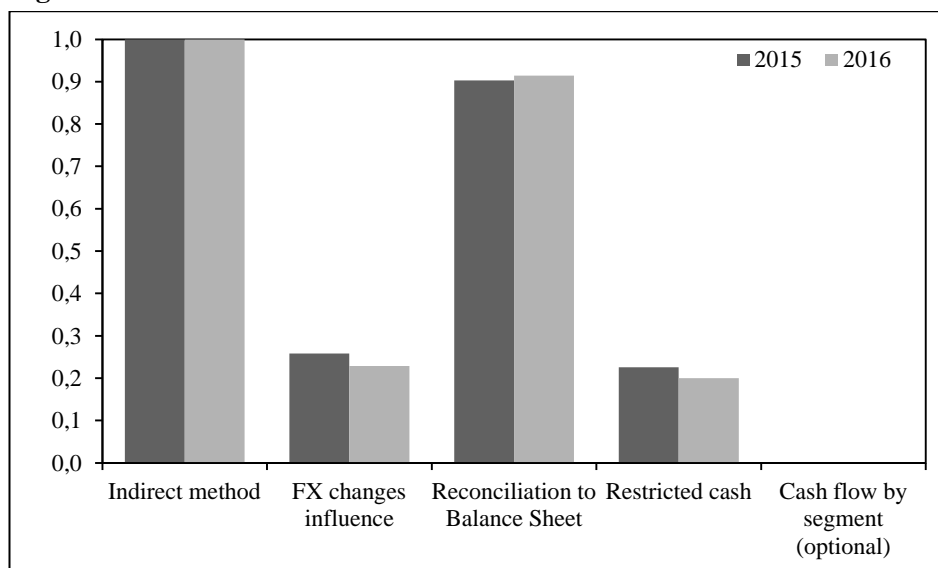
The last topic evaluated in this category was availability of information on significant amounts of restricted cash together with the management's comment. Only 23% of the Czech listed companies shared the information on the balance, eventually stating a zero balance in 2015. In 2016, the portion decreased to 20% companies. Although the paragraph's wording starts with *'An entity shall disclose... the amount of significant cash and cash equivalent balances...'* it would be beneficial to the statement users to clearly see even the information on zero

balances of cash not available for use. Only 3 companies (9–10% of the sample in both years) did so.

The overall rating of notes for 2015 is 2.44, which means acceptable to good quality of the notes. The most problematic area was the disclosure of information on restricted cash where the average rating was 4.19. The best evaluated area was the reconciliation of the cash flow balances to the balance sheet which rating was 1.52 meaning that most of the companies provided this reconciliation that proved to be correct following the author's check. The interest and dividends disclosure data were evaluated as being on almost the same quality level (2.29–2.65). The only nuance was the data disclosed on dividends paid as this transaction has a very straightforward nature. However, some wrong data were discovered in this category as well.

The rating for 2016 is highly consistent with the previous year. The overall mark given to the notes' quality and their connection to the statement is 2.39 (the notes' quality tends to be good rather than acceptable). Similarly to the 2015 evaluation, the best rated area was reconciliation of the cash balances to the balance sheet (rating 1.43). The information on restricted cash was also in 2016 missing from most disclosure notes, resulting in the evaluation mark of 4.20. The quality of the comments and explanatory notes provided to interest and dividends is generally on the same level within categories as well as years and their mark range is 2.29–2.80.

Fig. 2 Methods used and information disclosed



Source: Authorial computation.

4.4 Quality of the optional data provided

Since IFRS 8 requires reporting by operating segments, IAS 7 encourages the entities to disclose also a simplified cash flow statement of each reportable segment as amounts in operating, investing and financing part. As this paragraph (50d) is rather of a recommending nature, none of the companies has reported any information on the cash flow split. The majority of surveyed companies have reported segments in both years (77% in 2015, 83% in 2016), or claimed one segment or irrelevance according to IFRS 8, respectively.

5 Discussion

The objective of this article was to evaluate the quality of cash flow statement and aligned notes presented by a sample of the Czech listed companies. Based on the criteria chosen, there were selected 31 companies whose statements were analysed. Five hypotheses and ten research questions were set and answered as follows:

H1: All of the evaluated companies are preparing cash flow by indirect method.

This hypothesis has proven true.

None of the analysed companies has chosen the direct method of statement presentation, although it is encouraged by IAS 7. The result is the same for both analysed periods.

H2: At least 90% of the companies report the complete cash flow structure.

This analysis has proven false.

Only 81% companies in 2015 and 74% in 2016 have reported the complete statement structure consisted of operating part including operating flows other than adjustments, investing part and financing part.

H3: At least 90% of the companies provide reconciliation to the balance sheet along with the split of individual cash and cash equivalents elements.

This hypothesis has proven true.

90% of companies in 2015 and 91% companies in 2016 have indeed provided the reconciliation.

However, answering this hypothesis depends on the point of view. The reconciliation was subsequently checked and confirmed by the author. After excluding the companies whose reconciliation has failed the check, the percentage decreases to 83–84% which results in the failure to reach the hypothesis' threshold percentage.

H4: At least 50% of the companies report interest received and paid in the operating part.

This hypothesis has proven false.

Although the results really oscillate around 50%, only the interest paid in 2016 corresponds with the statement set by the hypothesis.

Anyway, discussion can be held on the results' interpretation. Provided the percentage was calculated from the base of companies who have reported any interest flows (and not from all the companies in the sample regardless of having interest transactions or not), all the results exceed 50%. However, the percentage is about 50% in both scenarios, which does not give strong grounds for generalisation.

The selection of companies excluded financial institutions, whose majority of interest transactions are indeed from operations. Considering this fact, it is peculiar that about half of the companies have chosen the easiest way to present the interest received and paid in the operating part of the statement.

H5: None of the companies reports the voluntary information about cash flow by segment.

This hypothesis has proven true.

None of the companies has disclosed this voluntary type of information in any of the observed periods.

Apart from the hypotheses, analysed was also additional data quality. In IAS 7, there is a possibility of choice in which part of the statement the companies can report their interest and dividends. The companies were choosing various parts of the statement where to report the values, however, only a small number of companies have split the figures in case the interest was generated by different transaction types. A considerable amount of companies has presented their interest received and paid figures in the operating part even though, as financial institutions were excluded. This is not the most accurate treatment although the standard does not forbid this approach. Apart from the reconciliation to the balance sheet, another reconciliation figure was observed. 23 and 26 per cent of the analysed companies have presented the reconciliation value of the impact of changes in foreign exchange rates. The last criterion for analysis was the presentation of significant restricted cash balances. 20–23% of the Czech companies did so; however, the standard wording is not clear as it does not mention presenting the information in case the balance is zero. Absence of additional requirement, based on which entities would be expected to report even zero balances of restricted cash, is in the author's view a weak point of the relevant IAS paragraph (48). Information of such a characteristic is an important piece of information for the cash flow statement's user.

The results were consistent in both evaluated periods in all of the categories. At individual levels, a slight improvement in the notes quality was observed at some companies who were part of the sample in both years. It is expected that once the companies have produced the financial statements once, the template is used in the following periods as well; therefore, the rising tendency in the notes' quality is a very good result.

6 Conclusion

This paper has proved that a significant number of Czech listed companies comply with the basic IAS 7 requirements, though they do not extend the framework of what is required to what is also helpful to the user. To expand the scope of coverage of this paper, there are presented also several next research directions. The first relevant research extension is prolonging periods of the analysed data to see the trend of changes in quality over the years. As there were several companies in the sample which did not match the criteria, there is certainly possibility to work with a wider scope of material available for these companies to obtain the information when the companies e.g. do not possess the relevant transaction types and evaluate them using a different methodology. Since one of the criteria used for evaluation was the segment reporting, also compliance with standard IFRS 8 would be relevant – especially when more than 20% of the companies have not mentioned the segment reporting whatsoever.

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Appendix 1: Relevant paragraphs of IAS 7

10 The statement of cash flow shall report cash flows during the period classified by operating, investing and financing activities.

18 An entity shall report cash flows from operating activities using either:

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby profit or loss 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.

28 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

31 Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

33 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

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

48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

(d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see IFRS 8 *Operating Segments*).