

**Statement of
Financial Accounting Standards
No. 17**

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Financial Accounting Standards Committee

Statements of Financial Accounting Standards No.17

Statement of Cash Flows

I Introduction

- (1) This Statement establishes the accounting standards for preparation of a statement of cash flows.
- (2) 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 specific period.
- (3) The term “cash” used in this Statement includes cash on hand, demand deposits, check deposits, time deposits that are cancellable but without any loss of principal, and negotiable certificates of deposit and cash equivalents that are readily saleable but without any loss of principal.

II Explanation

- (4) The balance sheet presents an enterprise’s financial condition at a specified date, and a comparison of the balance sheets between two consecutive reporting periods explains the net changes in assets, liabilities and owners’ equity during the period, but not the investment and financing activities of an enterprise. The statement of net income and the statement of owners’ equity summarize the results of operation and the changes in owners’ equity account of an enterprise over a specified period of time, but do not provide information about cash flows generated from the enterprise’s operating activities for the period. Since the balance sheet, statements of net income and owners’ equity cannot directly and

systematically provide information about the enterprise's cash flows, therefore, a statement of cash flows is separately prepared and provided as a reference for financial statement users.

- (5) A statement of cash flows provides relevant information about the operating, investing, and financing activities of an enterprise during a specific period by reporting their effects on cash inflows and outflows.

Information relevant to an entity's cash flows enables the financial statement users to understand the enterprise's operating, investing, and financing policies and to assess its liquidity, financial flexibility, cash generating ability and risk. A statement of cash flows is also useful in comparing the present value of the future cash flows of different enterprises and eliminating the effects of using different accounting treatments among different entities for the same transactions.

- (6) A statement of cash flows, when used in conjunction with information provided by the rest of the financial statements, enables users to evaluate:
- (a) the enterprise's ability to generate positive future net cash flows;
 - (b) the enterprise's ability to meet its obligations and pay dividends, and its need for external financing;
 - (c) the reasons for any difference between net income and net cash flows from operating activities for the period; and
 - (d) the effects of both cash and non-cash investing and financing activities on an enterprise's financial position for the period.
- (7) Enterprises commonly invest idle cash in short-term, highly liquid investments; the liquidity of such investments is similar to cash. Therefore, a statement of cash flows should be prepared on the basis of cash and cash equivalents. Cash equivalents refer to short-term

and highly liquid investments that are both:

- (a) readily convertible to known amounts of cash; and
- (b) near maturity and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Common examples of cash equivalents are treasury bills, commercial papers and bank acceptances with maturity of three months or less from the original acquisition date.

- (8) In general, cash receipts and cash payments should be reported in gross rather than net amounts to more clearly present an enterprise's related activities. For example, reporting only the net change in property, plant and equipment without disclosing separately the acquisition and disposal of related assets, would not fairly present the investing activities of the enterprise.

However, for certain items, it is only necessary to present the net changes in related assets and liabilities to provide sufficient information; if gross amounts are presented, it may not provide a greater understanding of the operating, investing, and financing activities of the enterprise. For example:

- (a) trading financial assets (other than cash equivalents), loans receivable and loans payable, provided the turnover is quick, amounts are large, and with original maturity of three months or less; and
 - (b) demand deposits of a bank and customer accounts payable of a broker/dealer (because, in substance, the bank and the broker/dealer are holding or disbursing cash on behalf of their customers).
- (9) The following cash flows of a financial institution may be presented on a net basis:
- (a) cash receipts and payments for the acceptance and repayment

of deposits with a fixed maturity date;

- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
 - (c) cash advances and loans made to customers and the repayment of those advances and loans.
- (10) Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities, such as activities involved in producing and selling goods, or providing services. Cash flows from operating activities refer to cash inflows and outflows resulting from the transactions and other events that enter into the determination of net profit or loss.

Cash inflows from operating activities of an enterprise generally include:

- (a) cash receipts from the sale of goods and the rendering of services, including receipts from collection of accounts and notes receivable from customers arising from those sales;
- (b) cash receipts from collection of interest and dividends;
- (c) cash inflows from disposal of equity securities and debt instruments of other enterprises which are held for dealing or trading purposes;
- (d) cash inflows from contracts such as forwards, futures, swaps, options or other similar financial instruments when such contracts are held for dealing or trading purposes; and
- (e) all other cash receipts not resulting from investing or financing activities, such as litigation settlements; proceeds of insurance settlements for damaged inventory.

Cash outflows for operating activities of an enterprise generally include:

- (a) cash payments for goods and materials, including payments on accounts and notes payable to suppliers for those goods or materials;
- (b) cash payments for various operating costs and expenses;
- (c) cash payments for taxes, penalties and other fees;
- (d) cash payments for interest;
- (e) the cash outflows for acquisition of equity securities and debt instruments of other enterprises which are held for dealing or trading purposes.
- (f) the cash outflows for purchase of contracts such as forwards, futures, options, swaps or other similar financial instruments when such contracts are held for dealing or trading purposes.
- (g) all other cash payments not resulting from investing or financing activities, such as litigation settlements, contributions and merchandise refunds to customers.

Cash flows from operating activities include transactions and other items that affect the determination of net income, and facilitate an understanding of the differences between net income and net cash flows from operating activities for the current period. Therefore, cash payments of interest for financing activities, and cash receipts of interest and dividends from investing activities are all classified as cash flows from operating activities.

- (11) Investing activities are the acquisition or disposal of long-term assets and other investments not included in cash equivalents, such as providing and collecting loans, acquisition and disposal of debt instruments, equity securities, property, plant and equipment, natural resources, intangible assets and other investments, unrelated to operating activities.

Cash inflows from investing activities of an enterprise generally include:

- (a) cash receipts from collection of loans and disposal of debt instruments, other than receipts for debt instruments considered to be cash equivalents and those held for dealing or trading purposes;
- (b) cash proceeds from the disposal of equity securities, other than receipts for equity securities held for dealing or trading purposes;
- (c) cash receipts from the disposal of property, plant and equipment, including proceeds of insurance settlement for these assets.
- (d) cash receipts from futures contracts, forward contracts, swap contracts, option contracts and other similar financial instruments, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Cash outflows for investing activities commonly include:

- (a) cash payments for providing loans and for acquisition of debt instruments of other enterprises, other than payments for debt instruments considered to be cash equivalents and those held for dealing or trading purposes;
- (b) cash payments to acquire equity securities of other enterprises, other than payments for equity securities held for dealing or trading purposes);
- (c) cash payments to acquire property, plant and equipment.
- (d) cash payments for futures contracts, forward contracts, swap contracts, option contracts and other similar financial instruments, except when the contracts are held for dealing or

trading purposes, or the payments are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

- (12) Financing activities include investments from owners and distributions to owners; issuance and repayment of financing loans.

Cash inflows from financing activities of an enterprise generally include:

- (a) cash proceeds from capital increase by issuing new shares; and
- (b) cash proceeds from issuing loans.

Cash outflows for financing activities of an enterprise generally include:

- (a) cash payments of dividends, purchase of treasury shares or repatriation of capital;
- (b) cash repayments of amounts borrowed; and
- (c) cash repayments of principal amounts for extended loans.

- (13) A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and principal, the principal element is classified as a financing activity the interest element may be classified as an operating activity.

- (14) Operating revenues generate cash inflows upon cash collections. Operating costs and expenses generate cash outflows upon cash payments. The accounting periods in which revenues or expenses are recognized (on an accruals basis) can be different from the

accounting periods in which the related cash is received or paid (on a cash basis). As a result, to arrive at cash flows generated from operating activities, net income must be adjusted for revenue and expense items of a non-cash nature. There are two methods for the conversion of net income from accrual basis to cash basis:

- (a) *Direct method.* The direct method shows the various components of cash inflows and outflows resulting from operating activities in the current period, by directly adjusting each item relating to operating activities in the income statement from an accrual basis to a cash basis.
- (b) *Indirect method.* The indirect method adjusts the current period net income for revenue and expense items of a non-cash nature, for changes in the amounts of current assets and current liabilities accounts relating to profit and loss, and for gain and loss items relating to disposal of assets and repayment of debt, to arrive at net cash flows generated from operating activities in the current period.

III Accounting standards

- (15) The statement of cash flows is an integral part of an enterprise's financial statements and shall be presented it for each period for which the balance sheet, income statement and changes in owners' equity are presented.
- (16) A statement of cash flows shall report cash provided and used by operating, investing, and financing activities for a period, in a format according to: (a) operating activities; (b) investing activities; or (c) financing activities; and also report on the separate net cash flows and aggregate total of those three activities.
- (17) A statement of cash flows shall explain the change in cash during a specified period. The cash balance at the beginning and at the end of the period shown in the statement of cash flows shall be the same as that shown in the balance sheets.

- (18) Supplemental disclosures shall be presented for all investing and financing activities that affect the enterprise's financial position but do not directly affect its cash flows. For investing and financing activities that affect both cash and non-cash items, those affecting cash items shall be reported in the statement of cash flows, and the entire nature of the transaction shall also be disclosed.
- (19) When reporting cash flows from operating activities, enterprises shall select either the direct or indirect method. Enterprises that select the direct method shall, at a minimum, separately present the following operating cash receipts and payments:
 - (a) cash received for sale of goods;
 - (b) cash received for interest and dividends;
 - (c) cash received for other operating revenues;
 - (d) cash paid for inventory;
 - (e) cash paid for employee salaries;
 - (f) cash paid for interest expense;
 - (g) cash paid for income taxes; and
 - (h) cash paid for other operating expenses.

Enterprises may provide further detailed breakdown of the above-mentioned items according to its actual needs.

Enterprises using the indirect method for reporting cash flows from operating activities shall present supplemental disclosures on cash paid for interest expense and income tax expense in the statement of cash flows.

- (20) In reporting cash flows from operating activities, an enterprise shall

disclose the current period net income adjustments for revenue and expense items of a non-cash nature, the changes in the amounts of current assets and liabilities accounts relating to profit and loss, gain or loss items relating to disposal of assets and repayment of debt, to arrive at net cash flows generated from operating activities in the current period.

If the direct method is used, such disclosures shall be presented as an appendix. If the indirect method is used, such disclosures may be presented within the statement of cash flows or as an appendix.

- (21) Except for items described in paragraphs 8 and 9, cash inflows and outflows resulting from the operating activities of an enterprise shall be reported separately in the statement of cash flows.
- (22) 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 appropriate 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.
- (23) If buying or selling derivative financial instruments is for hedging an identifiable position, then the cash flows of such contract shall be classified in the same manner as the cash flows of the position being hedged.
- (24) The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be classified as investing activities and presented separately in the statement of cash flows.
- (25) For acquisition or disposal of subsidiaries or other business units, an enterprise shall disclose the following information as of the

acquisition or disposal date:

- (a) the total purchase or disposal consideration;
 - (b) the cash receipt or payment portion within the total consideration;
 - (c) the amount of cash balance in the subsidiary or business unit acquired or disposed of; and
 - (d) the amount of the assets and liabilities other than cash in the subsidiary or business unit acquired or disposal of, classified into major categories.
- (26) The cash flows associated with extraordinary items shall be classified by their nature, into operating, investing or financing activities and separately disclosed in the statement of cash flows.

IV Notes

- (27) This Statement supersedes Statement 4, "Statement of Changes in Financial Position", issued by the Board, and all references to the phrase "statement of changes in financial position" appearing in other Statements issued by the Board shall hereby be replaced by the phrase "statement of cash flows".
- (28) This Statement was issued on December 28, 1989. The first revision was made on December 9, 1999. The second revision was made on September 22, 2005. The provisions of the second revision shall be effective for financial statements with fiscal years beginning on or after January 1, 2006. Early adoption is not permitted.

The provisions of this Statement need not be applied to immaterial items.