



Reporting cash flows from operating activities

Cash flows from Operating Activities can be reported using the direct or indirect method.

Direct method

- ▶ Cash received from customers.
- ▶ Cash paid to suppliers.
- ▶ Cash paid to employees.
- ▶ Cash paid for operating expenses.
- ▶ Interest paid.
- ▶ Taxes paid.
- ▶ Dividends paid.
- ▶ Net cash from operating activities.

Indirect method

The net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- ▶ Changes during the period in inventories and operating receivables and payables;
- ▶ Non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
- ▶ All other items for which the cash effects are investing or financing cash flows.

FRS 44 - *New Zealand Additional Disclosures* requires a reconciliation of cash flows from operating activities to Net Profit after Tax (NZ IFRS RDR Reporters are exempt from this disclosure requirement).

Items may be grouped.

- ▶ Non cash items (i.e. Depreciation).
- ▶ Deferrals or Accruals (i.e. change in Accounts Receivable).
- ▶ Investing and Financing line items.

Definition: Cash and cash equivalents

- ▶ Short term (where the original maturity is 3 months or less, irrespective of maturity timing post balance date).
- ▶ Highly liquid investments.
- ▶ Readily convertible to known amounts of cash; and
- ▶ Subject to insignificant risk of changes in value.

Considerations to note

- ▶ Non cash investing and financing activities must be disclosed separately.
- ▶ Cash flows must be reported gross. Set-off is only permitted in very limited cases, and additional disclosures are required. (Refer to NZ IAS 7.24 for examples relating to term deposits and loans.)
- ▶ Foreign exchange transactions should be recorded at the rate at the date of the cash flow.
- ▶ Acquisition and disposal of subsidiaries are investment activities and specific additional disclosures are required.
- ▶ Where the equity method is used for joint ventures and associates, the cash flow statement should only show cash flows between the investor and investee.
- ▶ Disclose cash not available for use by the group.
- ▶ Assets and liabilities denominated in a foreign currency generally include an element of unrealised exchange difference at the reporting date.
- ▶ Disclose the components of cash and cash equivalents and provide a reconciliation back to the Statement of Financial Position amount if required.
- ▶ Disclose information about supplier finance arrangements for users to assess its effects on the entity's liabilities, cash flows and on entity's exposure to liquidity risk.
- ▶ Non-cash Investing and Financing transactions are not included in the Statement of Cash Flows and should be disclosed elsewhere in the financial statements.
- ▶ Disclose changes in liabilities arising from financing activities, distinguishing between changes from:
 - financing cash flows;
 - obtaining or losing control of subsidiaries and other businesses;
 - the effect of changes in foreign exchange;
 - fair value movements; and
 - other changes.
- ▶ Cash payments made by lessees for the reduction of lease liability are financial activity.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters must comply fully with the recognition and measurement principles of NZ IAS 7. However, there are certain disclosure exemptions available.

Although every effort is made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular facts and circumstances of the situation.
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