Think Ahead ACCA

Improving the statement of cash flows

Consultation document issued by the Financial Reporting Council in October 2016

Comments from ACCA
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Further information about ACCA's comments on the matters discussed here may be obtained from the following:

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ACCA welcomes the opportunity to provide views in response to the consultation from the Financial Reporting Council. This has been done with the assistance of the members of ACCA's Global Forum for Corporate Reporting. They have considered the questions raised and their views are reflected in the following comments.

SPECIFIC QUESTIONS ON WHICH COMMENTS ARE REQUESTED

Question 1

Do you have any comments on the discussion of the usefulness of information about cash flows?

We do not agree with Paragraph 1.20 of the paper that cash flow information cannot be a measure of performance. In practice one can observe cash flow information is being used as a performance measure whether it should or not. While it perhaps should not be the main focus of improvements to the statement, this aspect cannot be ignored.

Question 2

Do you agree that notional cash flows should not be reported in the statement of cash flows, but that non-cash transaction should be transparently disclosed? If notional cash flows should, in your view, be reported, how would they be identified?

We agree the cash flow statement should not include non-cash transactions. Note disclosure should be made of any significant non-cash transactions.

Question 3

Do you agree that operating activities should be positively defined or described?

In our view developing a positive definition of operating cash flows would be very helpful in improving the quality of cash flow information and especially its comparability. As noted above operating cash flows are the most common element in the statement which is used as the basis of performance measures and so the most important to be comparable between entities and periods. We note however that such a definition may be difficult to achieve.

Question 4

Do you agree that capital expenditure should be reported within operating activities rather than as an investing activity, with sub-total drawn before capital expenditure, and disclosure of the extent to which capital expenditure represents 'replacement' or 'expansion'?

We do not agree that capital expenditure should be reported within operating activities. Capital expenditure is an investment activity and the most common sort of investment that companies make. The language in most annual reports would follow that approach.

There do seem good reasons why investors and others might find useful the separate identification of replacement from expansion spending on property, plant and equipment. However as businesses change and technology evolves it will be hard in some cases to identify what is purely replacement expenditure. Given definition problems it would seem best to encourage such disclosure but not mandate it.

Question 5

What are your views on the reporting of cash flows relating to financing liabilities?

We agree with the proposals in this paper. Dividends paid should be a financing cash flow. Cash flows relating to customer receivables should be dealt with as in paragraph 2.29. Discounts on provisions to recognise the time value of money are not a financing cash flow.

Question 6

Do you agree that tax is best dealt with in a separate section of the statement of cash flows?

Tax cash flows may arise from operating, investing or financing activities. Allocating those tax flows may be difficult in practice. So we are supportive of the proposal that there should be a separate section in the statement of cash flows for tax. We note there is increasing interest among stakeholders in the tax payments of companies and in Europe proposed disclosure of tax paid on a country-by-country basis which could be related to such a new heading.

Question 7

In your view, should the statement of cash flows report flows of cash or of cash and cash equivalents? How, in your view, should cash and/or cash equivalents be defined, and why?

The cash and cash equivalents concept seems well established and accepted and there seems no convincing reason to change this. The principle seems clear that cash equivalents are short-term instruments with little extra risk of changes in fair value. The practical application of that definition is ultimately left to the judgement of the preparing companies as with so many other issues in IFRS.

The management of cash equivalents, as distinct from the management of cash, will not be a significant part of many business models and so would not merit the separate disclosure proposed in the discussion paper. In those relatively few cases where it is significant, companies should consider separate disclosure.

Question 8

Which cash flows should, in your view, qualify for net presentation in the statement of cash flows?

We would support net presentation of the cash flows between cash and cash equivalents and also those between financial instruments of the same class.

Question 9

In your view, is it appropriate to require the presentation of a reconciliation of operating activities in all cases, and to prohibit presenting it within the statement of cash flows?

We agree that the reconciliation statement is very important and must be required and would be best included as a separate supporting note.

Question 10

Do you agree that the direct method statement of cash flows should be neither prohibited nor required?

We agree with the retention of the option in this case.

Question 11

Which components of cash flows from operating activities should an accounting standard identify as particularly significant, and why? How should standard-setters decide whether to require disclosure of the amount of such components or of changes in related working capital items?

The IASB's project on the primary financial statements may create a significant new structure to the statement of financial performance which might need to be reflected in the requirements of the cash flow statement. Apart from that we consider that companies should be allowed to determine the significant line items to disclose appropriate to their circumstances.