Linda Feeney

From: Henry Warren <henry.warren25@live.co.uk>
Sent: 03 January 2017 15:30
To: cashflows

Subject: Comments on Improving Cashflow Statements Discussion Paper

For the attention of Andrew Lennard

I welcome this initiative and for the opportunity to provide input to the debate.

By way of context my primary use of financial statements is as an investment analyst and I regard the cashflow statement as the most important source of historic data about the performance of a business and as a helpful indicator of future prospects.

I note the comments made about the profit and loss account and the accruals principles underlying this as being the best basis for assessing performance. The comments made however ignore the fact that businesses are adept at showing their results in a positive light and for smoothing the ups and downs which are an inevitable part of trading life. I relay on the cashflow statement to help me understand what has occurred in a business whose purpose is to meet all its obligations necessary to maintain its position while seeking to grow and recompense its owners for the capital they have provided.

My comments can be captured using certain of the various questions you pose.

Question 1 - As noted I regard the cashflow statements as a vital source of intelligence about a business and much more than a supplement to the balance sheet and profit and loss statements.

Question 2 - I agree that notional cash flows should be excluded.

Question 3 and Question 9 - A standard definition of the starting position of the statement would be helpful - which line of the profit and loss account is being used (most helpful is the operating profit). I also find it helpful to see on the face of statement the summarised adjustments for non cash costs/income, any working capital cash gap and any cash costs not reflected in the starting profit number. These are vital elements in understanding the accounts - detailed analysis can be provided in the notes but it is disconcerting not to be able to immediately read from the profit and loss account immediately into the cashflow statement (the two can show very different pictures of operations) and then to have to search through the notes (the analysis is usually towards the back) for data vital to ones understanding.

Question 4 - I strongly support the separation of replacement capital expenditure (which should be shown as a charge against operating cash flows but separately disclosed on the face of the statement) from expansion. I find the distinction between replacement capital expenditure and maintenance to be an accounting nicety. I recognise that this separation is not straightforward because like for like replacements are rare but I believe some simple guidance could be developed (based on expansion to capacity or capability - I would regard investment to increase efficiency as a replacement and therefore a charge against operating cash in the same way as staff training costs which have the same operating purpose)with the default position that expenditure which does not meet such guidance should be shown as a replacement. Management comment can then be used to elaborate.

Question 5 - Interest paid is an operational cost (as are capital repayments to meet contractual obligations including under finance leases) and should be shown as such not treated as financing activities.

Question 6 - Tax is also an operational cost.

I hope that these comments are of help. If any require expansion please let me know.

Best wishes
Henry Warren

Sent from my iPad