Abstract
A business enterprise that provides a set of financial statements that reports both financial position and results of operations shall also provide a statement of cash flows for each period for which results of operations are provided. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. Cash flows must be analysed between operating, investing and financing activities. Key principles for the preparation of a cash flow statement are as follows: (a) operating activities are the main revenue-producing activities of the enterprise that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees. (b) Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. (c) Financing activities are activities that alter the equity capital and borrowing structure of the enterprise. To achieve its purpose of providing information to help investors, creditors, and others in making those assessments, a statement of cash flows should report the cash effects during a period of an enterprise's operations, its investing transactions, and its financing transactions.

Key Words: operating, investing and financing activities,

I. Introduction
A business enterprise that provides a set of financial statements that reports both financial position and results of operations shall also provide a statement of cash flows for each period for which results of operations are provided. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. The information provided in a statement of cash flows, if used with related disclosures and information in the other financial statements, should help investors, creditors, and others to (a) assess the enterprise's ability to generate positive future net cash flows; (b) assess the enterprise's ability to meet its obligations, its ability to pay dividends, and its needs for external financing; (c) assess the reasons for differences between net income and associated cash receipts and payments; and (d) assess the effects on an enterprise's financial position of both its cash and non-cash investing and financing transactions during the period.

II. Need for Cash Flow Information
Paragraph 37 of Concepts Statement 1 states that: Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. The prospects for those cash receipts are affected by an enterprise's ability to generate enough cash to meet its obligations when due and its other cash operating needs, to reinvest in operations, and to pay cash dividends.

Paragraph 39 states that: since an enterprise's ability to generate favorable cash flows affects both its ability to pay dividends and interest and the market prices of its securities, expected cash flows to investors and creditors are related to expected cash flows to the enterprise in which they have invested or to which they have loaned funds. Paragraph 49 states that: Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital [equity] transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency.

Paragraph 13 of Concepts Statement 5 states that the "amount and variety of information that financial reporting should provide about an entity require several financial statements." A full set of financial statements for a period should show cash flows during the period. Paragraph 52 describes the role of information in the statement of cash flows as follows. It provides useful information about an entity's activities in generating cash through operations to repay debt, distribute dividends, or reinvest to maintain or expand operating capacity; about its financing activities, both debt and equity; and about its investing or spending of cash. Important uses of information about an entity's current cash receipts and payments include helping to assess factors such as the entity's liquidity, financial flexibility, profitability, and risk.

III. Focus on Cash and Cash Equivalents
Cash is the most useful concept of funds because decisions of investors, creditors, and others focus on assessments of future cash flows. However, enterprises commonly invest cash in excess of immediate needs in short-term, highly liquid investments, and whether cash is on hand, on deposit, or invested in a short-term financial instrument that is readily convertible to a known amount of cash is largely irrelevant to users' assessments of liquidity and future cash flows. A statement of cash flows shall explain the change during the period in cash and cash equivalents. For purposes of this Statement, cash equivalents are short-term, highly liquid investments. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an enterprise with banking operations).

IV. Classification of Cash Receipts and Cash Payments
A statement of cash flows shall classify cash receipts and cash payments as resulting from investing, financing, or operating activities.
i) Cash Flows from Investing Activities
Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the enterprise (other than materials that are part of the enterprise's inventory).

a) Cash inflows from investing activities are:
   1. Receipts from collections or sales of loans made by the enterprise and of other entities' debt instruments (other than cash equivalents) that were purchased by the enterprise
   2. Receipts from sales of equity instruments of other enterprises and from returns of investment in those instruments
   3. Receipts from sales of property, plant, and equipment and other productive assets.

b) Cash outflows for investing activities are:
   1. Disbursements for loans made by the enterprise and payments to acquire debt instruments of other entities (other than cash equivalents)
   2. Payments to acquire equity instruments of other enterprises
   3. Payments at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets.

ii) Cash Flows from Financing Activities
Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.

a) Cash inflows from financing activities are:
   1. Proceeds from issuing equity instruments
   2. Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing.

b) Cash outflows for financing activities are:
   1. Payments of dividends or other distributions to owners, including outlays to reacquire the enterprise's equity instruments
   2. Repayments of amounts borrowed
   3. Other principal payments to creditors who have extended long-term credit

iii) Cash Flows from Operating Activities
Operating activities include all transactions and other events that are not defined as investing or financing activities in paragraphs 15-20. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

a) Cash inflows from operating activities are:
   1. Cash receipts from sales of goods or services, including receipts from collection or sale of accounts and both short- and long-term notes receivable from customers arising from those sales
   2. Cash receipts from returns on loans, other debt instruments of other entities, and equity securities—interest and dividends
   3. All other cash receipts that do not stem from transactions defined as investing or financing activities, such as amounts received to settle lawsuits; proceeds of insurance settlements except for those that are directly related to investing or financing activities, such as from destruction of a building; and refunds from suppliers.

b) Cash outflows for operating activities are:
1. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods
2. Cash payments to other suppliers and employees for other goods or services
3. Cash payments to governments for taxes, duties, fines, and other fees or penalties
4. Cash payments to lenders and other creditors for interest
5. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash contributions to charities, and cash refunds to customers.

V. Foreign Currency Cash Flows
A statement of cash flows of an enterprise with foreign currency transactions or foreign operations shall report the reporting currency equivalent of foreign currency cash flows using the exchange rates in effect at the time of the cash flows. An appropriately weighted average exchange rate for the period may be used for translation if the result is substantially the same as if the rates at the dates of the cash flows were used. The statement shall report the effect of exchange rate changes on cash balances held in foreign currencies as a separate part of the reconciliation of the change in cash and cash equivalents during the period.

VI. Content and Form of the Statement of Cash Flows
A statement of cash flows for a period shall report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents. In reporting cash flows from operating activities, enterprises are encouraged to report major classes of gross cash receipts and gross cash payments and their arithmetic sum the net cash flow from operating activities (the direct method). Enterprises that do so should, at a minimum, separately report the following classes of operating cash receipts and payments:

a. Cash collected from customers, including lessees, licensees, and the like
b. Interest and dividends received
c. Other operating cash receipts, if any
d. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like
e. Interest paid
f. Income taxes paid
g. Other operating cash payments, if any.

If the direct method of reporting net cash flow from operating activities is used, the reconciliation of net income to net cash flow from operating activities shall be provided in a separate schedule. If the indirect method is used, the reconciliation may be either reported within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities. If the reconciliation is presented in the statement of cash flows, all adjustments to net income to determine net cash flow from operating activities shall be clearly identified as reconciling items, both investing cash inflows and outflows and financing cash inflows and outflows shall be reported separately in a statement of cash flows—for example, outlays for
acquisitions of property, plant, and equipment shall be reported separately from proceeds from sales of property, plant, and equipment; proceeds of borrowings shall be reported separately from repayments of debt; and proceeds from issuing stock shall be reported separately from outlays to reacquire the enterprise's stock.

VII. Information about Noncash Investing and Financing Activities
Information about all investing and financing activities of an enterprise during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period shall be reported in related disclosures. Those disclosures may be either narrative or summarized in a schedule, and they shall clearly relate the cash and noncash aspects of transactions involving similar items. Examples of noncash investing and financing transactions are converting debt to equity; acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining an asset by entering into a capital lease; and exchanging noncash assets or liabilities for other noncash assets or liabilities. Some transactions are part cash and part noncash; only the cash portion shall be reported in the statement of cash flows.

VIII. Cash Flow per Share
Financial statements shall not report an amount of cash flow per share. Neither cash flow nor any component of it is an alternative to net income as an indicator of an enterprise's performance, as reporting per share amounts might imply.

IX. Financial Institutions
Financial institutions, particularly commercial banks, have long contended that their statements of changes in financial position are not meaningful. Banks generally have contended that the nature of their business and the resulting nature of their cash flows are significantly different from the cash flows of non-financial enterprises and that those differences render information about a bank's cash flows virtually meaningless. Banks who generally said that their cash flows are much more complex and interrelated than those of other enterprises and that a bank's cash flows are much larger in relation to net income and net assets than are the cash flows of a non-financial enterprise. For those reasons, banks argued that a statement of cash flows would not prove helpful in evaluating their liquidity. The Board recognizes that banks are unique in some ways; just as each other kind of business enterprise has unique attributes. While a bank is unique in the sense that cash can be viewed as its product, a bank needs cash for essentially the same reasons a manufacturer does—to invest in its operations, to pay its obligations, and to provide returns to its investors. To survive, a bank—like a manufacturer—must generate positive (or at least neutral) cash flows from its operating, investing, and financing activities over the long run. A bank raises cash from depositors, money market operations and other purchases of funds, issuing long-term debt and equity securities, loan repayments by borrowers, investment sales and maturities, and net interest and fees earned. It uses cash to meet deposit withdrawals, liability maturities, loan commitments, and for investment and other purposes. Those cash flows are integral to a bank's investing (largely lending) activities and its financing (largely borrowing and deposit gathering) activities and should be reflected in its financial statements. As is true for non-bank
enterprises, a bank's net cash flow from operating activities may differ significantly from its net income because of non-cash revenue and expense items, such as interest accruals, depreciation, amortization of goodwill, provision for probable credit losses, and deferred income taxes. While the cash flows of a bank may be larger, the turnover faster, and the reliance on borrowed funds greater than for a non-financial enterprise, the Board decided that the substance of a bank's cash flows is similar to that of a non-financial enterprise. Concerning the relative size of a bank's cash flows, the Board noted that a bank's assets and liabilities also are much larger in relation to its equity than is common for non-financial enterprises; that do not mean that the gross amounts of a bank's assets, liabilities, and changes in them are unimportant information. The Board considered the argument that the solvency of a bank depends more on maintaining an adequate spread between the cost of funds and interest received than on adequate cash flows. The Board noted that maintenance of an adequate margin between expenses and revenues is essential to the viability of all enterprises and is not unique to banks and other financial institutions. The Board also considered the argument that other information such as interest rate sensitivities and maturity schedules of loans and borrowings is more useful than a statement of cash flows in assessing a bank's liquidity, financial flexibility, profitability, and risk and that this other information should therefore be substituted for a statement of cash flows.

X. Noncash Transactions
Noncash transactions commonly recognized in financial statements include conversion of debt to equity, acquisition of assets by assuming liabilities including capital lease obligations, and some of the nonmonetary transaction Opinion No. 29, Accounting for Nonmonetary Transactions. Those transactions result in no cash inflows or outflows in the period in which they occur but generally have a significant effect on the prospective cash flows of a company. For example, a capitalized lease obligation requires future lease payments in cash, and conversion of debt to equity generally will eliminate nondiscretionary payments of interest on the debt. The net effect on assets and liabilities of assuming debt to acquire an asset is similar to that of borrowing cash to buy the asset. The Board agreed that excluding noncash transactions from the statement of cash flows difficulties. This Statement thus requires that information about noncash investing and financing transactions be reported in related disclosures. If there are only a few such transactions, it may be convenient to include them on the same page as the statement of cash flows. Otherwise, the transactions may be reported elsewhere in the financial statements, clearly referenced to the statement of cash flows.

XI. Classification of Cash Flows from Hedging Transactions
Generally, each cash receipt or payment is to be classified according to its nature without regard to whether it stems from an item intended as a hedge of another item. For example, the proceeds of a borrowing are a financing cash inflow even though the debt is intended as a hedge of an investment, and the purchase or sale of a futures contract is an investing activity even though the contract is intended as a hedge of a firm commitment to purchase inventory. However, cash flows from futures contracts, forward contracts, option contracts, or swap contracts that are accounted for as hedges of identifiable transactions or events (for example, a cash payment from a futures contract that hedges a
purchase or sale of inventory), including anticipatory hedges, may be classified in the same category as the cash flows from the items being hedged provided that accounting policy is disclosed. If for any reason hedge accounting for an instrument that hedges an identifiable transaction or event is discontinued, then any cash flows subsequent to the date of discontinuance shall be classified consistent with the nature of the instrument.

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