

IFRIC Guidance on Condensed Statement of Cash Flows

There are divergent views on the presentation and content of the condensed statement of cash flows in the interim financial statements according to HKAS/IAS 34 “Interim Financial Reporting”. One view is that an entity should present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity may present a three-line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities. The latter one is commonly adopted by listed companies in Hong Kong when issuing condensed interim financial statements.

The July 2014 IFRIC Update of the IFRS Interpretations Committee includes a guidance and clarification of the application of the requirements regarding the presentation and content of the condensed statement of cash flows.

A condensed statement of cash flows is one of the primary statements of an interim financial report as required by paragraph 8 of IAS 34. Paragraph 10 of IAS 34 specifies that each of the condensed statements shall include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements. Paragraph 10 of IAS 34 also requires additional line items to be included if their omission would make the interim financial statements misleading.

The IFRS Interpretations Committee noted that in an interim financial report:

- (a) an entity shall include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report (paragraph 15 of IAS 34).
- (b) the overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity’s financial position and performance during the interim period (paragraph 25 of IAS 34). The IFRS Interpretations Committee further noted that in accordance with paragraph OB20 of the IASB’s Conceptual Framework, information about cash flows helps users to understand a reporting entity’s operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance.

In this respect, the IFRS Interpretations Committee noted that to meet the requirements in paragraphs 10, 15 and 25 of IAS 34, a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows.

It also noted that it did not expect that a three-line presentation alone would meet the requirements in IAS 34.

HKFRSs are fully converged with IFRSs. As a result of the above guidance of the IFRS Interpretations Committee, more cash flow information should be included in the condensed statements of cash flows of listed companies in Hong Kong in order to understand their financial positions and performance during the interim periods. However, how much more information to be included is subject to management's judgment based on the facts and circumstances of the listed companies.

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