

IAS 7: Disclosure of Interest in the Statement of Cash Flows

Extract, IFRS Discussion Group Report on Meeting – September 10, 2015

Paragraphs 31 and 32 of IAS 7 *Statement of Cash Flows* state:

“Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with IAS 23 *Borrowing Costs*.”

Issue: Do interest received and paid have to be disclosed on the face of the statement of cash flows?

View A – Interest received and paid must be disclosed on the face of the statement of cash flows.

Under this view, paragraphs 31 and 32 of IAS 7 are explicit in noting that cash flows from interest received and paid shall be disclosed separately and on the statement of cash flows.

The words “disclosing separately” and “disclosed in the statement of cash flows” can be interpreted to indicate disclosure of these items is required on the statement of cash flows as opposed to in the notes to the financial statements.

View B – Interest received and paid can be disclosed either on the face of the statement of cash flows or as part of the notes to the financial statements.

Under this view, presenting interest received and paid in the notes to the financial statements meets the requirements in paragraphs 31 and 32 of IAS 7. Proponents of this view argue that IAS 7 is not explicit regarding when items must be disclosed on the face of the statement of cash flows or when disclosure in the notes to the financial statements is sufficient.

The Group’s Discussion

One Group member supported that interest received and paid should be disclosed on the face of the statement of cash flows (View A). It is important for users to be able to identify the amount of interest paid and interest expense in order to perform calculations like the interest coverage ratio to assess an entity’s solvency. Another Group member noted there are two variations to View A in disclosing the amount of interest received and paid; either disclosing separately within the cash flow activities (i.e., as part of operating, investing or financing activities) or disclosing as supplementary information immediately after the statement of cash flows.

Most Group members thought it is acceptable and just as effective to disclose the amounts either on the face of the statement of cash flows or as part of the notes to the financial statements (View B) as

long as transparency is achieved. A few Group members observed the requirements in IAS 7 could be improved because the wording is not clear, particularly in considering borrowing costs because it would be difficult to comply when interest paid is part of both cash flows from operating and investing activities. Group members acknowledged that although there is diversity in practice in terms of how entities disclose cash flows from interest received and paid, the different approaches taken should not be a concern as long as the information is transparent in the financial statements for users to access.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the [audio clip](#)^{*}).

* Due to technical difficulties, the audio quality is poor and, at times, may not be audible.