STATEMENT OF CASH FLOWS

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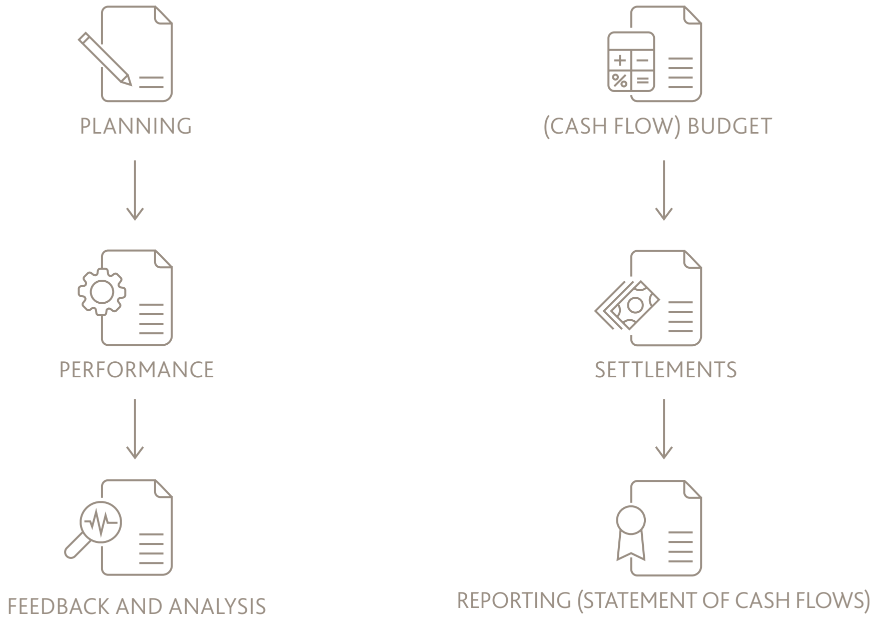
There are many reasons for taking an interest in how an entity generates and uses cash and cash equivalents. The balance of cash and cash equivalents along with cash receipts and payments determine an entity's present and future solvency. An entity needs cash to cover its operating expenses and to make investments and payments to its equity and debt investors.

To make forward-looking decisions, it is essential to assess an entity's ability to generate cash over a specific period of time, for example the next three months or a year. It is quite common that decisions and estimates do not realise as planned and plans need to be adjusted. An organisation (wishing to learn from its activities) provides feedback to its decision-making process so that the realisation of a planned outcome is measured and assessed before plans are adjusted or new ones made:



Historical cash flow information is used, among other things, as an indicator of the relevance and timeliness of the forecasts of future cash flows and in analysing the relationships between profitability, net cash flow and the impact of changing prices. Cash flow information also allows developing different cash flow assessment and comparison models, projections, and hypotheses.

The appropriateness, timeliness, and extent of (un)certainty of expected cash receipts and cash payments are categories relevant to cash flow measurement, budgeting, and planning. Appropriateness and timeliness mean, above all, the availability of existing cash and cash equivalents and future cash receipts for making the required payments on a timely basis. Expected cash receipts are usually more uncertain than payments that have been agreed in advance. The difference between cash receipts and payments is the (new) cash balance for the measurement period.

The cash flow budget (the plan) and the statement of cash flows (the actual outcome), which serve as financial tools, need not be comparable in structure. However, comparability would reduce the costs of comparing the planned and actual outcomes. The detailed format of presenting cash flows depends on the method chosen to report cash flows, and the nature of the entity's activities and reporting requirements. To reduce the resources spent on planning and interpreting the results, it is reasonable to align the planning and actual outcome measurement periods (e.g. comparisons are made once a month or once a quarter) and to harmonise the principles of preparing the financial tools used in planning and in measuring the actual outcomes (i.e. to use comparable accounting and reporting policies).

The following chapters and examples explore common special and borderline cases and, thus, help gain insights into the principles of preparing the statement of cash flows. Have a good read and enjoy!

Sulev Luiga

Author
Chairman of the Board and
Managing Partner of BDO Estonia

ADDITIONAL EXPLANATIONS FOR (INTERNATIONAL) USERS

Understanding of the following is easier if you know IFRS, particularly IAS 7.

Using the statement of cash flows with the rest of the financial statements provides an additional, receipts- and payments-based dimension to the otherwise accrual-based accounting information. The statement of cash flows reflects and substantiates how an entity's cash and cash equivalents balance (in the case of financial statements) and/or cash needs (in the case of a forecast) changed during the reporting period.

The statement of cash flows is one of the primary financial statements and, as such, part of the complete set of financial statements. Similarly to the income statement, it is prepared for a period, not as at a certain date as the balance sheet. In Estonia, all reporting entities that are not eligible to a presentation exemption have to prepare the statement of cash flows.

A cash flow statement prepared using the direct method is derived from accrual-based financial statements, particularly the balance sheet and the income statement, which in the following examples have been prepared using the formats set out in the Estonian Financial Reporting Standards. Thus, for international users, the order of liquidity of balance sheet line items may be opposite to what they are used to.

Under the Estonian Financial Reporting Standards, in a statement of cash flows prepared using the indirect method cash flows from operating activities are generally identified by adjusting operating profit (EBIT). International users may be used to another profit measure such as profit for the period (net profit).

The number and/or nature (plus or minus) of adjustments required depends on the profit that is adjusted to identify net cash flow from operating activities.

The receipts and payments recorded in the statement of cash flows are directly related to the (accrual-based) transactions recognised in the balance sheet and the income statement.

	Beginning of reporting period	End of reporting period
BALANCE SHEET (statement of financial position; illustrative figures)	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**169,430**	**162,610**
Other investments	220,471	164,821
Receivables and prepayments	252,833	163,570
Inventories	389,901	327,431
Biological assets	394,150	302,237
Total current assets:	**1,426,785**	**1,120,669**
Investments in subsidiaries and associates	87,540	67,339
Other investments	28,543	29,142
Receivables and prepayments	100,000	150,000
Investment property	1,666,434	1,454,632
Property, plant and equipment	2,434,551	2,656,773
Biological assets	611,299	621,431
Intangible assets	69,884	76,777
Total non-current assets:	**4,998,251**	**5,056,094**
TOTAL ASSETS	**6,425,036**	**6,176,763**
Borrowings	310,009	400,850
Payables and deferred income	433,961	456,321
Provisions	39,756	41,778
Government grants	0	19,326
Total current liabilities:	**783,726**	**918,275**
Borrowings	967,600	566,750
Payables and deferred income	24,222	0
Provisions	19,326	0
Government grants	0	8,567
Total non-current liabilities:	**1,011,148**	**575,317**
Share capital at par value	120,000	120,000
Unregistered share capital	0	60,000
Share premium	4,108,996	4,108,996
Own (treasury) shares (minus)	-12,000	-12,000
Statutory capital reserve (legal reserve)	12,000	12,000
Other reserves	24,000	24,000
Other equity	325	-432
Retained earnings (prior periods)	55,589	61,768
Profit for the period	321,252	308,839
Total equity:	**4,630,162**	**4,683,171**
TOTAL LIABILITIES AND EQUITY	**6,425,036**	**6,176,763**

Cash flow forecast

	ACTUAL CASH FLOW			*PROJECTED CASH FLOW*				
	2019	2020	2021	*2022*	*2023*	*2024*	*2025*	*2026*
Cash flow from A	14,333	15,642	14,890	*15,250*	*15,500*	*15,750*	*16,000*	*16,250*
Cash flow from B	-5,416	-3,902	-4,628	*-4,900*	*5,100*	*-5,300*	*-5,500*	*-5,700*
Cash flow from C	3,689	-1,376	-898	*500*	*-8,950*	*-1,325*	*-650*	*-850*
Change in cash and cash equivalents (total cash flow)	**12,606**	**10,364**	**9,364**	***10,850***	***11,650***	***9,125***	***9,850***	***9,700***

Cash flow statements are prepared, in particular, to:

- compare the cash and cash equivalents balances and cash flows for the reporting period with those for an earlier period (the reporting period versus an earlier period);
- compare the cash flows of an entity with those of other entities (for a comparable period) (entity A versus entity B);
- plan/budget/forecast/model future cash flows and cash and cash equivalents balances;
- compare the planned and actual cash flows (the planned versus the actual) to determine the need to adjust plans.

	Previous comparable period	Reporting period
INCOME STATEMENT (format 1; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	11,485,112	10,618,657
Other income	6,478	8,954
Changes in inventories of agricultural produce	-32,222	53,444
Gain/loss on biological assets	23,455	-85,233
Changes in inventories of finished goods and work in progress	-24,669	11,666
Work performed by the entity and capitalised	-645,668	-545,678
Goods, materials and services used	-5,223,442	-4,556,679
Other operating expenses	-2,011,997	-1,998,554
Personnel expenses	-2,395,443	-1,989,654
Depreciation, amortisation and impairment	-756,334	-845,678
Significant write-downs of current assets	-23,453	-55,432
Other expenses	-10,336	-11,934
OPERATING PROFIT (EBIT)	**391,481**	**603,879**
Profit/loss on investments in subsidiaries	-36,988	-25,098
Profit/loss on investments in associates	-10,500	-21,345
Profit/loss on other investments	57,456	-75,650
Interest income	9,898	8,989
Interest expense	-102,209	-77,408
Other finance income and costs	67,703	-42,760
Profit before tax	**376,841**	**370,607**
Income tax expense	-55,589	-61,768
Profit for the period	**321,252**	**308,839**

INCOME STATEMENT (format 2; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	11,485,112	10,618,657
Cost of sales	-7,509,052	-6,672,731
Gross profit	**3,976,060**	**3,945,926**
Gain/loss on biological assets	23,455	-85,233
Distribution costs	-1,386,222	-1,251,475
Administrative expenses	-2,217,955	-2,002,360
Other income	6,478	8,954
Other expenses	-10,336	-11,934
OPERATING PROFIT (EBIT)	**391,481**	**603,879**
Profit/loss on investments in subsidiaries	-36,988	-25,098
Profit/loss on investments in associates	-10,500	-21,345
Profit/loss on other investments	57,456	-75,650
Interest income	9,898	8,989
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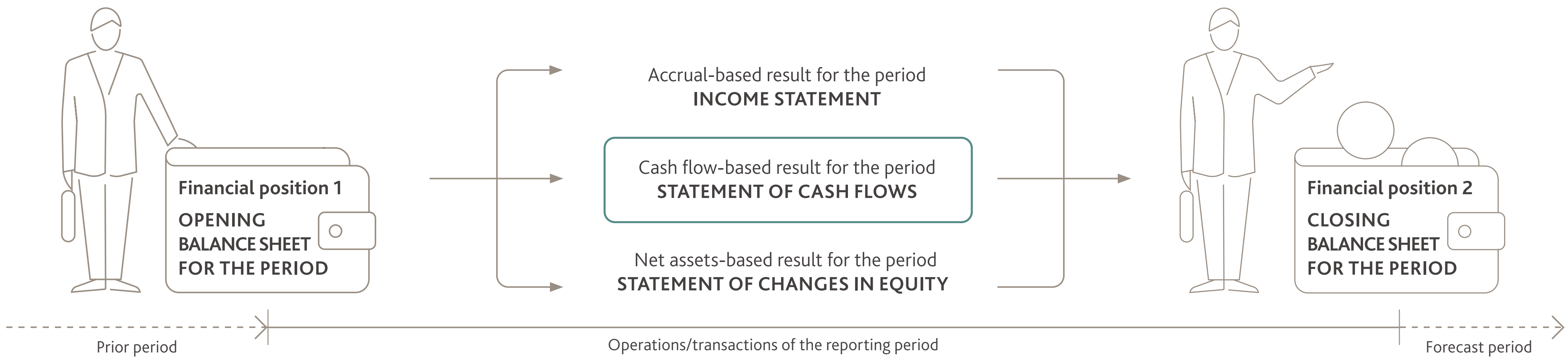


	Previous comparable period	Reporting period
STATEMENT OF CASH FLOWS (INDIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
Operating profit (EBIT)	391,481	603,879
Adjustments for:		
Depreciation, amortisation and impairment		
Gain/loss on sale of non-current assets		
Change in operating receivables and prepayments		
Change in inventories		
Change in operating payables and deferred income		
Interest paid		
Corporate income tax paid		
Government grants received		
Total cash flow from operating activities (Net cash from/used in operating activities)		
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets		
Proceeds from sale of property, plant and equipment and intangible assets		
Payments for biological assets		
Proceeds from sale of biological assets		
Payments for investment property		
Proceeds from sale of investment property		
Proceeds from government grants		
Payments for acquisition of subsidiaries		
Proceeds from sale of subsidiaries		
Payments for acquisition of investments in associates		
Proceeds from sale of investments in associates		
Payments for acquisition of other investments		
Proceeds from sale of other investments		
Loans provided		
Repayments of loans provided		
Interest received		
Dividends received		
Total cash flow from investing activities (Net cash from/used in investing activities)		
Cash flows from financing activities		
Proceeds from loans received		
Repayments of loans received		
Change in overdraft balance		
Payments of finance lease principal		
Proceeds from issue of shares		
Proceeds from sale of own (treasury) shares		
Payments for repurchase of own (treasury) shares		
Dividends paid		
Total cash flow from financing activities (Net cash from/used in financing activities)		
Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

		Previous comparable period	Reporting period
	STATEMENT OF CASH FLOWS (DIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
	Cash flows from operating activities		
	Receipts from customers		
	Payments to suppliers		
	Payments to employees		
	Payments to the state		
	Other receipts related to operating activities		
	Other payments related to operating activities		
	Interest paid		
	Corporate income tax paid		
=	**Total cash flow from operating activities (Net cash from/used in operating activities)**		
	Cash flows from investing activities		
	Payments for property, plant and equipment and intangible assets		
	Proceeds from sale of property, plant and equipment and intangible assets		
	Payments for biological assets		
	Proceeds from sale of biological assets		
	Payments for investment property		
	Proceeds from sale of investment property		
	Proceeds from government grants		
	Payments for acquisition of subsidiaries		
	Proceeds from sale of subsidiaries		
	Payments for acquisition of investments in associates		
	Proceeds from sale of investments in associates		
	Payments for acquisition of other investments		
	Proceeds from sale of other investments		
	Loans provided		
	Repayments of loans provided		
	Interest received		
	Dividends received		
=	**Total cash flow from investing activities (Net cash from/used in investing activities)**		
	Cash flows from financing activities		
	Proceeds from loans received		
	Repayments of loans received		
	Change in overdraft balance		
	Payments of finance lease principal		
	Proceeds from issue of shares		
	Proceeds from sale of own (treasury) shares		
	Payments for repurchase of own (treasury) shares		
	Dividends paid		
=	**Total cash flow from financing activities (Net cash from/used in financing activities)**		
=	**Total cash flow (Net cash flow)**		
=	**Cash and cash equivalents at beginning of period**		169,430
=	**Change in cash and cash equivalents (net change)**		
=	**Effect of changes in foreign exchange rates**		
=	**Cash and cash equivalents at end of period**	169,430	162,610

STATEMENTS OF CASH FLOWS

Preparers of the statement of cash flows have to answer two fundamental questions:

- How to define cash and cash equivalents because increases and decreases in cash and cash equivalents give rise to cash flows?
- How to structure the statement of cash flows, i.e. how many and which categories cash flows should be divided into?

In the statement of cash flows, cash receipts and cash payments are classified based on agreed criteria. The number of categories used is not mathematically relevant because the change in cash and cash equivalents, which results from receipts and payments of a period, does not depend on the number of parts the whole is divided into:

+/- Cash flow from A

+/- Cash flow from B

+/- ...

+/- Cash flow from Z

= Total cash flow = Change in cash and cash equivalents

The Estonian Financial Reporting Standards state similarly to IFRS and US GAAP that cash flows have to be classified into three categories:

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

The cash flow statements of entities involved in specific regulated activities (e.g. credit institutions, insurers, non-profit organisations, etc.) have to be prepared taking into account the nature of their business, i.e. what are their operating, investing, and financing activities.

It is possible that in a reporting period an entity does not conduct any activities of one or several of the above three categories or that the activities of one or several categories do not give rise to cash receipts and cash payments (although transactions occur and are recorded on an accrual basis). In both cases, the total value of the cash flows of the relevant category is zero.

THE DIRECT AND INDIRECT METHOD OF PREPARING THE STATEMENT OF CASH FLOWS

In a mathematically simplified sense, a cash flow statement that has been classified into three categories is an equation with four variables where the fourth variable can be found based on the three known variables.

+/- Cash flows from operating activities
+/- Cash flows from investing activities
+/- Cash flows from financing activities
= Total cash flow = Change in cash and cash equivalents

There are two allowed alternative formats for the statement of cash flows: the direct method statement of cash flows and the indirect method statement of cash flows.

Under the direct method, cash flows from operating activities are reported on a gross basis, whereby major classes of cash receipts and cash payments are disclosed as separate line items. Under the indirect method, cash flows from operating activities are reported on a net basis, whereby net operating cash flow is identified by adjusting the accrual-based result, i.e. cash receipts and cash payments related to operating activities are not presented separately similarly to the direct method.

Regardless of the method chosen for preparing the statement of cash flows, the reporting of cash flows from investing and financing activities does not differ – under both methods, cash flows from investing and financing activities are reported on a gross basis with a few netting exceptions.

OPERATING PROFIT = EBIT (earnings before interest and tax)

OPERATING PROFIT FROM OPERATING ACTIVITIES (excl. the effects of investing and financing activities) = EBITDA (earnings before interest and tax, depreciation and amortisation)

PERATING ACTIVITIES excluding INVESTING and FINANCING ACTIVITIES
Operating profit (EBIT)
+/- Gains and/or losses (expenses/income) from investing activities
+/- Gains and/or losses (expenses/income) from financing activities
= OPERATING PROFIT FROM OPERATING ACTIVITIES (EBITDA)
CHANGE IN OPERATING WORKING CAPITAL (excl. CASH AND CASH EQUIVALENTS) excl. the effects of INVESTING AND FINANCING ACTIVITIES
+/- Change in operating receivables
+/- Change in inventories
+/- Change in operating payables
= (Net) Cash flow from operating activities

STATEMENT OF CASH FLOWS (INDIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
Operating profit (EBIT)	391,481	603,879
Adjustments for:		
Depreciation, amortisation and impairment		
Gain/loss on sale of non-current assets		
Change in operating receivables and prepayments		
Change in inventories		
Change in operating payables and deferred income		
Interest paid		
Corporate income tax paid		
Government grants received		
Total cash flow from operating activities (Net cash from/used in operating activities)		
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets		
Proceeds from sale of property, plant and equipment and intangible assets		
Payments for biological assets		
Proceeds from sale of biological assets		
Payments for investment property		
Proceeds from sale of investment property		
Proceeds from government grants		
Payments for acquisition of subsidiaries		
Proceeds from sale of subsidiaries		
Payments for acquisition of investments in associates		
Proceeds from sale of investments in associates		
Payments for acquisition of other investments		
Proceeds from sale of other investments		
Loans provided		
Repayments of loans provided		
Interest received		
Dividends received		
Total cash flow from investing activities (Net cash from/used in investing activities)		
Cash flows from financing activities		
Proceeds from loans received		
Repayments of loans received		
Change in overdraft balance		
Payments of finance lease principal		
Proceeds from issue of shares		
Proceeds from sale of own (treasury) shares		
Payments for repurchase of own (treasury) shares		
Dividends paid		
Total cash flow from financing activities (Net cash from/used in financing activities)		
Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

STATEMENT OF CASH FLOWS (DIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
Receipts from customers		
Payments to suppliers		
Payments to employees		
Payments to the state		
Other receipts related to operating activities		
Other payments related to operating activities		
Interest paid		
Corporate income tax paid		
= **Total cash flow from operating activities (Net cash from/used in operating activities)**		
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets		
Proceeds from sale of property, plant and equipment and intangible assets		
Payments for biological assets		
Proceeds from sale of biological assets		
Payments for investment property		
Proceeds from sale of investment property		
Proceeds from government grants		
Payments for acquisition of subsidiaries		
Proceeds from sale of subsidiaries		
Payments for acquisition of investments in associates		
Proceeds from sale of investments in associates		
Payments for acquisition of other investments		
Proceeds from sale of other investments		
Loans provided		
Repayments of loans provided		
Interest received		
Dividends received		
= **Total cash flow from investing activities (Net cash from/used in investing activities)**		
Cash flows from financing activities		
Proceeds from loans received		
Repayments of loans received		
Change in overdraft balance		
Payments of finance lease principal		
Proceeds from issue of shares		
Proceeds from sale of own (treasury) shares		
Payments for repurchase of own (treasury) shares		
Dividends paid		
= **Total cash flow from financing activities (Net cash from/used in financing activities)**		
= **Total cash flow (Net cash flow)**		
= **Cash and cash equivalents at beginning of period**		169,430
= **Change in cash and cash equivalents (net change)**		
= **Effect of changes in foreign exchange rates**		
= **Cash and cash equivalents at end of period**	169,430	162,610

STATEMENT OF CASH FLOWS (INDIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
Operating profit (EBIT)	391,481	603,879
Adjustments for:		
Depreciation, amortisation and impairment		
Gain/loss on sale of non-current assets		
Change in operating receivables and prepayments		
Change in inventories		
Change in operating payables and deferred income		
Interest paid		
Corporate income tax paid		
Government grants received		
Total cash flow from operating activities (Net cash from/used in operating activities)		

CHANGE IN CASH AND CASH EQUIVALENTS, THAT IS TOTAL CASH FLOW

The change in cash and cash equivalents can generally be derived from an entity's balance sheet as the difference between the opening and closing balances of cash and cash equivalents. Relevant balances are also reported in the statement of cash flows along with the period's change in cash and cash equivalents, which allows checking the accuracy of total cash flow for the period.

Reporting the balance of, and the change in, cash and cash equivalents differs from the usual manner when:

- cash and cash equivalents include highly liquid securities that are subject to an insignificant risk of changes in value, which in the balance sheet are reported in *Other investments* (not in *Cash and cash equivalents*) and/or
- the balance sheet line item of *Cash and cash equivalents* includes assets that do not qualify as cash and cash equivalents (e.g. certain restricted long-term term deposits, balances of foreign currency, etc.).

Statement of cash flows

Indirect method +/- Cash flows from operating activities	Direct method +/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

Change in cash and cash equivalents or total cash

Change in cash and cash equivalents	**= net OCF + net ICF + net FCF**
+ receipts from operations - payments from operations	= net OCF (operating cash flow) (net cash flow from operating activities)
+ receipts from investing - payments from investing	= net ICF (investing cash flow) (net cash flow from investing activities)
+ receipts from financing - payments from financing	= net FCF (financing cash flow) (net cash flow from financing activities)

Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

CASH FLOWS, THAT IS CASH RECEIPTS AND CASH PAYMENTS

Cash flow can be defined as the change in cash and cash equivalents through an increase or decrease in (receipt or payment of) cash and cash equivalents. Activities that do not give rise to cash inflows or outflows (cash receipts and cash payments) may not be reported as cash flow in the statement of cash flows.

For accounting purposes (and, accordingly, in the accrual-based financial statements) cash flow does not arise when a sale or purchase is recorded but when cash is received or paid. For example, accounting entries make a distinction between accrual-based sales and receipts from customers:

- Sales transaction:

Debit	Trade receivables (balance sheet)	100	Sales = 100
Credit	Revenue (income statement)	100	

- Receipt of cash:

Debit	Cash and cash equivalents (balance sheet)	50	Receipt = 50
Credit	Trade receivables (balance sheet)	50	

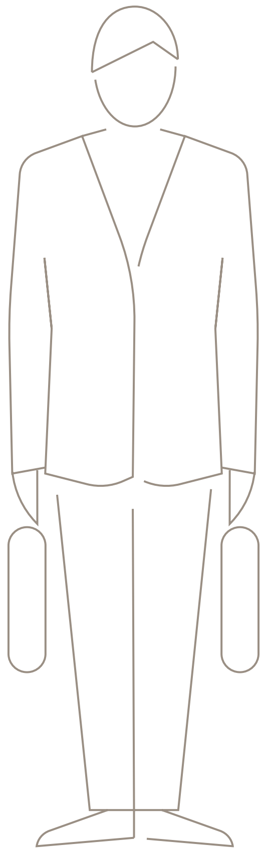
Transactions between components of cash and cash equivalents are not cash

Debit	Cash on hand (balance sheet)	75	Cash flow = 0
Credit	Current account at bank (balance sheet)	75	

NET:			GROSS:	
....			...	
Payments and receipts related to employees	**-70,000**		**Receipts from employees**	**50,000**
			Payments to employees	**-120,000**
....			...	
Total cash flow related to employees	-70,000	=	Total cash flow related to employees	-70,000

Statement of cash flows

Indirect method NET OCF	Direct method GROSS OCF
GROSS ICF	
GROSS FCF	
= Total cash flow = Change in cash and cash equivalents = Total net cash flow	



REPORTING CASH FLOWS ON A GROSS AND NET BASIS

Reporting cash flows on a net basis means the netting, i.e. offsetting of receipts and payments within a category of activities. As a result of netting, receipts and payments are not presented separately but in the net amount.

For example:

- When receipts from employees (+) and payments to employees (-) are presented on separate lines, cash flows related to employees are presented on a gross basis.
- When receipts from employees and payments to employees are presented in the total amount, cash flows related to employees are presented on a net basis.

On identifying operating cash flow by adjusting accrual-based profit, we get net operating cash flow whose receipts and payments cannot be viewed separately as they can under the direct method.

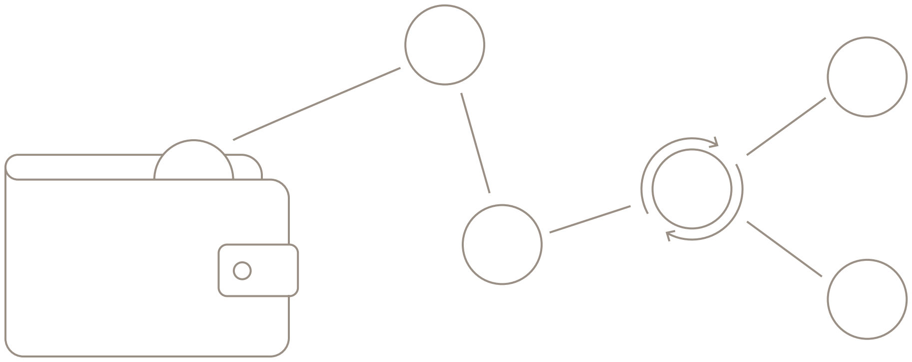
Cash flows from investing and financing activities (and operating activities under the direct method) can be reported on a net basis if:

- the receipts and/or payments (in terms of amounts) are individually insignificant and/or unrepresentative, and/or
- the cash flows reflect transactions decided by other parties rather than the activities of the reporting entity (e.g. payments made on behalf of other parties, etc.).

CASH AND CASH EQUIVALENTS

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	



From the respect of the cash flow statement, the definition of cash and cash equivalents is important for determining the amount of funds, i.e. the balance of cash and cash equivalents and for distinguishing cash flows as well as movements between the components of cash and cash equivalents.

Amounts defined as cash and cash equivalents are generally held to meet short-term monetary obligations, not to earn investment income or to meet some other purpose. Short-term cash management also involves investing available cash (on a short-term basis) in cash equivalents (such as units in money market funds, overnight deposits, etc).

In preparing its financial statements (incl. the statement of cash flows), an entity uses a single currency: the presentation currency, which is usually the parent company's functional currency. Foreign currency is *a priori* not cash but rather a cash equivalent, which may be included in cash, assuming it meets the required criteria. Accordingly, for the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits in current accounts at banks, both denominated in the presentation currency.

Cash equivalents is a term that extends beyond the issue of presentation currency and foreign currency. Cash equivalents are (highly) liquid investments that are readily convertible to known amounts of cash denominated in the presentation currency and which are subject to an insignificant risk of changes in value. An investment or amount of foreign currency that qualifies as a cash equivalent must be convertible to a specific amount of cash in the presentation currency within three months. Generally those are short-term instruments used in cash management.

In determining a cash equivalent, substance rules over form. Determining the borders between liquidity (a short-term other investment) and high liquidity (a cash equivalent) is based in estimates/perception and can be resolved differently under different reporting practices and even within an entity. Consistent with the liquidity requirement, a term deposit maturing within more than three months (and which cannot be cancelled early without sanctions that significantly reduce its value), recorded as cash at bank, may not qualify as a cash equivalent.

Entities that wish to demonstrate higher solvency and/or a larger amount of cash and cash equivalents, should be more creative in defining their cash equivalents. One option to influence the amount of cash and cash equivalents is the undrawn portion of overdraft facilities, which is generally not classified as a cash equivalent. If an overdraft facility is an integral part of cash management, which is usually characterised by frequent fluctuations in the balance of the demand deposit (current account) linked to the overdraft facility that alternates between being positive to overdrawn, it is allowed to classify the undrawn portion of the overdraft facility as a cash equivalent. In that case, cash flows from financing activities (proceeds from loans received) are increased by the undrawn portion of the overdraft facility.

EXAMPLE: What happens in the statement of cash flows when cash and cash equivalents are differently identified?

An entity's cash on hand balance is 105 (55 euros and 50 in foreign currency) at the beginning of the period and 180 (85 euros and 95 in foreign currency) at the end of the period; the corresponding balances for the current account (demand deposit) at bank are 210 euros and 110 euros and for the term deposit at bank 150 euros and 500 euros. The term deposit's term to maturity is four months but the deposit can be cancelled early. The exchange rate of the foreign currency (FC) against the presentation currency is constant. The presentation currency is the euro, there are no other relevant disclosures.

	Cash and cash equivalents 1		Cash and cash equivalents 2	
BALANCE SHEET	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**465**	**790**	**265**	**195**
Other investments	0	0	200	595
...	...	...	...	...
TOTAL ASSETS	465	790	465	790
...	...	...	...	...

Whereby:

	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021
Cash on hand: EUR	55	85	55	85
Cash on hand: FC	50	95		
Demand deposit (current account) EUR	210	110	210	110
Term deposit EUR	150	500		
Total cash and cash equivalents:	**465**	**790**	**265**	**195**
Change in cash and cash equivalents	**325**		**-70**	

	Cash and cash equivalents 1	Cash and cash equivalents 2
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
...	...	...
Total cash flow	325	-70
Cash and cash equivalents at beginning of period	**465**	**265**
Change in cash and cash equivalents	**325**	**-70**
Effect of changes in foreign exchange rates	0	0
Cash and cash equivalents at end of period	**465**	**195**

Commentary:

- Entities holding similar amounts of cash and cash equivalents and short-term other investments may define cash and cash equivalents differently and, therefore, their statements of cash flows may differ even though all other circumstances are comparable.

EXAMPLE: What happens in the statement of cash flows when the exchange rate of foreign currency cash equivalents changes against the presentation currency?

An entity's current account (demand deposit) balance at bank is USD 1,000. The exchange rates at the beginning and end of the period are EUR 1 = USD 1.11 and EUR 1 = USD 1.10, respectively. The foreign exchange gain on movements in the exchange rate is 8 euros (1000/1.10 – 1000/1.11). The presentation currency is the euro, there are no other relevant disclosures.

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**901**	**909**
...	...	...
TOTAL ASSETS	901	909
...	...	...

Whereby:

STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021
...	...
Total cash flow	0
Cash and cash equivalents at beginning of period	**901**
Change in cash and cash equivalents	0
Effect of changes in foreign exchange rates	**8**
Cash and cash equivalents at end of period	**909**

Commentary:

- The effect of changes in the exchange rates of cash equivalents, which is not treated as cash flow, is presented in the statement of cash flows outside cash flows, on a separate line and it describes (only) the change in cash and cash equivalents that arises from changes in foreign exchange rates.

EXAMPLE: The effect of a change in the exchange rate of foreign currency cash equivalents on operating profit (EBIT) and the indirect method statement of cash flows.

An entity's current account balance at bank amounts to USD 1,000. The exchange rates at the beginning and end of the period are EUR 1 = USD 1.11 and EUR 1 = USD 1.10, respectively. The foreign exchange gain on movements in the exchange rate is 8 euros (1000/1.10 – 1000/1.11). In the first case, the exchange gain is recognised within other income (affects operating profit or EBIT) and in the second case within finance income (does not affect operating profit or EBIT) in the income statement. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER First case (effect on EBIT):					
Debit	Cash and cash equivalents	8	Credit	Other income	8
GENERAL LEDGER Second case (no effect on EBIT):					
Debit	Cash and cash equivalents	8	Credit	Other finance income	8

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**901**	**909**
...	...	...
TOTAL ASSETS	901	909
...	...	...

	Effect on EBIT	No effect on EBIT
INCOME STATEMENT	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
...	...	...
Other income	8	0
...	...	...
OPERATING PROFIT (EBIT)	**8**	**0**
...	...	...
Other finance income and costs	0	8
...	...	...
Profit for the period	8	8

	Effect on EBIT		No effect on EBIT	
	DIRECT	INDIRECT	DIRECT	INDIRECT
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**8**		**0**
Adjustments for:				
...		...		...
Changes in foreign exchange rates of cash and cash equivalents		**-8**		**0**
...	...	...	...	...
Total cash flow from operating activities	**0**	**0**	**0**	**0**
...	...	...	...	...
Total cash flow from investing activities	0	0	0	0
...	...	...	...	...
Total cash flow from financing activities	0	0	0	0
Total cash flow	0	0	0	0
Cash and cash equivalents at beginning of period	901	901	901	901
Change in cash and cash equivalents	0	0	0	0
Effect of changes in foreign exchange rates	**8**	**8**	**8**	**8**
Cash and cash equivalents at end of period	909	909	909	909

Commentary:

- The treatment of the effect of changes in the foreign exchange rates of cash equivalents in the indirect method statement of cash flows depends on whether or not the gain or loss has affected EBIT.
- Gains and losses on changes in the exchange rates of operating, investing, and financing activities are not reported within changes in the exchange rates of cash and cash equivalents.

FOREIGN CURRENCY CASH EQUIVALENTS

An entity may be involved in reporting for foreign currencies in at least two ways: through conducting transactions in foreign currencies, including holding amounts of foreign currencies, or through investments in foreign entities that are consolidated line by line and whose usual presentation currency differs from that of the parent.

Cash on hand and demand deposits in sufficiently liquid foreign currencies are classified as cash equivalents or short-term other investments. Funds denominated in currencies that are less liquid, or exposed to significant exchange rate fluctuations may also be classified as receivables, inventories, or non-current assets (e.g. as long-term other investments) depending on their purpose of acquisition.

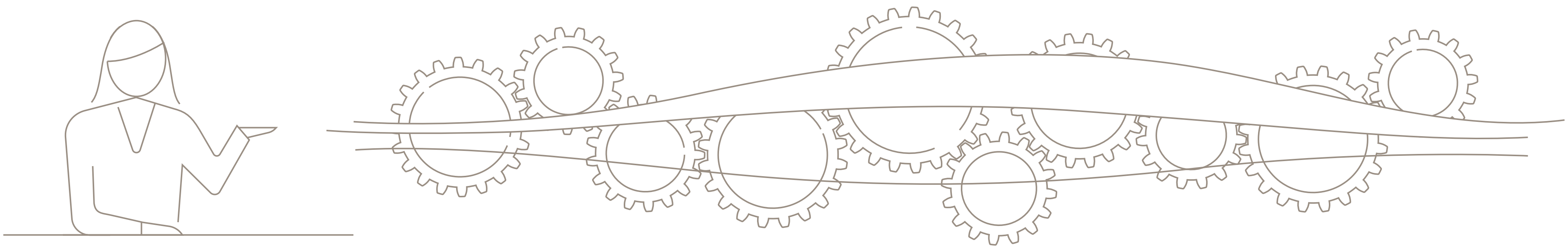
The use and, hence, the convertibility and liquidity of currencies and other investments differs by entity. If there is a significant risk that translation to the presentation currency will give rise to significant expenses or a significant change in value, the asset should be classified as a (short-term) other investment rather than a cash equivalent.

Unrealised gains and losses on the foreign exchange differences on foreign currency items classified as cash equivalents are not cash flows because translation does not give rise to receipts or payments.

Exchange differences may also arise in the line-by-line consolidation of foreign entities when the exchange rate of a subsidiary's functional currency against the presentation currency is not stable.

On the use of the indirect method, the treatment depends on the prior recognition of the foreign exchange differences: whether or not they have affected operating profit (EBIT). If the foreign exchange difference on a cash equivalent was recognised in (other) income or expenses in the income statement, operating profit (EBIT) has to be adjusted in reporting operating cash flows. However, if the exchange difference was recognised in finance income or costs, there is no need to adjust operating profit (EBIT) because the exchange difference has had zero effect on operating profit (EBIT).

An entity may also have recognised in the income statement exchange differences on the translation of foreign currency receivables and payables, etc. Exchange differences on the translation of operating, investing, and financing activities are not reported within the effect of changes in the foreign exchange rates of cash and cash equivalents in presenting the change in the balance of cash and cash equivalents.



CASH FLOWS FROM FINANCING ACTIVITIES, THAT IS CASH FLOWS FROM RAISING EQUITY OR DEBT CAPITAL

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

When the period's change in cash and cash equivalents has been determined, it is reasonable to begin identifying cash receipts and cash payments from financing activities:

- These, together with cash flows from investing activities, allow identifying net cash flow from operating activities without any complex calculations because all cash flows that are not cash flows from investing or financing activities are cash flows from operating activities.
- The number of financing transactions is usually smaller than that of operating transactions.

Under the classical treatment, financing activities are transactions that result in changes in the composition of the reporting entity's equity or borrowings (see also IFRS IAS 7.6) – these are transactions related to raising equity or debt capital. As a rule, such transactions affect the following balance sheet and income statement line items:

BALANCE SHEET (statement of financial position; illustrative figures)	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**169,430**	**162,610**
Other investments	220,471	164,821
Receivables and prepayments	252,833	163,570
Inventories	389,901	327,431
Biological assets	394,150	302,237
Total current assets:	1,426,785	1,120,669
Investments in subsidiaries and associates	87,540	67,339
Other investments	28,543	29,142
Receivables and prepayments	100,000	150,000
Investment property	1,666,434	1,454,632
Property, plant and equipment	2,434,551	2,656,773
Biological assets	611,299	621,431
Intangible assets	69,884	76,777
Total non-current assets:	4,998,251	5,056,094
TOTAL ASSETS	6,425,036	6,176,763
Borrowings	**310,009**	**400,850**
Payables and deferred income	433,961	456,321
Provisions	39,756	41,778
Government grants	0	19,326
Total current liabilities:	783,726	918,275
Borrowings	**967,600**	**566,750**
Payables and deferred income	24,222	0
Provisions	19,326	0
Government grants	0	8,567
Total non-current liabilities:	1,011,148	575,317
Share capital at par value	**120,000**	**120,000**
Unregistered share capital	**0**	**60,000**
Share premium	**4,108,996**	**4,108,996**
Own (treasury) shares (minus)	**-12,000**	**-12,000**
Statutory capital reserve (legal reserve)	**12,000**	**12,000**
Other reserves	**24,000**	**24,000**
Other equity	**325**	**-432**
Retained earnings (prior periods)	**55,589**	**61,768**
Profit for the period	321,252	308 ,839
Total equity:	4,630,162	4,683,171
TOTAL LIABILITIES AND EQUITY	6,425,036	6,176,763

In using either method (direct or indirect), the amount of the period's total cash flow from financing activities has to be the same.

Despite the method chosen for the preparation of the statement of cash flows, cash receipts and cash payments from financing activities are reported similarly: by presenting major classes of gross cash receipts and gross cash payments.

As an exception, cash receipts and cash payments may be reported on a net basis, i.e. offset:

- in reporting cash flows from the use of overdraft facilities;
- in reporting the cash flows managed by other entities; or
- when the effect of netting is insignificant and not netting the amounts would obscure reporting by the inclusion of insignificant detail.

The occurrence of financing activities is identified, first and foremost, through changes in (interest-bearing) borrowings and/or components of equity on the liabilities and equity side of the balance sheet. A further indicator of financing activities may be the recognition of finance costs (e.g. interest expense on loans or finance leases), financing contract fees (usually in other expenses or finance costs) or, for example, income tax expense on dividends.

Distinguishing financing activities from other activities is easier in the case of long-term debt and equity instruments and where the counterparty of the transaction is a financing institution (e.g. a credit institution).

INCOME STATEMENT (format 1; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	11,485,112	10,618,657
Other income	**6,478**	**8,954**
Changes in inventories of agricultural produce	-32,222	53,444
Gain/loss on biological assets	23,455	-85,233
Changes in inventories of finished goods and work in progress	-24,669	11,666
Work performed by the entity and capitalised	-645,668	-545,678
Goods, materials and services used	-5,223,442	-4,556,679
Other operating expenses	-2,011,997	-1,998,554
Personnel expenses	-2,395,443	-1,989,654
Depreciation, amortisation and impairment	-756,334	-845,678
Significant write-downs of current assets	-23,453	-55,432
Other expenses	**-10,336**	**-11,934**
Operating profit (EBIT)	391,481	603,879
Profit/loss on investments in subsidiaries	-36,988	-25,098
Profit/loss on investments in associates	-10,500	-21,345
Profit/loss on other investments	57,456	-75,650
Interest income	9,898	8,989
Interest expense	**-102,209**	**-77,408**
Other finance income and costs	**67,703**	**-42,760**
Profit before tax	376,841	370,607
Income tax expense	**-55,589**	**-61,768**
Profit for the period	321,252	308,839

INCOME STATEMENT (format 2; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	11,485,112	10,618,657
Cost of sales	-7,509,052	-6,672,731
Gross profit	3,976,060	3,945,926
Gain/loss on biological assets	23,455	-85,233
Distribution costs	-1,386,222	-1,251,475
Administrative expenses	-2,217,955	-2,002,360
Other income	**6,478**	**8,954**
Other expenses	**-10,336**	**-11 934**
OPERATING PROFIT (EBIT)	391,481	603,879
Profit/loss on investments in subsidiaries	-36,988	-25,098
Profit/loss on investments in associates	-10,500	-21,345
Profit/loss on other investments	57,456	-75,650
Interest income	9,898	8,989
Interest expense	**-102,209**	**-77,408**
Other finance income and costs	**67,703**	**-42,760**
Profit before tax	376,841	370,607
Income tax expense	**-55,589**	**-61,768**
Profit for the period	321,252	308 ,839

STATEMENT OF CASH FLOWS (INDIRECT METHOD):	1 Jan 2020- 31 Dec 2020	1 Jan 2021- 31 Dec 2021
Cash flows from operating activities		
...		
Cash flows from investing activities		
...		
Cash flows from financing activities		
Proceeds from loans received		
Repayments of loans received		
Change in overdraft balance		
Payments of finance lease principal		
Proceeds from issue of shares		
Proceeds from sale of own (treasury) shares		
Payments for repurchase of own (treasury) shares		
Dividends paid		
Total cash flow from financing activities		
Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

=

STATEMENT OF CASH FLOWS (DIRECT METHOD):	1 Jan 2020- 31 Dec 2020	1 Jan 2021- 31 Dec 2021
Cash flows from operating activities		
...		
Cash flows from investing activities		
...		
Cash flows from financing activities		
Proceeds from loans received		
Repayments of loans received		
Change in overdraft balance		
Payments of finance lease principal		
Proceeds from issue of shares		
Proceeds from sale of own (treasury) shares		
Payments for repurchase of own (treasury) shares		
Dividends paid		
Total cash flow from financing activities		
Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

EXAMPLE: As a rule, cash flows from financing activities are reported on a gross basis, not on a net basis. Receipts and payments related to financing activities are also cash flows from financing activities.
In the reporting period, an entity received a loan of 350,000 from a credit institution and made loan repayments of 530,000. Loan interest and fee payments made totalled 17,355 The presentation currency is the euro, there are no other relevant disclosures.

RIGHT:

STATEMENT OF CASH FLOWS	1 Jan 2020- 31 Dec 2020	1 Jan 2021- 31 Dec 2021
...	...	...
Cash flows from financing activities		
Proceeds from loans received	...	**350,000**
Repayments of loans received	...	**-530,000**
...	...	...
Loan interest and fees paid		-17,355
...	...	...
Total cash flow from financing activities	...	-197,355
...	...	...

WRONG:

STATEMENT OF CASH FLOWS	1 Jan 2020- 31 Dec 2020	1 Jan 2021- 31 Dec 2021
...		
Cash flows from financing activitiest		
...	...	...
Receipts and payments related to loans received	...	**-180,000**
...	...	...
Loan interest and fees paid		-17,355
...	...	...
Total cash flow from financing activities	...	-197,355
...		

EXAMPLE: What happens when the undrawn portion of an overdraft facility is classified as a cash equivalent? Receipts and payments related to the overdraft facility are reported on a net basis.
An entity obtained an overdraft facility with a limit of 250,000 from a bank in the previous financial year. At the beginning and end of the reporting period, the entity had drawn down 135,000 and 83,000 of the facility, respectively. During the period, the balance of the current account related to the overdraft facility fluctuated from being positive to being negative and vice versa due to receipts and payments. The presentation currency is the euro, there are no other relevant disclosures.

THE UNDRAWN CREDIT LIMIT IS NOT A CASH EQUIVALENT:

STATEMENT OF CASH FLOWS	1 Jan 2020- 31 Dec 2020	1 Jan 2021- 31 Dec 2021
...	...	...
Total cash flow from operating activities	...	...
...	...	...
Total cash flow from investing activities	...	...
Cash flows from financing activities		
...	...	...
Change in overdraft balance	**135,000**	**-52,000**
...	...	...
Total cash flow from financing activities	**135,000**	**-52,000**
RTotal cash flow (Net cash flow)	135,000	-52,000
Cash and cash equivalents at beginning of period	...	...
Change in cash and cash equivalents (net change)	135,000	-52,000
Effect of changes in foreign exchange rates	...	...
Cash and cash equivalents at end of period	...	...

THE UNDRAWN CREDIT LIMIT IS A CASH EQUIVALENT:

STATEMENT OF CASH FLOWS	1 Jan 2020- 31 Dec 2020	1 Jan 2021- 31 Dec 2021
...	...	...
Total cash flow from operating activities	...	...
...	...	...
Total cash flow from investing activities	...	...
Cash flows from financing activities		
...	...	...
Change in overdraft balance	**250,000**	**0**
...	...	...
Total cash flow from financing activities	**250,000**	**0**
Total cash flow (Net cash flow)	250,000	0
Cash and cash equivalents at beginning of period	...	...
Change in cash and cash equivalents (net change)	250,000	0
Effect of changes in foreign exchange rates	...	...
Cash and cash equivalents at end of period	...	...

Identifying the occurrence of financing activities through the existence of contractual interest may not always produce an adequate result because the (effective) interest rate may be "concealed" in other payments (e.g. fees, lease payments, credit sales prices, etc.). Thus, the results of financing transactions may be included in balance sheet and income statement line items together with the results of operating and investing activities.

Based on the definition, typical financing activities of an entity include:

- increasing or reducing equity (e.g. by issuing new shares, changing the par value of existing shares, increasing or reducing reserves within equity, distributing dividends, etc.);
- increasing or reducing borrowings (e.g. by taking loans, issuing bonds, acquiring assets with finance leases, converting payables into borrowings, etc.).

In reporting cash flows from financing activities, it is important to understand that if an activity has been classified as a financing activity, then usually any activities associated with that activity are also classified as financing activities. For example:

- If the receipt of a loan is a financing activity, then the settlements of cont- ract fees and principal and interest payments related to that loan are also financing activities.
- If contributions to share capital are financing activities, then repayments of those contributions are also financing activities.
- If the distribution of a dividend is a financing activity, then the payment of income tax on the dividend is also a financing activity.

In Estonia, several questionable principles have been generally tacitly accepted:

- For example, reporting income tax paid on dividends as a component of the (net) cash flow from operating activities. The IFRS presentation of corporate income tax in the statement of cash flows mainly applies to the taxation of accrual-based (net) income, whereby most of the income tax results from operating activities. In Estonia, the payment of corporate income tax is mostly quite unequivocally related to the distribution of dividends, which is a financing activity.
- For example, presenting interest paid as a component of the (net) cash flow from operating activities. Examples of the IFRS indirect method statement of cash flows are based on identifying the net cash flow from operating activities by adjusting net profit. When net cash flow from operating activities is found by adjusting net profit, adjustments for interest income and interest expense are essential because those items have affected the formation of net profit. By economic substance, interest payments on loans received constitute financing activities similarly to repayments of loan and finance lease principal. Since interest expense has not influenced operating profit (EBIT), it is not necessary to adjust operating profit (EBIT) for interest paid in reporting the net cash flow from operating activities under the indirect method.

All financing activities do not result in cash flows. Non-monetary financing activities (e.g. making equity contributions with assets that do not affect the balance of cash and cash equivalents, converting liabilities into equity, conducting capitalisation issues, recording changes to reserves reported in equity, reclassifying borrowings from non-current to current and vice versa, etc.) do not give rise to cash flows – receipts or payments of cash and cash equivalents and, accordingly, the changes resulting from those activities are not reported as cash flows in the statement of cash flows.

FINANCING ACTIVITIES AND THE INDIRECT METHOD STATEMENT OF CASH FLOWS

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

Identifying income and expenses (gains and losses) from financing activities that did or did not participate in the formation of operating profit (EBIT) is relevant to the preparation of the indirect method statement of cash flows where the (net) cash flow from operating activities is found by adjusting operating profit (EBIT). When another profit is adjusted, the effect on the profit formation must be assessed.

Income and expenses from financing activities usually "come after" operating profit (EBIT) in the income statement and therefore participate only in the formation of the next-level profits (e.g. profit before tax and profit for the period). Since the results of financing activities generally do not participate in the formation of operating profit in the income statement, adjustments to operating profit (EBIT) for income/gains or expenses/losses from financing activities in the preparation of the indirect method statement of cash flows are relatively rare.

When the operating profit (EBIT) recognised in the income statement has been influenced by financing activities, the net cash flow from operating activities in the indirect method statement of cash flows is found by adjusting operating profit (EBIT) to eliminate the effects of financing activities. The adjustments are made in the amounts (of the effects) recognised in the income statement but with the opposite sign (plus or minus).

When changes in the items recognised in the balance sheet are influenced by financing activities, the net cash flow from operating activities in the indirect method statement of cash flows is found by adjusting working capital (excl. cash and cash equivalents) to eliminate the effects of financing activities. The adjustments are made in the amounts of the effects on working capital recognised in the balance sheet but with the opposite sign (plus or minus).

OPERATING ACTIVITIES excluding INVESTING and FINANCING ACTIVITIES:
Operating profit (EBIT)
+/- Gains and/or losses (expenses/income) from financing activities
+/- Gains and/or losses (expenses/income) from investing activities
= OPERATING PROFIT FROM OPERATING ACTIVITIES (EBITDA)
CHANGE IN OPERATING WORKING CAPITAL (EXCL. CASH AND CASH EQUIVALENTS) excl. the effects of INVESTING AND FINANCING ACTIVITIES:
+/- Change in operating receivables
+/- Change in inventories
+/- Change in operating payables
= (Net) Cash flow from operating activities

In addition to cash receipts and cash payments related to financing activities, the size and composition of equity and borrowings also change in connection with translation (e.g. due to changes in foreign exchange rates), reclassification (e.g. the reclassification of borrowings from non-current to current and vice versa), etc. Based on the definition of cash flow, such changes do not constitute cash flow and cannot change the (net) cash flows from operating, investing, and financing activities in the statement of cash flows.

EXAMPLE: Under the indirect method, the effects of financing activities on operating profit (EBIT) and changes in working capital (excl. cash and cash equivalents) have to be eliminated.
An entity received a loan of 5,000 of which it repaid 1,200 in the reporting period. The contract fee of 150 was paid on the receipt of the loan. Interest expense accrued during the period amounted to 350, of which 300 was paid. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Cash and cash equivalents	5,000	*Credit*	Borrowings	5,000
Debit	Other expenses (contract fee)	150	*Credit*	Cash and cash equivalents	150
Debit	Borrowings	1,200	*Credit*	Cash and cash equivalents	1,200
Debit	Interest expense	350	*Credit*	Payables and deferred income (interest payable)	350
Debit	Payables and deferred income (interest payable)	300	*Credit*	Cash and cash equivalents	300

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
Other expenses	**-150**
OPERATING PROFIT (EBIT)	**-150**
...	...
Interest expense	**-350**
...	...
Profit before tax	-500
...	...
Profit for the period	-500

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**10,000**	**13,350**
...	...	...
TOTAL ASSETS	10,000	13,350
Borrowings	**0**	**3,800**
Payables and deferred income	**0**	**50**
...	...	...
Share capital at par value	10,000	10,000
...	...	...
Profit for the period	0	-500
TOTAL LIABILITIES AND EQUITY	10,000	13,350

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-150**
Adjustments for:		
...		...
Effects of financing activities on operating profit		**150**
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Total cash flow from investing activities	0	0
Proceeds from loans received	**5,000**	**5,000**
Repayments of loans received	**-1,200**	**-1,200**
...	...	...
Loan interest and contract fees paid	**-450**	**-450**
...	...	...
Total cash flow from financing activities	3,350	3 350
Total cash flow	3,350	3 350
Cash and cash equivalents at beginning of period	10,000	10,000
Change in cash and cash equivalents	3,350	3,350
...	...	...
Cash and cash equivalents at end of period	13,350	13,350

Operating profit (EBIT)	**-150**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = -(-150)	150
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (0-0)-(3,800+50-0)	-3 850
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(3,850-0))	3 850
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- In the indirect method statement of cash flows, the treatment of the effect of income and expenses (gains and losses) from financing activities depends on whether or not the items affected the formation of operating profit (EBIT).
- Since interest payable is related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of financing activities causes shifts between the results of operating and financing activities and the indirect method results will not reflect the actual cash flows from operating and financing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Cash flows from finance lease transactions

An entity acquired items of property, plant and equipment with a cost of 16,000 with a finance lease with a term of three years. In the reporting period, the entity made lease payments of 8,000. The next period's lease payments total 5,000 and those of the third year 3,000. Depreciation and impairment loss for the period was 1,600. Accrued interest expense for the period was 75, of which 35 was paid. The contract fee was 100 and it was paid during the period. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Property, plant and equipment	16,000	*Credit*	Short-term finance lease liabilities	13,000
			Credit	Long-term finance lease liabilities	3,000
Debit	Other expenses (contract fee)	100	*Credit*	Cash and cash equivalents	100
Debit	Short-term finance lease liabilities	8,000	*Credit*	Cash and cash equivalents	8,000
Debit	Depreciation, amortisation and impairment	1,600	*Credit*	Depreciation	1,600
Debit	Interest expense	75	*Credit*	Short-term payables and deferred income	75
Debit	Short-term payables and deferred income	35	*Credit*	Cash and cash equivalents	35

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
Depreciation, amortisation and impairment	**-1,600**
...	...
Other expenses	**-100**
OPERATING PROFIT (EBIT)	**-1 700**
...	...
Interest expense	**-75**
...	...
Profit before tax	-1,775
...	...
Profit for the period	-1,775

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**10,000**	**13,350**
...	...	...
Property, plant and equipment	**0**	**16,000**
Depreciation	**0**	**1,600**
...	...	...
TOTAL ASSETS	10,000	162,65
...	...	...
Short-term finance lease liabilities	**0**	**5,000**
...	...	...
Short-term payables and deferred income	**0**	**40**
...	...	...
Long-term finance lease liabilities	**0**	**3,000**
...	...	...
Share capital at par value	10,000	10,000
...	...	...
Profit for the period	0	-1,775
TOTAL LIABILITIES AND EQUITY	10,000	16,265

MENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-1,700**
Adjustments for:		
Depreciation, amortisation and impairment		**1,600**
...		...
Effects of financing activities on operating profit		**100**
Total cash flow from operating activities	0	0
...	...	...
Total cash flow from investing activities	0	0
...		
Payments of finance lease principal	**-8,000**	**-8,000**
...	...	...
Interest and contract fees paid	**-135**	**-135**
...	...	...
Total cash flow from financing activities	-8,135	-8,135
Total cash flow	-8,135	-8,135
Cash and cash equivalents at beginning of period	10,000	10,000
Change in cash and cash equivalents	-8,135	-8,135
...	...	...
Cash and cash equivalents at end of period	1,865	1,865

Operating profit (EBIT)	**-1,700**
Elimination of effect of investing activities on operating profit = -(-1,600)	1,600
Elimination of effect of financing activities on operating profit = -(-100)	100
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents = (0-0)-(5,000+40-0)	-5,040
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(5,040-0))	5,040
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Based on the definition, financing activities rather have no direct effect on inventories (goods and materials held for sale and production) recognised in the balance sheet (exceptions include non-monetary capital contributions or profit distributions consisting of inventories). The same cannot be said as unequivocally about receivables and prepayments classified as current assets and payables classified as current liabilities. Those items may include receivables and payables related to financing activities such as:

- a prepayment of income tax on dividends (recognised as tax receivable) or income tax payable on dividends (recognised as tax payable);
- receivables from owners or creditors resulting from payments related to equity or borrowings (loans received);
- payables to owners or creditors resulting from payments related to equity or borrowings, including dividend liabilities;
- loans received which are reported not as (interest-bearing) borrowings but as other liabilities;
- (accrued) interest liabilities, etc.

Financing activities may affect property, plant and equipment. For example, in the case of a (finance) lease where the acquisition of the asset is non-monetary and cash flows arise from lease payments.

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- Although the balance of property, plant and equipment changed, the example does not include cash flow from investing activities. The assets were acquired with a finance lease and finance lease payments are cash flows from financing activities.
- In the indirect method statement of cash flows, the treatment of the effect of income and expenses (gains and losses) from financing activities depends on whether or not the items have affected the formation of operating profit (EBIT).
- Since interest payable is related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of financing activities causes shifts between the results of operating and financing activities and the indirect method results will not reflect the actual cash flows from operating and financing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Reclassification of operating payables to borrowings

In the reporting period, an entity converted trade payables of 100,000 into a long-term loan. In connection with the reclassification, no payments were made. Accrued loan interest expense for the period was 6,680 but no payments were made. At the end of the period, the entity reclassified 30,000 of the loan from non-current to current and recognised an exchange difference of 5,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Short-term payables and deferred income	100,000	*Credit*	Long-term borrowings	100,000
Debit	Interest expense	6,680	*Credit*	Short-term payables and deferred income	6,680
Debit	Long-term borrowings	30,000	*Credit*	Short-term borrowings	30,000
Debit	Other finance income and costs	5,000	*Credit*	Short-term borrowings	1,500
			Credit	Long-term borrowings	3,500

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	**0**
...	...
Interest expense	**-6,680**
Other finance income and costs	**-5,000**
Profit before tax	-11,680
...	...
Profit for the period	-11,680

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**100,000**	**100,000**
...	...	...
TOTAL ASSETS	100,000	100,000
Short-term borrowings	**0**	**31,500**
...	...	...
Short-term payables and deferred income	**100,000**	**6,680**
...	...	...
Long-term borrowings	**0**	**73,500**
...	...	...
Profit for the period	0	-11,680
TOTAL LIABILITIES AND EQUITY	100,000	100,000

	DIRECT	INDIRECT
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		
...	...	...
Total cash flow from operating activities	**0**	**0**
...	...	...
Total cash flow from investing activities	**0**	**0**
...	...	...
Total cash flow from financing activities	**0**	**0**
Total cash flow	**0**	**0**
Cash and cash equivalents at beginning of period	100,000	100,000
Change in cash and cash equivalents	0	0
...	...	...
Cash and cash equivalents at end of period	100,000	100,000

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (0-0)-(31,500+6,680-100,000)	61,820
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(38,180-100,000))	-61,820
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- Although the balance of trade payables changed, this did not give rise to cash flow. Similarly, there was no cash flow on the incurrence of loan liabilities.
- Expenses from financing activities did not affect operating profit (EBIT). Thus, under the indirect method adjustments to operating profit are not necessary.
- Since the change in short-term payables and deferred income is related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of financing activities causes shifts between the results of operating and financing activities and the indirect method results will not reflect the actual cash flows from operating and financing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Monetary contributions to share capital

In the reporting period, owners decided to increase the par value of the shares by making a monetary contribution of 80,000, of which 20,000 was to be recognised as share premium (the difference between the capital contribution and growth in the par value of share capital). By the end of the period, owners had paid 40,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Receivables from shareholders	80,000	*Credit*	Share capital at par value	60,000
			Credit	Share premium	20,000
Debit	Cash and cash equivalents	40,000	*Credit*	Receivables from shareholders	40,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	**0**
...	...
Profit before tax	0
...	...
Profit for the period	0

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**25,000**	**65,000**
...	...	...
Receivables and prepayments	**0**	**40,000**
...	...	...
TOTAL ASSETS	25,000	105,000
...	...	...
Share capital at par value	**25,000**	**85,000**
Share premium	**0**	**20,000**
...	...	...
Profit for the period	0	0
TOTAL EQUITY AND LIABILITIES	25,000	105,000

	DIRECT	INDIRECT
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Proceeds from increase of share capital	**40,000**	**40,000**
...	...	...
Total cash flow from financing activities	40,000	40,000
Total cash flow	40,000	40,000
Cash and cash equivalents at beginning of period	25,000	25,000
Change in cash and cash equivalents	40,000	40,000
...	...	...
Cash and cash equivalents at end of period	65,000	65,000

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (40,000-0)-(0-0)	40,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) =-((40,000-0)-(0-0)) -4	-40,000
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant). Although short-term receivables changed, this was related to financing activities (amounts due for increase of share capital).
- Financing activities did not affect operating profit (EBIT). Therefore, adjustments are not necessary.
- Since the change in short-term receivables is related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of financing activities causes shifts between the results of operating and financing activities and the indirect method results will not reflect the actual cash flows from operating and financing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Non-monetary contributions to share capital

In the reporting period, owners decided to increase share capital by making an additional non-monetary contribution of 80,000, of which 20,000 was to be recognised as share premium. The contribution consisted of inventories of 35,000 and the offsetting of receivables and payables of 45,000 (owners' receivables from the entity against the entity's payables to owners). In addition, the owners decided to increase share capital with a capitalisation issue conducted using retained earnings of 15,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Profit for the period	17,500	*Credit*	Retained earnings (prior periods)	17,500
Debit	Receivables from shareholders	80,000	*Credit*	Share capital at par value	60,000
			Credit	Share premium	20,000
Debit	Inventories	35,000	*Credit*	Receivables from shareholders	35,000
Debit	Payables and deferred income	45,000	*Credit*	Receivables from shareholders	45,000
Debit	Retained earnings (prior periods)	15,000	*Credit*	Share capital at par value	15,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	**0**
...	...
Profit before tax	0
...	...
Profit for the period	0

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**25,000**	**25,000**
...	...	...
Receivables and prepayments	**0**	**0**
Inventories	**72,500**	**107,500**
...	...	...
TOTAL ASSETS	97,500	132,500
...	...	...
Payables and deferred income	**55,000**	**10,000**
...	...	...
Share capital at par value	**25,000**	**100,000**
Share premium	**0**	**20,000**
...	...	...
Retained earnings (prior periods)	**0**	**2,500**
Profit for the period	17,500	0
TOTAL LIABILITIES AND EQUITY	97,500	132,500

	DIRECT	INDIRECT
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	0	0
Cash and cash equivalents at beginning of period	25,000	25,000
Change in cash and cash equivalents	0	0
...	...	...
Cash and cash equivalents at end of period	25,000	25,000

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (107,500-72,500)-(10,000-55,000)	80,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((107,500-72,500)-(10,000 55,000))	-80,000
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant). Although short-term receivables and payables and inventories changed, this was related to financing activities (a non-monetary contribution to increase share capital).
- Financing activities did not affect operating profit (EBIT). Therefore, adjustments are not necessary.
- Since the change in inventories and short-term payables is related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of financing activities causes shifts between the results of operating and financing activities and the indirect method results will not reflect the actual cash flows from operating and financing activities.
- Despite the increase in equity, there are no cash flows from financing activities because the transactions were non-monetary (a non-monetary contribution and a capitalisation issue).
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Distribution of dividends to owners

The shareholders' general meeting decided to distribute a dividend of 80,000 (net) for the previous financial year. A dividend distribution gives rise to an income tax liability calculated as 20/80 of the net distribution. By the end of the reporting period, the entity had paid out 60,000 of the dividend. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Profit for the period	100,000	*Credit*	Retained earnings (prior periods)	100,000
Debit	Retained earnings (prior periods)	80,000	*Credit*	Payables and deferred income (dividends)	80,000
Debit	Income tax expense (in the income statement)	20,000	*Credit*	Payables and deferred income (income tax)	20,000
Debit	Payables and deferred income (dividends)	60,000	*Credit*	Cash and cash equivalents	60,000
Debit	Payables and deferred income (income tax))	15,000	*Credit*	Cash and cash equivalents	15,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	**0**
...	...
Profit before tax	0
Income tax expense	**-20,000**
Profit for the period	-20,000

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**110,000**	**35,000**
...	...	...
TOTAL ASSETS	110,000	35,000
...	...	...
Payables and deferred income	**0**	**25,000**
...	...	...
Retained earnings (prior periods)	**0**	**30,000**
Profit for the period	**110,000**	**-20,000**
TOTAL LIABILITIES AND EQUITY	110,000	35,000

	DIRECT	INDIRECT
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Dividends paid	**-60,000**	**-60,000**
Income tax paid on dividends	**-15,000**	**-15,000**
...	...	...
Total cash flow from financing activities	**-75,000**	**-75,000**
Total cash flow	-75,000	-75,000
Cash and cash equivalents at beginning of period	110,000	110,000
Change in cash and cash equivalents	-75,000	-75,000
...	...	...
Cash and cash equivalents at end of period	35,000	35,000

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (0-0)-(25,000-0)	-25,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(25,000-0))	25,000
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant). Although short-term payables changed, this was related to financing activities (a dividend distribution).
- Financing activities did not affect operating profit (EBIT). Therefore, adjustments are not necessary.
- Since the change in short-term payables is related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of financing activities causes shifts between the results of operating and financing activities and the indirect method results will not reflect the actual cash flows from operating and financing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

CASH FLOWS FROM INVESTING ACTIVITIES, THAT IS CASH FLOWS FROM TRANSACTIONS WITH NON-CURRENT ASSETS AND SHORT-TERM (OTHER) INVESTMENTS

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

When the period's change in cash and cash equivalents and financing cash flows have been identified, it is reasonable to identify cash receipts and cash payments from investing activities.

Despite the method chosen for the preparation of the statement of cash flows, cash receipts and cash payments from investing activities are reported similarly: by presenting major classes of gross cash receipts and gross cash payments. As an exception, cash receipts and cash payments may be reported on a net basis, i.e. offset:

- in reporting cash flows from the use of overdraft facilities provided;
- in reporting the cash flows managed by other entities; or
- when the effect of netting is insignificant and not netting the amounts would obscure reporting by the inclusion of insignificant detail.

Under IAS 7, investing activities are the acquisition and disposal of non-current assets and short-term other investments. As a rule, such transactions affect the following balance sheet and income statement line items:

BALANCE SHEET (statement of financial position; illustrative figures)	31. Dec 2020	31 Dec 2021
Cash and cash equivalents	**169,430**	**162,610**
Other investments	**220,471**	**164,821**
Receivables and prepayments	252,833	163,570
Inventories	389,901	327,431
Biological assets	394,150	302,237
Total current assets:	1,426,785	1,120,669
Investments in subsidiaries and associates	**87,540**	**67,339**
Other investments	**28,543**	**29,142**
Receivables and prepayments	**100,000**	**150 000**
Investment property	**1,666,434**	**1,454,632**
Property, plant and equipment	**2,434,551**	**2,656,773**
Biological assets	**611,299**	**621,431**
Intangible assets	**69,884**	**76,777**
Total non-current assets:	**4,998,251**	**5,056,094**
TOTAL ASSETS	6,425,036	6,176,763
Borrowings	310,009	400,850
Payables and deferred income	433,961	456,321
Provisions	39,756	41,778
Government grants		19,326
Total current liabilities:	783,726	918,275
Borrowings	967,600	566,750
Payables and deferred income	24,222	0
Provisions	19,326	0
Government grants	0	8,567
Total non-current liabilities:	1,011,148	575,317
Share capital at par value	120,000	120,000
Unregistered share capital	0	60,000
Share premium	4,108,996	4,108,996
Own (treasury) shares (minus)	-12,000	-12,000
Statutory capital reserve (legal reserve)	12,000	12,000
Other reserves	24,000	24,000
Other equity	325	-432
Retained earnings (prior periods)	55,589	61,768
Profit for the period	321,252	308,839
Total equity:	4,630,162	4,683,171
TOTAL LIABILITIES AND EQUITY	6,425,036	6,176,763

Since investing activities are related to non-current assets and short-term other investments, the occurrence of investing activities is identified, first and foremost, through changes in relevant classes/line items on the assets side of the balance sheet. Thereby, all non-current asset classes are treated as non-current assets:

- investments in subsidiaries and associates;
- other investments;
- (long-term) receivables and prepayments;
- investment property;
- property, plant and equipment;
- biological assets;
- intangible assets.

For the purposes of the statement of cash flows, investing activities relate to non-current assets and (only) those short-term other investments (which are recognised as current assets) that are not classified as cash equivalents. Acquisitions and disposals of investments classified as cash equivalents do not give rise to cash flow and constitute movements between the components of cash and cash equivalents.

INCOME STATEMENT (format 1; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	11,485,112	10,618,657
Other income	**6,478**	**8,954**
Changes in inventories of agricultural produce	-32,222	53,444
Gain/loss on biological assets	23,455	-85,233
Changes in inventories of finished goods and work in progress	-24,669	11,666
Work performed by the entity and capitalised	**-645,668**	**-545,678**
Goods, materials and services used	-5,223,442	-4,556,679
Other operating expenses	-2,011,997	-1,998,554
Personnel expenses	-2,395,443	-1,989,654
Depreciation, amortisation and impairment	**-756,334**	**-845,678**
Significant write-downs of current assets	-23,453	-55,432
Other expenses	**-10,336**	**-11,934**
OPERATING PROFIT (EBIT)	**391,481**	**603,879**
Profit/loss on investments in subsidiaries	**-36,988**	**-25,098**
Profit/loss on investments in associates	**-10,500**	**-21,345**
Profit/loss on other investments	**57,456**	**-75,650**
Interest income	**9,898**	**8,989**
Interest expense	-102,209	-77,408
Other finance income and costs	**67,703**	**-42,760**
Profit before tax	376,841	370,607
Income tax expense	-55,589	-61,768
Profit for the period	321,252	308,839

INCOME STATEMENT (format 2; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	11,485,112	10,618,657
Cost of sales	-7,509,052	-6,672,731
Gross profit	3,976,060	3,945,926
Gain/loss on biological assets	23,455	-85,233
Distribution costs	-1,386,222	-1,251,475
Administrative expenses	-2,217,955	-2,002,360
Other income	**6,478**	**8,954**
Other expenses	**-10,336**	**-11,934**
OPERATING PROFIT (EBIT)	**391,481**	**603,879**
Profit/loss on investments in subsidiaries	**-36,988**	**-25,098**
Profit/loss on investments in associates	**-10,500**	**-21,345**
Profit/loss on other investments	**57,456**	**-75,650**
Interest income	**9,898**	**8,989**
Interest expense	-102,209	-77,408
Other finance income and costs	**67,703**	**-42,760**
Profit before tax	376,841	370,607
Income tax expense	-55,589	-61,768
Profit for the period	321,252	308,839

STATEMENT OF CASH FLOWS (INDIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
...	...	...
Total cash flow from operating activities (Net cash from/used in operating activities)		
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets		
Proceeds from sale of property, plant and equipment and intangible assets		
Payments for biological assets		
Proceeds from sale of biological assets		
Payments for investment property		
Proceeds from sale of investment property		
Proceeds from government grants		
Payments for acquisition of subsidiaries		
Proceeds from sale of subsidiaries		
Payments for acquisition of investments in associates		
Proceeds from sale of investments in associates		
Payments for acquisition of other investments		
Proceeds from sale of other investments		
Loans provided		
Repayments of loans provided		
Interest received		
Dividends received		
Total cash flow from investing activities (Net cash from/used in investing activities)		
Cash flows from financing activities		
...	...	...
Total cash flow from financing activities (Net cash from/used in financing activities)		
Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

STATEMENT OF CASH FLOWS (DIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
...	...	...
Total cash flow from operating activities (Net cash from/used in operating activities)		
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets		
Proceeds from sale of property, plant and equipment and intangible assets		
Payments for biological assets		
Proceeds from sale of biological assets		
Payments for investment propertyl		
Proceeds from sale of investment property		
Proceeds from government grants		
Payments for acquisition of subsidiaries		
Proceeds from sale of subsidiaries		
Payments for acquisition of investments in associates		
Proceeds from sale of investments in associates		
Payments for acquisition of other investments		
Proceeds from sale of other investments		
Loans provided		
Repayments of loans provided		
Interest received		
Dividends received		
Total cash flow from investing activities (Net cash from/used in investing activities)		
Cash flows from financing activities		
...	...	...
Total cash flow from financing activities Net cash from/used in financing activities)		
Total cash flow (Net cash flow)		
Cash and cash equivalents at beginning of period		169,430
Change in cash and cash equivalents (net change)		
Effect of changes in foreign exchange rates		
Cash and cash equivalents at end of period	169,430	162,610

EXAMPLE: As a rule, cash flows from investing activities are reported on a gross basis, not on a net basis. Receipts and payments related to investing activities are also cash flows from investing activities. *In the reporting period, an entity provided loans of 175,000 and received repayments of previously provided loans of 225,000. Interest received on loans provided amounted to 12,500. The presentation currency is the euro, there are no other relevant disclosures.*

RIGHT:

STATEMENT OF CASH FLOWS	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
...	...	...
Cash flows from investing activities		
...	...	...
Loans provided	...	**-175,000**
Repayments of loans provided	...	**225,000**
Interest received	...	12,500
...	...	...
Total cash flow from investing activities (Net cash from/used in investing activities)	...	62,500
...	...	...

WRONG:

STATEMENT OF CASH FLOWS	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
...	...	...
Cash flows from investing activities		
...	...	...
Receipts and payments related to loans provided	...	**50,000**
...	...	...
Interest received	...	12,500
...	...	...
Total cash flow from investing activities (Net cash from/used in investing activities)	...	62,500
...	...	...

EXAMPLE: What happens when highly liquid short-term other investments are classified as cash equivalents? *In the reporting period, an entity acquired highly liquid debt securities with an insignificant risk of changes in value for 525,000. During the period, the entity disposed of debt securities of 225,000 to cover current payments. The presentation currency is the euro, there are no other relevant disclosures.*

OTHER INVESTMENTS ARE NOT CLASSIFIED AS CASH EQUIVALENTS:

STATEMENT OF CASH FLOWS	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
...	...	...
Total cash flow from operating activities (Net cash from/used in operating activities)	...	...
Cash flows from investing activities		
...	...	...
Payments for acquisition of other investments	...	**-525,000**
Proceeds from sale of other investments	...	**225,000**
...	...	...
Total cash flow from investing activities (Net cash from/used in investing activities)	...	-300,000
Cash flows from financing activities		
...	...	...
Total cash flow from financing activities (Net cash from/used in financing activities)	...	0
Total cash flow (Net cash flow)	...	-300,000
Cash and cash equivalents at beginning of period	...	...
Change in cash and cash equivalents (net change)	...	-300,000
Effect of changes in foreign exchange rates	...	...
Cash and cash equivalents at end of period	...	...

OTHER INVESTMENTS ARE CLASSIFIED AS CASH EQUIVALENTS:

STATEMENT OF CASH FLOWS	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
...	...	...
Total cash flow from operating activities (Net cash from/used in operating activities)	...	...
Cash flows from investing activities		
...	...	...
Payments for acquisition of other investments	...	**0**
Proceeds from sale of other investments	...	**0**
...	...	...
Total cash flow from investing activities (Net cash from/used in investing activities)	...	0
Cash flows from financing activities		
...	...	...
Total cash flow from financing activities (Net cash from/used in financing activities)	...	0
Total cash flow (Net cash flow)	...	0
Cash and cash equivalents at beginning of period	...	...
Change in cash and cash equivalents (net change)	...	0
Effect of changes in foreign exchange rates	...	...
Cash and cash equivalents at end of period	...	...

Typical investing activities of an entity include:

- increasing or reducing the quantity and/or value of non-current assets (incl. acquisitions and disposals of new items of property, plant and equipment and intangible assets, changes in the value of non-current assets, long-term investments in the debt or equity instruments of other entities, partial or full disposals of such investments, acquisitions and disposals of long-term biological assets and investment property, provision of short- and long-term loans to other entities, etc);
- increasing or reducing the quantity and/or value of short-term other investments (incl. acquisitions and disposals of shares or debt securities, changes in the value of short-term investments, provision of loans, disposals of assets through finance leases, etc).

Similarly to financing activities, in reporting cash flows from investing activities the general rule is that if an activity has been classified as an investing activity, then any activities associated with that activity are also classified as investing activities. For example:

- If the acquisition or disposal (a gain or loss on disposal) of a non-current asset is an investing activity, then the write-up, write-down and wear and tear of that asset is also a financing activity.
- If the provision of a loan is an investing activity, then the contract fees, repayments of the principal, and interest payments received in respect of that loan are also investing activities;
- If investing in subsidiaries, associates or other entities is an investing activity, then the dividends received from the investees are also investing activities, etc.

All investing activities do not result in cash flows (receipts and payments of cash and cash equivalents) even if the results of the activities have affected those financial statements that are prepared on an accrual basis (the balance sheet and the income statement): examples include acquisitions of non-current assets with finance leases and non-monetary contributions to share capital (made using non-current assets). The effects of such non-monetary acquisitions (or disposals) have to be excluded from the statement of cash flows.

Other indicators of investing activities may be (other) income and expenses recognised in the income statement (e.g. expenses on self-constructed non-current assets; depreciation, amortisation and impairment; gains and losses on the disposal of non-current assets) and finance income and costs (e.g. profits and losses on investments in subsidiaries and associates, interest income, dividend income, etc.). In the income statement, the effects of investing activities may be "mixed" into the results of operating (and financing) activities. For example, depreciation and impairment may be recognised within the cost of sales, distribution costs, and administrative expenses. Thus, other significant sources of information (incl. in the case of income statement format 2) are notes to the financial statements.

In a consolidated statement of cash flows, the cash flow from the acquisition or disposal of a subsidiary is reported as a cash flow from investing activities, which:

- on the acquisition of an investment is the difference between cash paid and cash and cash equivalents acquired at the date of acquisition; and
- on the disposal of an investment is the difference between cash received and cash and cash equivalents disposed of at the date of disposal.

In preparing a consolidated indirect method statement of cash flows, it is important to exclude, in the case of acquisitions of subsidiaries during the period, the effect on the change in working capital before the acquisition and, in the case of disposals, the effect on the change in working capital after the disposal. The effect on the change in working capital has to be accounted for from the date of acquisition or until the date of disposal.

INVESTING ACTIVITIES AND THE INDIRECT METHOD STATEMENT OF CASH FLOWS

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

Identifying income and expenses (gains and losses) from investing activities that did or did not participate in the formation of operating profit (EBIT) is relevant to the preparation of the indirect method statement of cash flows where the (net) cash flow from operating activities is found by adjusting operating profit (EBIT). When another profit is adjusted, the effect on the profit formation must be assessed.

OPERATING ACTIVITIES excluding INVESTING and FINANCING ACTIVITIES:
Operating profit (EBIT)
+/- Gains and/or losses (expenses/income) from investing activities
+/- Gains/and or losses (expenses/income) from financing activities
= OPERATING PROFIT FROM OPERATING ACTIVITIES (EBITDA)
CHANGE IN OPERATING WORKING CAPITAL (EXCL. CASH AND CASH EQUIVALENTS) excl. the effects of INVESTING and FINANCING ACTIVITIES
+/- Change in operating receivables
+/- Change in inventories
+/- Change in operating payables
= (Net) Cash flow from operating activities

Income and expenses from investing activities may "come before" operating profit (EBIT) in the income statement and, thus, may affect its formation (the amount of operating profit), for example through:

- depreciation, amortisation and impairment;
- gains and losses of the disposal of non-current assets;
- income or expenses from government grants, etc;

or they may "come after" operating profit, for example through:

- income or expenses on investments in subsidiaries (under the equity method);
- income or expenses on investments in associates (under the equity method);
- income or expenses on other equity investments;
- interest income;
- other finance income, etc;

and thus participate in the formation of next-level profits (e.g. profit before tax or profit for the period).

The balance sheet items of current assets and current liabilities may include receivables and payables related to investing activities such as:

- receivables for the disposal and (short-term) payables for the acquisition of non-current assets (in the broader sense of the term);
- short-term prepayments for the acquisition of non-current assets;
- short-term portions of long-term loans provided;
- dividends receivable on other investments;
- interest receivable on loans provided and other investments, etc.

When the operating profit (EBIT) recognised in the income statement has been influenced by investing activities, the net cash flow from operating activities in the indirect method statement of cash flows is found by adjusting operating profit (EBIT) to eliminate the effects of investing activities. The adjustments are made in the amounts (of the effects) recognised in the income statement but with the opposite sign (plus or minus).

When changes in the items recognised in the balance sheet have been influenced by investing activities, the net cash flow from operating activities in the indirect method statement of cash flows is found by adjusting working capital (excl. cash and cash equivalents) to eliminate the effects of investing activities. The adjustments are made in the amounts (of the effects on working capital) recognised in the balance sheet but with the opposite sign (plus or minus).

When investing activities have not affected operating profit (even though they have affected profit for the period), it is not necessary to make any adjustment(s) in finding (net) cash flow from operating activities.

In addition to cash receipts and cash payments related to investing activities, the size and composition of non-current assets and short-term (other) investments also change in connection with translation (e.g. due to changes in foreign exchange rates), value adjustment (write-ups and write-downs), reclassification (e.g. the reclassification of loans provided from non-current to current and vice versa), etc. Based on the definition of cash flow, such changes do not constitute cash flow and cannot change the (net) cash flows from operating, investing, and financing activities in the statement of cash flows.

EXAMPLE: Under the indirect method, the effects of investing activities on operating profit (EBIT) and changes in working capital (excl. cash and cash equivalents) have to be eliminated.
An entity acquired an investment property of 1,000,000, of which 700,000 was paid by the end of the reporting period. At the end of the period, the investment property was remeasured to fair value of 1,050,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Investment property	1,000,000	*Credit*	Payables to suppliers	1,000,000
Debit	Trade payables	700,000	*Credit*	Cash and cash equivalents	700,000
Debit	Investment property	1,200	*Credit*	Other income	50,000

INCOME STATEMENT		1 Jan 2021-31 Dec 2021
...		...
Other income		**50,000**
	...	**...**
	OPETARATING PROFIT (EBIT)	**50,000**
...		...
	Profit before tax	50,000
	...	...
	Profit for the period	50,000

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**50,000**
Adjustments for:		
...		...
Effects of investing activities on operating profit		**-50,000**
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Payments for investment property	**-700,000**	**-700,000**
...	...	...
Total cash flow from investing activities	-700,000	-700,000
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	-700,000	-700,000
Cash and cash equivalents at beginning of period	800,000	800,000
Change in cash and cash equivalents	-700,000	-700,000
...	...	...
Cash and cash equivalents at end of period	100,000	100,000

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**800,000**	**100,000**
...	...	...
Investment property	**0**	**1,050,000**
...	...	...
TOTAL ASSETS	800,000	1,150,000
...	...	...
Payables and deferred income	**0**	**300,000**
...	...	...
Share capital at par value	800,000	800,000
...	...	...
Profit for the period	0	50,000
TOTAL LIABILITIES AND EQUITY	800,000	1,150,000

Operating profit (EBIT)	**50,000**
Elimination of effect of investing activities on operating profit = -(50,000)	-50,000
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (0-0)-(300,000-0)	-300,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents = -((0-0)-(300,000-0))	300,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- In the indirect method statement of cash flows, the treatment of the effect of income and expenses (gains and losses) from investing activities depends on whether or not the items have affected the formation of operating profit (EBIT).
- Since trade payables are related to investing activities, the effect of investing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of investing activities causes shifts between the results of operating and investing activities and the indirect method results will not reflect the actual cash flows from operating and investing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Non-current assets and cash flows from investing activities

In the reporting period, an entity acquired property, plant and equipment in three different ways: assets of 100,000 through finance leases whereby the year-end lease liability to the lessor was 50,000; assets of 90,000 through purchase transactions whereby the year-end payables to suppliers were 45,000 and assets of 40,000 through a non-monetary contribution to share capital.
Depreciation, amortisation and impairment for the period was 65,000, including the write-off of damaged assets of 35,000.
Finance lease interest and contract fees totalled 5,500. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

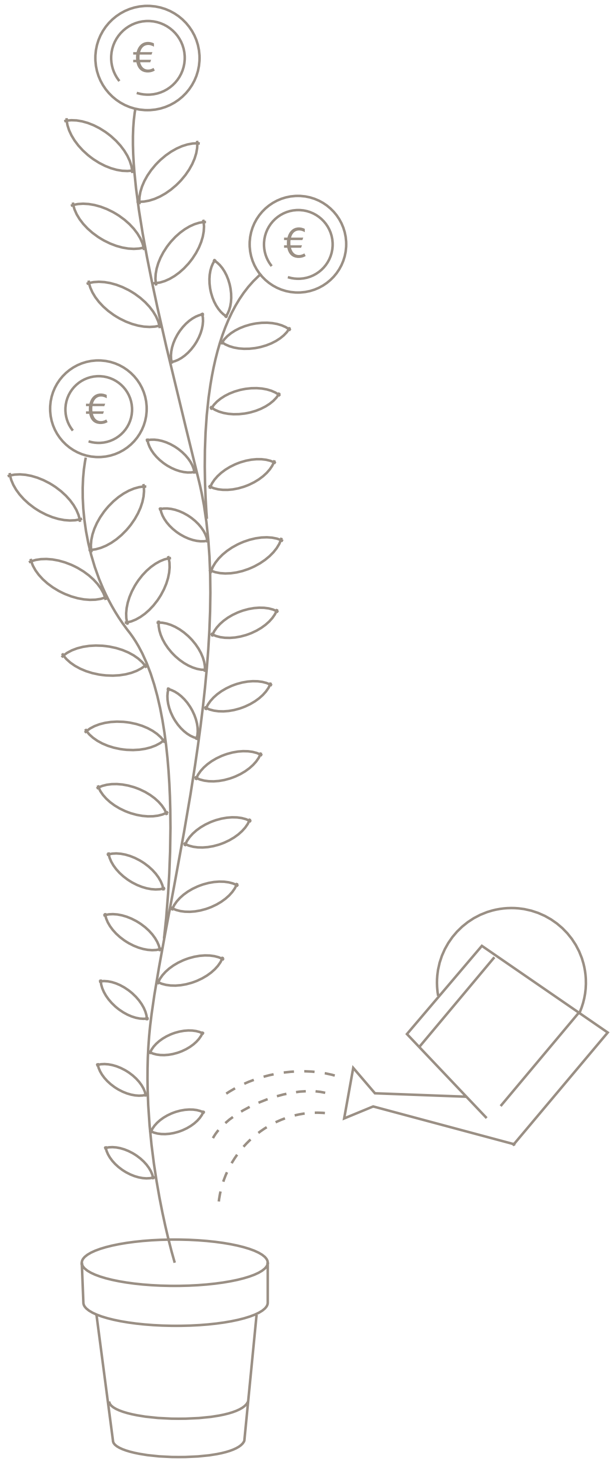
Debit	Property, plant and equipment	100,000	*Credit*	Finance lease liabilities	100,000
Debit	Finance lease liabilities	50,000	*Credit*	Cash and cash equivalents	50,000
Debit	Property, plant and equipment	90,000	*Credit*	Trade payables	90,000
Debit	Trade payables	45,000	*Credit*	Cash and cash equivalents	45,000
Debit	Property, plant and equipment	40,000	*Credit*	Share capital	40,000
Debit	Depreciation, amortisation and impairment	65,000	*Credit*	Depreciation	65,000
Debit	Depreciation	35,000	*Credit*	Property, plant and equipment	35,000
Debit	Interest expense	5,500	*Credit*	Short-term payables and deferred income	5,500
Debit	Short-term payables and deferred income	5,500	*Credit*	Cash and cash equivalents	5,500

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
Depreciation, amortisation and impairment	**-65,000**
...	...
OPERATING PROFIT (EBIT)	**-65,000**
...	...
Interest expense	**-5,500**
...	...
Profit before tax	-70,500
...	...
Profit for the period	-70,500

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-65,000**
Adjustments for:		
Depreciation, amortisation and impairment		**65,000**
...	...	...
Total cash flow from operating activities	0	0
Payments for property, plant and equipment and intangible assets	**-45,000**	**-45,000**
...	...	...
Total cash flow from investing activities	-45,000	-45,000
...		
Payments of finance lease principal	-50,000	-50,000
...	...	...
Interest and contract fees paid	-5,500	-5,500
...	...	...
Total cash flow from financing activities	-55,500	-55,500
Total cash flow	-100,500	-100,500
Cash and cash equivalents at beginning of period	110,000	110,000
Change in cash and cash equivalents	-100,500	-100,500
...	...	...
Cash and cash equivalents at end of period	9,500	9,500

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**110,000**	**9500**
...	...	...
Property, plant and equipment	**0**	**195,000**
Depreciation	**0**	**-30,000**
...	...	...
TOTAL ASSETS	110,000	174,500
...	...	...
Finance lease liabilities	**0**	**50,000**
...	...	...
Short-term payables and deferred income	**0**	**45,000**
...	...	...
Share capital at par value	110,000	150,000
...	...	...
Profit for the period	0	-70,500
TOTAL LIABILITIES AND EQUITY	110,000	174,500

Operating profit (EBIT)	**-65,000**
Elimination of effect of investing activities on operating profit = -(-65,000)	65,000
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (0-0)-(50,000+45,000-0)	-95,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(45,000-0))	45,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(50,000-0))	50,000
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0



Commentary:
- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- The balance of non-current assets changed through monetary and non-monetary transactions. Non-monetary transactions have to be excluded from the presentation of cash flows.
- When an asset is acquired with a finance lease, lease payments give rise to cash flows from financing activities (not cash flows from investing activities).
- In the indirect method statement of cash flows, the treatment of the effect of income and expenses (gains and losses) from investing and financing activities depends on whether or not the items have affected the formation of operating profit (EBIT).
- Since finance lease liabilities are related to financing activities, the effect of financing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of investing and financing activities causes shifts between the results of activities and the indirect method results will not reflect the actual cash flows.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Reclassification of trade receivables to loan receivables (a loan provided)

In the reporting period, an entity converted trade receivables of 100,000 into long-term loan receivables (a loan provided). On the conversion, no payments were made. Accrued interest income of the period amounted to 6,680 and no interest payments were made. At the end of the period, the entity reclassified 30,000 of the loan from long-term to short-term and recognised a translation difference of 5,000 on the loan balance. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Non-current assets: Receivables and prepayments	100,000	*Credit*	Current assets: Receivables and prepayments	100,000
Debit	Interest income	6,680	*Credit*	Current assets: Receivables and prepayments	6,680
Debit	Current assets: Receivables and prepayments	30,000	*Credit*	Non-current assets: Receivables and prepayments	30,000
Debit	Current assets: Receivables and prepayments	1,500	*Credit*	Other finance income	5,000
Debit	Non-current assets: Receivables and prepayments	3,500			

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	**0**
...	...
Interest income	**6,680**
Other finance income and costs	**5,000**
Profit before tax	11,680
...	...
Profit for the period	11,680

BALANCE SHEET	31 Dec 2021	31 Dec 2021
Cash and cash equivalents	**0**	**0**
...	...	...
Current assets: Receivables and prepayments	**100,000**	**38,180**
...	...	...
Non-current assets: Receivables and prepayments	**0**	**73,500**
...	...	...
TOTAL ASSETS	100,000	111,680
...	...	...
Share capital	100,000	100,000
...	...	...
Profit for the period	0	11,680
TOTAL LIABILITIES AND EQUITY	100,000	111,680

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	0	0
Cash and cash equivalents at beginning of period	0	0
Change in cash and cash equivalents	0	0
...	...	...
Cash and cash equivalents at end of period	0	0

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (38,180-100,000)-(0-0)	-61 820
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((38,180-100,000)-(0-0))	61 820
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- Although receivables changed due to reclassification and value adjustment, this did not give rise to cash flow.
- Income from investing activities did not affect operating profit (EBIT). Therefore, there is no need to adjust operating profit under the indirect method.
- Since the change in short-term receivables and prepayments is related to investing activities, the effect of investing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of investing activities causes shifts between the results of operating and investing activities and the indirect method results will not reflect the actual cash flows from operating and investing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Cash flows from the acquisition and disposal of non-current assets (property, plant and equipment)

In the reporting period, an entity acquired property, plant and equipment of 35,600, of which 25,000 was paid to the supplier. Depreciation for the period was 3,700. The entity sold property, plant and equipment for 15,000, of which 6,000 was not settled by the buyers. At the date of sale, the assets' carrying amount and cost were 14,500 and 19,000, respectively. At the year-end, the entity recognised impairment of property, plant and equipment of 10,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Property, plant and equipment	35,600	*Credit*	Short-term payables and deferred income	35,600
Debit	Short-term payables and deferred income	25,000	*Credit*	Cash and cash equivalents	25,000
Debit	Depreciation, amortisation and impairment	3,700	*Credit*	Depreciation	3,700
Debit	Receivables and prepayments	15,000	*Credit*	Property, plant and equipment	19,000
	Depreciation	4,500		Other income	500
Debit	Cash and cash equivalents	9,000	*Credit*	Receivables and prepayments	9,000
Debit	Depreciation, amortisation and impairment	10,000	*Credit*	Depreciation	10,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
Depreciation, amortisation and impairment	**-13,700**
...	...
Other income	**500**
...	...
OPERATING PROFIT (EBIT)	**-13,200**
...	...
Profit before tax	-13,200
...	...
Profit for the period	-13,200

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**16,000**	**0**
...	...	...
Receivables and prepayments	**0**	**6,000**
...	...	...
Property, plant and equipment	**18,500**	**35,100**
Depreciation	**-3,500**	**-12,700**
...	...	...
TOTAL ASSETS	31,000	28,400
...	...	...
Short-term payables and deferred income	**0**	**10,600**
...	...	...
Share capital at par value	34,500	34,500
...	...	...
Retained earnings (prior periods)	-2,500	-3,500
Profit for the period	-1,000	-13,200
TOTAL LIABILITIES AND EQUITY	31,000	28,400

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-13,200**
Adjustments for:		
Depreciation, amortisation and impairment		**13,700**
Gain/loss on sale of non-current assets		**-500**
...	...	...
Total cash flow from operating activities	0	0
Payments for property, plant and equipment and intangible assets	**-25,000**	**-25,000**
Proceeds from sale of property, plant and equipment and intangible assets	**9,000**	**9,000**
...	...	...
Total cash flow from investing activities	-16,000	-16,000
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	-16,000	-16,000
Cash and cash equivalents at beginning of period	16,000	16,000
Change in cash and cash equivalents	-16,000	-16,000
...	...	...
Cash and cash equivalents at end of period	0	0

OPERATING PROFIT (EBIT)	**-13,200**
Elimination of effect of investing activities on operating profit = -(-13,700+500)	13,200
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (6,000-0)-(10,600-0)	-4,600
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((6,000-0)-(10,600-0))	4,600
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(0-0))	0
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- The balance of non-current assets changed through monetary and non-monetary transactions. Non-monetary transactions have to be excluded from the presentation of cash flows.
- Since receivables and payables from transactions with non-current assets are related to investing activities, the effect of investing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of investing activities causes shifts between the results of activities and the indirect method results will not reflect the actual cash flows.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Long-term other investments and reclassification of investments

The total retained earnings of an investee acquired in prior periods (ownership interest: 10%, cost of investment 10,000) were distributed whereby the reporting entity acquired a dividend receivable of 5,000, of which 4,000 was received during the reporting period. After that, the ownership interest was increased to 20% with an additional monetary contribution of 15,000. The entity decided to write down the (positive) goodwill (included in cost) acquired on the acquisition of the additional interest immediately and in full. The associate's profit for the period was 6,000 (of which 500 was earned before and 5,500 was earned after the ownership interest was increased). The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Receivables and prepayments	5,000	*Credit*	Profit/loss on other investments	5,000
Debit	Cash and cash equivalents	4,000	*Credit*	Receivables and prepayments	4,000
Debit	Investments in associates	25,000	*Credit*	Cash and cash equivalents	15,000
			Credit	Other investments	10,000
Debit	Profit/loss on investments in associates	1,900	*Credit*	Investments in associates	1,900
Debit	Investments in associates	1,100	*Credit*	Credit Profit/loss on investments in associates	1,100

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	0
...	...
Profit/loss on investments in associates	**-800**
Profit/loss on other investments	**5,000**
...	...
Profit before tax	4,200
...	...
Profit for the period	4,200

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**15,000**	**4,000**
...	...	...
Receivables and prepayments	**0**	**1,000**
...	...	...
Investments in subsidiaries and associates	**0**	**24,200**
Other investments	**10,000**	**0**
...	...	...
TOTAL ASSETS	25,000	29,200
...	...	...
Share capital at par value	25,000	25,000
...	...	...
Profit for the period	0	4,200
TOTAL LIABILITIES AND EQUITY	25,000	29,200

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		0
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Payments for acquisition of investments in associates	**-15,000**	**-15,000**
...	...	...
Dividends received	**4,000**	**4,000**
Total cash flow from investing activities	-11,000	-11,000
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	-11,000	-11,000
Cash and cash equivalents at beginning of period	15,000	15,000
Change in cash and cash equivalents	-11,000	-11,000
...	...	...
Change in cash and cash equivalents	4,000	4,000

SIMPLIFIED CALCULATION OF GOODWILL	
Cost of interest acquired	25,000
Share capital after contribution	115,000
Retained earnings	500
Total net assets:	115,500
20% of net assets	23,100
Goodwill (=25,000-23,100):	1,900

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (1,000-0)-(0-0)	1,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((1,000-0)-(0-0))	-1,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- In the indirect method statement of cash flows, the treatment of the effect of income and expenses (gains and losses) from investing activities depends on whether or not the items have affected the formation of operating profit (EBIT). In the example, they have had no effect.
- Since dividends receivable are related to investing activities, the effect of investing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of investing activities causes shifts between the results of operating and investing activities and the indirect method results will not reflect the actual cash flows from operating and investing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Equity method and dividends received

An entity accounts for an investment in a subsidiary (ownership interest 85%) using the equity method. At the beginning of the reporting period, the carrying amount of the investment was 45,900, including prior period adjustments of 33,700 made using the equity method. During the period, the owners of the subsidiary decided to distribute a dividend of 25,000 (from retained earnings), of which 20,000 was paid out. The subsidiary ended the reporting period with a loss of -8,800. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Receivables and prepayments (dividends)	21,250	*Credit*	Investments in subsidiaries	21,250
Debit	Cash and cash equivalents	17,000	*Credit*	Receivables and prepayments	17,000
Debit	Profit/loss on investments in subsidiaries	7,480	*Credit*	Investments in subsidiaries	7,480

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
OPERATING PROFIT (EBIT)	0
...	...
Profit/loss on investments in subsidiaries	**-7,480**
...	...
Profit before tax	-7,480
...	...
Profit for the period	-7,480

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**1,100**	**18,100**
...	...	...
Receivables and prepayments	**0**	**4,250**
...	...	...
Investments in subsidiaries and associates	**45,900**	**17,170**
...	...	...
TOTAL ASSETS	**47,000**	**39,520**
...	...	...
Share capital at par value	13,300	13,300
...	...	...
Retained earnings (prior periods)	26,100	33,700
Profit for the period	7,600	-7,480
TOTAL LIABILITIES AND EQUITY	47,000	39,520

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**0**
Adjustments for:		0
...	...	...
Total cash flow from operating activities	0	0
...	...	...
Dividends received	**17,000**	**17,000**
Total cash flow from investing activities	17,000	17,000
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	17,000	17,000
Cash and cash equivalents at beginning of period	1,100	1,100
Change in cash and cash equivalents	17,000	17,000
...	...	...
Cash and cash equivalents at end of period	18,100	18,100

Operating profit (EBIT)	**0**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**0**
Change in working capital (excl. cash and cash equivalents) = (4,250-0)-(0-0)	4 250
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((4,250-0)-(0-0))	-4 250
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**0**
Of which change in operating receivables	0
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- There are no operating cash flows in the example. Under the direct method, the entity should present major classes of actual receipts and payments (i.e. profit and profit adjustments are not relevant).
- In the indirect method statement of cash flows, the treatment of the effect of income and expenses (gains and losses) from investing activities depends on whether or not the items have affected the formation of operating profit (EBIT). In the example, they have had no effect.
- Since dividends receivable are related to investing activities, the effect of investing activities on the change in working capital (excl. cash and cash equivalents) has to be eliminated.
- Failure to eliminate the effects of investing activities causes shifts between the results of operating and investing activities and the indirect method results will not reflect the actual cash flows from operating and investing activities.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

CASH FLOWS FROM OPERATING ACTIVITIES, THAT IS TRANSACTIONS OF THE PRINCIPAL ACTIVITIES AND OTHER TRANSACTIONS THAT ARE NOT INVESTING OR FINANCING ACTIVITIES

Indirect method **+/- Cash flows from operating activities**	Direct method **+/- Cash flows from operating activities**
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

When the following has been distinguished from cash receipts and cash payments:
- movements between components of cash and cash equivalents,
- receipts and payments from financing activities, and
- receipts and payments from investing activities,

the remainder, and generally the largest portion, of transactions is made up of cash receipts and cash payments from operating activities.

Operating activities are those activities of an entity that generate its principal revenues and expenses and (any) other activities that are not investing or financing activities. The results of operating activities should be sought primarily from the income statement (operating income and/or operating expenses) and from working capital (current assets and current liabilities) in the balance sheet:

BALANCE SHEET (statement of financial position; illustrative figures)	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**169,430**	**162,610**
Other investments	220,471	164,821
Receivables and prepayments	**252,833**	**163,570**
Inventories	**389,901**	**327,431**
Biological assets	**394,150**	**302,237**
Total current assets:	**1,426,785**	**1 120,669**
Investments in subsidiaries and associates	87,540	67,339
Other investments	28,543	29,142
Receivables and prepayments	100,000	150,000
Investment property	1,666,434	1,454, 632
Property, plant and equipment	2,434,551	2 656 773
Biological assets	611,299	621 431
Intangible assets	69 884	76 777
Total non-current assets:	4,998,251	5 056 094
TOTAL ASSETS	6,425,036	6,176,763
Borrowings	310,009	400,850
Payables and deferred income	**433,961**	**456,321**
Provisions	**39,756**	**41,778**
Government grants	**0**	**19,326**
Total current liabilities:	**783,726**	**918,275**
Borrowings	967,600	566,750
Payables and deferred income	24,222	0
Provisions	19,326	0
Government grants	0	8,567
Total non-current liabilities:	1,011,148	575,317
Share capital at par value	120,000	120,000
Unregistered share capital	0	60,000
Share premium	4,108,996	4,108,996
Own (treasury) shares (minus)	-12,000	-12,000
Statutory capital reserve (legal reserve)	12,000	12,000
Other reserves	24,000	24,000
Other equity	325	-432
Retained earnings (prior periods)	55,589	61,768
Profit for the period	321,252	308,839
Total equity:	4,630,162	4,683,171
TOTAL LIABILITIES AND EQUITY	6,425,036	6,176,763

The operating profit (EBIT) recognised in the income statement is the difference between operating income and operating expenses, which may include the results of investing and financing and financing activities (income/expenses and/or profits/losses). Operating profit from operating activities (EBITDA) is EBIT excluding the effects of investing and financing activities.

Working capital is the difference between current assets (short-term receivables and prepayments and inventories of goods and materials) and current liabilities (short-term payables and deferred income). Operating working capital is working capital excluding the assets and liabilities of investing and financing activities. Working capital (excl. cash equivalents) is determined by excluding cash and cash equivalents from current assets.

Typical operating activities of an entity include:

- cash and credit sales of goods and services to customers; settlements with customers, including (re)valuations of (short-term) receivables;
- acquisition, use and sales of inventories of goods and materials; (re)valuations of inventories of goods and materials;
- acquisition of goods and services from suppliers and contractors both for cash and on credit; settlements with suppliers, including (re)valuations of (short-term) liabilities;
- transactions with employees;
- settlements of taxes;
- all other activities that are not investing or financing activities.

INCOME STATEMENT (format 1; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	**11,485,112**	**10,618,657**
Other income	**6,478**	**8,954**
Changes in inventories of agricultural produce	**-32,222**	**53,444**
Gain/loss on biological assets	**23,455**	**-85,233**
Changes in inventories of finished goods and work in progress	**-24,669**	**11,666**
Work performed by the entity and capitalised	-645,668	-545,678
Goods, materials and services used	**-5,223,442**	**-4,556,679**
Other operating expenses	**-2,011,997**	**-1,998,554**
Personnel expenses	**-2,395,443**	**-1,989,654**
Depreciation, amortisation and impairment	-756,334	-845,678
Significant write-downs of current assets	**-23,453**	**-55,432**
Other expenses	**-10,336**	**-11,934**
OPERATING PROFIT (EBIT)	**391,481**	**603,879**
Profit/loss on investments in subsidiaries	-36,988	-25,098
Profit/loss on investments in associates	-10,500	-21,345
Profit/loss on other investments	57,456	-75,650
Interest income	9,898	8,989
Interest expense	-102,209	-77,408
Other finance income and costs	67,703	-42,760
Profit before tax	376,841	370,607
Income tax expense	-55,589	-61,768
Profit for the period	321,252	308,839

INCOME STATEMENT (format 2; illustrative figures)	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Revenue	**11,485,112**	**10,618,657**
Cost of sales	**-7,509,052**	**-6,672,731**
Gross profit	**3,976,060**	**3,945,926**
Gain/loss on biological assets	**23,455**	**-85,233**
Distribution costs	**-1,386,222**	**-1,251,475**
Administrative expenses	**-2,217,955**	**-2,002,360**
Other income	**6,478**	**8,954**
Other expenses	**-10,336**	**-11,934**
OPERATING PROFIT (EBIT)	**391,481**	**603,879**
Profit/loss on investments in subsidiaries	-36,988	-25,098
Profit/loss on investments in associates	-10,500	-21,345
Profit/loss on other investments	57,456	-75,650
Interest income	9,898	8,989
Interest expense	-102,209	-77,408
Other finance income and costs	67,703	-42,760
Profit before tax	376,841	370,607
Income tax expense	-55,589	-61,768
Profit for the period	321,252	308,839

STATEMENT OF CASH FLOWS (INDIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
Cash flows from operating activities		
Operating profit (EBIT)	391,481	603,879
Adjustments for:		
Depreciation, amortisation and impairment		
Gain/loss on sale of non-current assets		
Change in operating receivables and prepayments		
Change in inventories		
Change in operating payables and deferred income		
Interest paid		
Corporate income tax paid		
Government grants received		
Total cash flow from operating activities (Net cash from/used in operating activities)		
Cash flows from investing activities		
...	...	...
Total cash flow from investing activities (Net cash from/used in investing activities)		
Cash flows from financing activities		
...	...	...
Total cash flow from financing activities (Net cash from/used in financing activities)		
Total cash flow (Net cash flow)	...	...
Cash and cash equivalents at the beginning of period	...	169,430
Change in cash and cash equivalents (net change)	...	...
Effect of changes in foreign exchange rates	...	...
Cash and cash equivalents at the end of period	169,430	162,610

	STATEMENT OF CASH FLOWS (DIRECT METHOD):	1 Jan 2020-31 Dec 2020	1 Jan 2021-31 Dec 2021
	Cash flows from operating activities		
	Receipts from customers		
	Payments to suppliers		
	Payments to employees		
	Payments to the state		
	Other receipts related to operating activities		
	Other payments related to operating activities		
	Interest paid		
	Corporate income tax paid		
=	**Total cash flow from operating activities (Net cash from/used in operating activities)**		
	Cash flows from investing activities		
	...	...	...
=	Total cash flow from investing activities (Net cash from/used in investing activities)		
	Cash flows from financing activities		
	...	...	...
=	Total cash flow from financing activities (Net cash from/used in financing activities)		
=	Total cash flow (Net cash flow)	...	...
=	Cash and cash equivalents at the beginning of period	...	169,430
=	Change in cash and cash equivalents (net change)	...	...
=	Effect of changes in foreign exchange rates	...	...
=	Cash and cash equivalents at the end of period	169,430	162,610

EXAMPLE: Sources for preparing the direct method statement of cash flows.

***A.** The gross cash flows reported in the statement of cash flows are obtained by adding up changes in cash and cash equivalents in accounting records and/or accounts. Items that require particular attention are adjusting entries unless the latter are reversing entries.*

GENERAL LEDGER

...	...	...	...	...	...
Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	**Cash and cash equivalents**	**20,000**	*Credit*	Trade receivables	20,000
Debit	Trade payables	14,000	***Credit***	**Cash and cash equivalents**	**14,000**
...	...	...	...	...	...

***B.** The gross cash flows reported in the statement of cash flows are obtained by adding up movements in cash and cash equivalents in bank statements. This is insufficient when all movements in cash and cash equivalents do not occur through bank accounts.*

Period of bank statement 1 Jan 2021 - 31 Dec 2021
ENTITY LTD CURRENT ACCOUNT EUR
EE****1022023281****
Available balance of funds EUR 121,448.96
Opening balance of the account EUR 73,279.34
Closing balance of the account EUR 46,448.96
Payments (debit turnover) EUR 99,670.65
Receipts (credit turnover) EUR 72,840.27
Overdraft EUR 75,000.00

Date	Doc.	Payer/Recipient	Transaction	Debit	Credit
...	...	...	...	...	...
17.02.2021	**WGZ60317004**	**CUSTOMER 1 LTD**	**Invoice 20200413**		**20,000.00**
		GB****0022100110****			
...	...	...	...	...	...
27.02.2021	**D10325**	**Supplier 3 LTD**	**No. 20003**	**14,000.00**	
		EE****0022107250****			
...	...	...	...	...	...

***C.** The gross cash flows reported in the statement of cash flows are found directly from the financial statements. This is suitable for simpler cases only.*

Receipts from customers = Trade receivables at the beginning of the period
+ Sales during the period – Trade receivables at the end of the period
Payments to suppliers = - Trade payables at the beginning of the period
– Purchases (costs) during the period + Trade payables at the end of the period
+ Inventory balance at the beginning of the period – Inventory balance at the end of the period

	DIRECT
STATEMENT OF CASH FLOWS	1 Jan 2021-31 Dec 2021
Cash flows from operating activities	...
Receipts from customers	**20,000.00**
Payments to suppliers	**-14,000.00**
...	...
Total cash flow from operating activities (net operating cash flow)	...
...	...

The (net) cash flow from operating activities reflects an entity's ability to generate positive cash flow from its operating activities. The net operating cash flow for a reasonable assessment period can indicate whether the business model employed is sustainable or ought to be changed.

The method of preparing the statement of cash flows is determined by the principles of grouping receipts and payments from operating activities. The statement of cash flows can be prepared using two alternative formats: the direct method statement of cash flows and the indirect method statement of cash flows. Generally speaking, the formats differ from one another only in terms of the grouping of receipts and payments from principal (operating) activities. Under the direct method, cash flows from operating activities are reported on a gross basis, whereby major classes of gross cash receipts and payments are disclosed separately. Under the indirect method, cash flows from operating activities are reported on a net basis, whereby net cash flow from operating activities is identified by adjusting an accrual-based result (e.g. operating profit (EBIT)), i.e. cash receipts and cash payments from operating activities are not disclosed separately and in a comparable manner.

OPERATING ACTIVITIES AND THE DIRECT METHOD STATEMENT OF CASH FLOWS

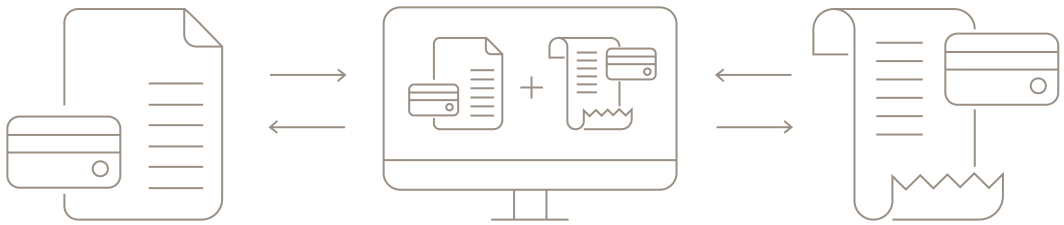
Indirect method	**Direct method**
+/- Cash flows from operating activities	**+/- Cash flows from operating activities**
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

Under the direct method, operating cash flows are reported by disclosing major classes of gross cash receipts and gross cash payments. Typical classes that are disclosed include (can be further aggregated or disaggregated where appropriate):

- receipts from customers for goods and services;
- payments to employees;
- payments to suppliers for goods and services;
- payments of taxes (e.g. income tax, VAT, payroll taxes, etc.);
- other receipts related to operating activities;
- other payments related to operating activities, etc.

Presenting cash flows from operating activities on a gross basis allows presenting and analysing cash flows in terms of major classes, which makes it easier to compare planned and actual cash flows within operating activities. Compared to the indirect method where cash flow is presented only in the summarised amount (net cash flow from operating activities), the direct method statement of cash flows is considerably more informative.

Direct method cash flows can be found by grouping movements in cash and cash equivalents (accounts). In the accounts of cash and cash equivalents, debit turnovers generally reflect increases in the balance of cash and cash equivalents (receipts) and credit turnovers reflect decreases in the balance of cash and cash equivalents (payments).



OPERATING ACTIVITIES AND THE INDIRECT METHOD STATEMENT OF CASH FLOWS

Statement of cash flows

Indirect method	Direct method
+/- Cash flows from operating activities	+/- Cash flows from operating activities
+/- Cash flows from investing activities	
+/- Cash flows from financing activities	
= Total cash flow = Change in cash and cash equivalents	

Under the indirect method, cash flows from operating activities are reported on a net basis, by identifying net operating cash flow by adjusting an accrual-based result (e.g. operating profit or net profit).

Finding (net) operating cash flow by adjusting an accrual-based result under the indirect method is based on the following chain of steps:

- operating profit or EBIT (earnings before interest and taxes) is obtained from the income statement;
- EBIT is adjusted to obtain EBITDA (earnings before interest, taxes, depreciation and amortisation) by excluding depreciation, amortisation and impairment (as well as other effects of investing and financing activities);
- EBITDA is adjusted for the change in (operating) working capital (excl. cash and cash equivalents) that has been obtained from balance sheets and from which the effects of investing and financing activities have been excluded.

OPERATING ACTIVITIES excluding INVESTING and FINANCING ACTIVITIES:
Operating profit (EBIT)
+/- Gains and/or losses (expenses/income) from investing activities
+/- Gains and/or losses (expenses/income) from financing activities
= OPERATING PROFIT FROM OPERATING ACTIVITIES (EBITDA)
CHANGE IN OPERATING WORKING CAPITAL (excl. CASH AND CASH EQUIVALENTS) excl. the effects of INVESTING AND FINANCING ACTIVITIES:
+/- Change in operating recevables
+/- Change in invertories
+/- Change in operating payables
= (Net) Cash flow from operating activities

The result obtained is the period's net cash flow from operating activities. Under the indirect method, cash receipts and cash payments from operating activities cannot be viewed separately and the adjustments made to identify cash flow do not have separate meaning in reporting cash flows. The amounts presented in the balance sheet, the income statement and the notes enable a competent user to assess the relevance of adjustments made in the statement of cash flows and, thus, to form an opinion on the quality of the statement.

In preparing an indirect method statement of cash flows, operating profit (EBIT) needs to be adjusted when investing or financing activities have affected operating profit (e.g. the results have been recognised as operating income or operating expenses, not as finance income or finance costs). In such cases, their effect on operating profit has to be eliminated.

In preparing an indirect method statement of cash flows, working capital (excl. cash and cash equivalents) needs to be adjusted, when the results of investing or financing activities are included in current assets and/or current liabilities. In such cases, their effect on the change in working capital has to be eliminated.

Under the indirect method, the changes (incl. non-monetary ones) in operating working capital (e.g. write-downs of inventories or receivables) do not require further adjustment because on the adjustment of operating profit for changes in working capital the effects of such transactions are eliminated.

In selecting an (intermediate) result from the income statement to identify (net)operating cash flow, it is important to understand that:

- Net profit includes the (summarised) results of all activities – if this measure is chosen as the starting point to determine (net) operating cash flow, adjustments have to be made to exclude all effects of investing and financing activities. Operating profit includes most items of income and expenses from the principal and other operating activities and, as such, is usually the measure that requires an optimal number of adjustments in the determination of (net) operating cash flow.
- To eliminate their effects, the amounts of investing and financing activities recognised in the income statement are reported in the statement of cash flows with the opposite sign: income/gains with a minus and expenses/losses with a plus.
- When an entity adjusts operating profit to determine operating cash flow, it must eliminate (present with the opposite sign) (only) those amounts of investing and financing activities that participated in the formation of operating profit and add receipts and payments from operating activities that did not affect operating profit (receipts with a plus and payments with a minus).

Receipts and payments from operating activities that have not affected operating profit may include, for example, foreign subsidiaries' income tax payments and interest received on cash at bank or on cash equivalents (if these have been classified as cash flows from operating activities, not cash flows from investing or financing activities).

EXAMPLE: Relationships and formulas for identifying net operating cash flow by adjusting operating profit

	A INCOME STATEMENT	B CLOSING BALANCE SHEET	C OPENING BALANCE SHEET	STATEMENT OF CASH FLOWS
Sales and change in receivables	Revenue for the period (+) (+/-) Changes in value	Operating receivables at end of period (+) (+/-) Changes in value	Operating receivables at beginning of period (+)	Period's receipts from sales = +A-(B-C)
Acquisition and use of inventories	Period's costs of acquisition of goods, services and labour (-)	Inventories at end of period (+)	Inventories at beginning of period (+)	Additional cash placed in or released from inventories = -A-(B-C)
Expenses and change in payables	(+/-) Changes in value	Operating payables at end of period (-) (+/-) Changes in value	Operating payables at end of period (-)	Payments related to costs of the period = -A+(B-C)
	= Adjusted operating profit (EBITDA)	**= WORKING CAPITAL 2**	**= WORKING CAPITAL 1**	**= (NET) CASH FLOW FROM OPERATING ACTIVITIES**
		i.e. B-C = CHANGE IN WORKING CAPITAL (excl. cash and cash equivalents)		

EXAMPLE: Change in operating receivables and operating cash flows

In the prior period, sales of services totalled 50,000 and year-end trade receivables amounted to 15,000. In the reporting period, sales totalled 30,000 and year-end trade receivables amounted to 25,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
Revenue	**30,000**
...	...
Operating profit (EBIT)	**30,000**
...	...
Profit for the period	30,000

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**35,000**	**55,000**
...	...	...
Receivables and prepayments	**15,000**	**25,000**
...	...	...
TOTAL ASSETS	50,000	80,000
...	...	...
Retained earnings (prior periods)	...	50,000
Profit for the period	50,000	30,000
TOTAL LIABILITIES AND EQUITY	50,000	80,000

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**30,000**
Adjustments for:		
...		...
Change in operating receivables and prepayments		**-10,000**
...		...
Receipts from customers	**20,000**	
...	...	
Total cash flow from operating activities	**20,000**	**20,000**
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	20,000	20,000
Cash and cash equivalents at beginning of period	35,000	35,000
Change in cash and cash equivalents	20,000	20,000
...	...	...
Cash and cash equivalents at end of period	55,000	55,000

Operating profit (EBIT)	**30,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**30,000**
Change in working capital (excl. cash and cash equivalents) = (25,000-15,000)-(0-0)	10,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**10,000**
Of which change in operating receivables = (25,000-15,000)	10,000
Of which change in inventories	0
Of which change in operating payables	0

Commentary:

- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in operating receivables. The balance of receivables increased by the period-end. Thus, the adjustment is negative compared to the revenue recognised in the income statement (a comparable portion of revenue was not received during the period).
- Since the results of investing and financing activities did not affect receivables and operating profit, there is no need to make additional adjustments.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Change in inventories of goods and materials and operating cash flows

At the previous year-end, the inventory balance was 25,000. Acquisitions of the period totalled 14,000 and inventories used and sold amounted to 18,000. Inventories were acquired against payments. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Inventories	14,000	*Credit*	Cash and cash equivalents	14,000
Debit	Cost of sales	18,000	*Credit*	Inventories	18,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
Cost of sales	**-18,000**
...	...
OPERATING PROFIT (EBIT)	**-18,000**
...	...
Profit for the period	-18,000

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**15,000**	**1,000**
...	...	...
Inventories	**25,000**	**21,000**
...	...	...
TOTAL ASSETS	40,000	22,000
...	...	...
Retained earnings (prior periods)	35,000	40,000
Profit for the period	5,000	-18,000
TOTAL LIABILITIES AND EQUITY	40,000	22,000

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-18,000**
Adjustments for:		
...		...
Change in inventories		**4,000**
...		...
...	...	
Payments to suppliers	**-14,000**	
...	...	
Total cash flow from operating activities	**-14,000**	**-14,000**
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	-14,000	-14,000
Cash and cash equivalents at beginning of period	15,000	15,000
Change in cash and cash equivalents	-14,000	-14,000
...	...	...
Cash and cash equivalents at end of period	1,000	1,000

Operating profit (EBIT)	**-18,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-18,000**
Change in working capital (excl. cash and cash equivalents) = (21,000-25,000)-(0-0)	-4,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**-4,000**
Of which change in operating receivables = 0	0
Of which change in inventories = (21,000-25,000)	-4,000
Of which change in operating payables = 0	0

Commentary:

- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in inventories. The inventory balance decreased by the period-end. Thus, the adjustment is positive compared to the costs recognised in the income statement (inventories acquired in prior periods were used).
- Since the results of investing and financing activities did not affect inventories and operating profit, there is no need to make additional adjustments.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

Cash flow from operating activities is found using the following underlying principles:

- Revenue is recognised in the income statement and constitutes an input component of (operating) profit. Amounts receivable from customers for sales are generally recognised in the balance sheet as current assets (short-term receivables). The change in receivables (increase or decrease) is an input component of the change in the period's working capital and means, in essence, that compared to the revenue recognised in the income statement actual receipts from customers were smaller or larger by the corresponding amount. In determining net cash flow from operating activities, an increase in receivables means that the adjustment to (operating) profit is made with a negative sign and a decrease in receivables means that the adjustment to (operating) profit is made with a positive sign.
- Inventories used in operating activities are recognised as costs in the income statement and constitute an input component of (operating) profit. Unused inventories are recognised in the balance sheet. The change in inventories (increase or decrease) is an input component of the change in the period's working capital and means, in essence, that compared to the costs on goods and materials recognised in the income statement inventory purchases of the period were larger or smaller (e.g. inventories acquired in prior periods were also used) by the amount of the change. In identifying net cash flow from operating activities, an increase in inventories means that the adjustment to (operating) profit is made with a negative sign and a decrease in inventories means that the adjustment to (operating) profit is made with a positive sign.
- Purchases of consumables, services, labour, etc. required for operating activities are recognised as costs in the income statement and constitute an input component of (operating) profit. Amounts payable for such purchases are generally recognised in the balance sheet as current liabilities. The change in current liabilities (increase or decrease) is an input component of the change in the period's working capital and means, in essence, that compared to the costs recognised in the income statement actual payments for purchases were smaller or larger by the amount of the change. Liabilities are amounts payable. Therefore, in identifying net cash flow from operating activities an increase in payables means that the adjustment to (operating) profit is made with a positive sign and a decrease in payables means that the adjustment to (operating) profit is made with a negative sign.

When the balances of receivables, inventories or payables have been remeasured or offset during the period, the changes are reflected in the change in working capital and there is no need to make additional adjustments.

EXAMPLE: Change in operating payables and operating cash flows

At the end of the previous financial year, trade payables for goods and services purchased totalled 15,000. Purchases of the period amounted to 20,000 and trade payables at the end of the reporting period amounted to 25,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Cost of sales	20,000	*Credit*	Payables and deferred income	20,000
Debit	Payables and deferred income	10,000	*Credit*	Cash and cash equivalents	10,000

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash (and cash equivalents)	**55,000**	**45,000**
...	...	...
TOTAL ASSETS	55,000	4,000
...	...	...
Payables and deferred income	**15,000**	**25,000**
...	...	...
Retained earnings (prior periods)	...	40 000
Profit for the period	40,000	-20,000
TOTAL LIABILITIES AND EQUITY	55,000	45,000

Commentary:

- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in payables. The balance of payables increased by the period-end. Thus, the adjustment is positive compared to the costs recognised in the income statement (all costs recognised in the income statement were not paid for).
- Since the results of investing and financing activities did not affect payables and operating profit, there is no need to make additional adjustments.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
...	...
Cost of sales	**-20,000**
...	...
OPERATING PROFIT (EBIT)	**-20,000**
...	...
Profit for the period	-20,000

Operating profit (EBIT)	**-20,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-20,000**
Change in working capital (excl. cash and cash equivalents) = (0-0)-(25,000-15,000))	-10,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**-10,000**
Of which change in operating receivables = 0	0
Of which change in inventories = 0	0
Of which change in operating payables =-(25,000-15,000)	-10,000

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	DIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-20,000**
Adjustments for:		
Change in operating payables and deferred income		**10,000**
...		...
...	...	
Payments to suppliers	**-10,000**	
...	...	
Total cash flow from operating activities	**-10,000**	**-10,000**
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	-10,000	-10,000
Cash and cash equivalents at beginning of period	55,000	55,000
Change in cash and cash equivalents	-10,000	-10,000
...	...	...
Cash and cash equivalents at end of period	45,000	45,000

EXAMPLE: Change in operating working capital (excl. cash and cash equivalents) and operating cash flows

In the previous financial year, an entity sold services of 50,000 and its year-end trade receivables totalled 15,000. In the reporting period, sales totalled 30,000 and year-end trade receivables amounted to 25,000. At the end of the previous financial year, inventories amounted to 25,000. Purchases of the reporting period amounted to 14,000. The entity used and sold inventories of 18,000. Purchases were made against payments. At the end of the previous financial year, payables for inventories amounted to 15,000. In the reporting period, purchases totalled 20,000 and year-end trade payables amounted to 25,000. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Inventories	14,000	*Credit*	Cash and cash equivalents	14,000
Debit	Cost of sales	18,000	*Credit*	Inventories	18,000
Debit	Cost of sales	20,000	*Credit*	Payable and deferred income	20,000
Debit	Payables and deferred income	10,000	*Credit*	Cash and cash equivalents	10,000

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**45,000**	**41,000**
...	...	...
Receivables and prepayments	**15,000**	**25,000**
Inventories	**25,000**	**21,000**
...	...	...
TOTAL ASSETS	85,000	87,000
...	...	...
Payables and deferred income	**15,000**	**25,000**
...	...	...
Retained earnings (prior periods)	23,000	70,000
Profit for the period	47,000	-8,000
TOTAL LIABILITIES AND EQUITY	8,000	87,000

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
Revenue	**30,000**
...	...
Cost of sales	**-38,000**
...	...
OPERATING PROFIT (EBIT)	**-8,000**
...	...
Profit for the period	-8,000

Operating profit (EBIT)	**-8,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-8,000**
Change in working capital (excl. cash and cash equivalents) = (46,000-40,000)-(25,000-15,000)	-4,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**-4,000**
Of which change in operating receivables = (25,000-15,000)	10,000
Of which change in inventories = (21,000-25,000)	-4,000
Of which change in operating payables = -(25,000-15,000)	-10,000

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-8,000**
Adjustments for:		
...		...
Change in operating receivables and prepayments		**-10,000**
Change in inventories		**4,000**
Change in operating payables and deferred income		**10,000**
...		...
Receipts from customers	**20,000**	
Payments to suppliers	**-24,000**	
...	...	
Total cash flow from operating activities	**-4,000**	**-4,000**
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	-4,000	-4,000
Cash and cash equivalents at beginning of period	45,000	45,000
Change in cash and cash equivalents	-4,000	-4,000
...	...	...
Cash and cash equivalents at end of period	41,000	41,000

Commentary

- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in operating receivables. The balance of receivables increased by the period-end. Thus, the adjustment is negative compared to the revenue recognised in the income statement (a comparable portion of revenue was not received during the period).
- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in inventories. The inventory balance decreased by the period-end. Thus, the adjustment is positive compared to the costs recognised in the income statement (inventories acquired in prior periods were used).
- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in payables. The balance of payables increased by the period-end. Thus, the adjustment is positive compared to the costs recognised in the income statement (all costs recognised in the income statement were not paid for).
- Since the results of investing and financing activities did not affect working capital and operating profit, there is no need to make additional adjustments.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: Adjustment of the value (write-up and write-down) of operating receivables and cash flows

In the previous financial year, an entity sold services of 50,000 and its year-end trade receivables totalled 15,000. In the reporting period, sales totalled 30,000 and year-end trade receivables amounted to 25,000. At the end of the financial year, receivables of 8,000 were considered doubtful and exchange gain on the translation of receivables denominated in foreign currency was 500. The presentation currency is the euro, there are no other relevant disclosures.

GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Expenses from doubtful receivables	8,000	*Credit*	Allowance for doubtful receivables	8,000
Debit	Trade receivables	500	*Credit*	Other income (exchange gain)	500

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**35,000**	**55,000**
...	...	...
Receivables and prepayments	**15,000**	**25,500**
Allowance for doubtful receivables	**0**	**-8,000**
...	...	...
TOTAL ASSETS	50,000	72,500
...	...	...
Retained earnings (prior periods)	...	50,000
Profit for the period	50,000	22,500
TOTAL LIABILITIES AND EQUITY	50,000	72,500

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
Revenue	**30,000**
...	...
Expenses from doubtful receivables	**-8,000**
...	...
Other income (exchange gain on receivables)	**500**
...	...
OPERATING PROFIT (EBIT)	**22,500**
...	...
Profit for the period	22,500

Operating profit (EBIT)	**22,500**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**22,500**
Change in working capital (excl. cash and cash equivalents) = (25,500-8,000-15,000)-(0-0)	2,500
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**2,500**
Of which change in operating receivables = (25,000-8,000-15,000)	2,500
Of which change in inventories = 0	0
Of which change in operating payables = 0	0

STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**22,500**
Adjustments for:		
...		...
Change in operating receivables and prepayments		**-2,500**
...		...
Receipts from customers	**20,000**	
...	...	
Total cash flow from operating activities	**20,000**	**20,000**
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	20,000	20,000
Cash and cash equivalents at beginning of period	35,000	35,000
Change in cash and cash equivalents	20,000	20,000
...	...	...
Cash and cash equivalents at end of period	55,000	55,000

Commentary:

- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in operating receivables. The balance of receivables increased by the period-end. Thus, the adjustment is negative compared to the revenue recognised in the income statement (a comparable portion of revenue was not received during the period).
- Since the results of investing and financing activities did not affect receivables and operating profit, there is no need to make additional adjustments.
- Value adjustments to inventories and operating payables behave similarly in the indirect method statement of cash flows.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

EXAMPLE: When the change in the value of operating receivables in the income statement did not affect operating profit

In the previous financial year, an entity sold services of 50,000 and its year-end trade receivables totalled 15,000. In the reporting period, sales totalled 30,000 and year-end trade receivables amounted to 25,000. At the end of the financial year, receivables of 8,000 were considered doubtful and the translation of foreign currency receivables gave rise to an exchange loss of 850, which was recognised as a finance cost.
The presentation currency is the euro, there are no other relevant disclosures.

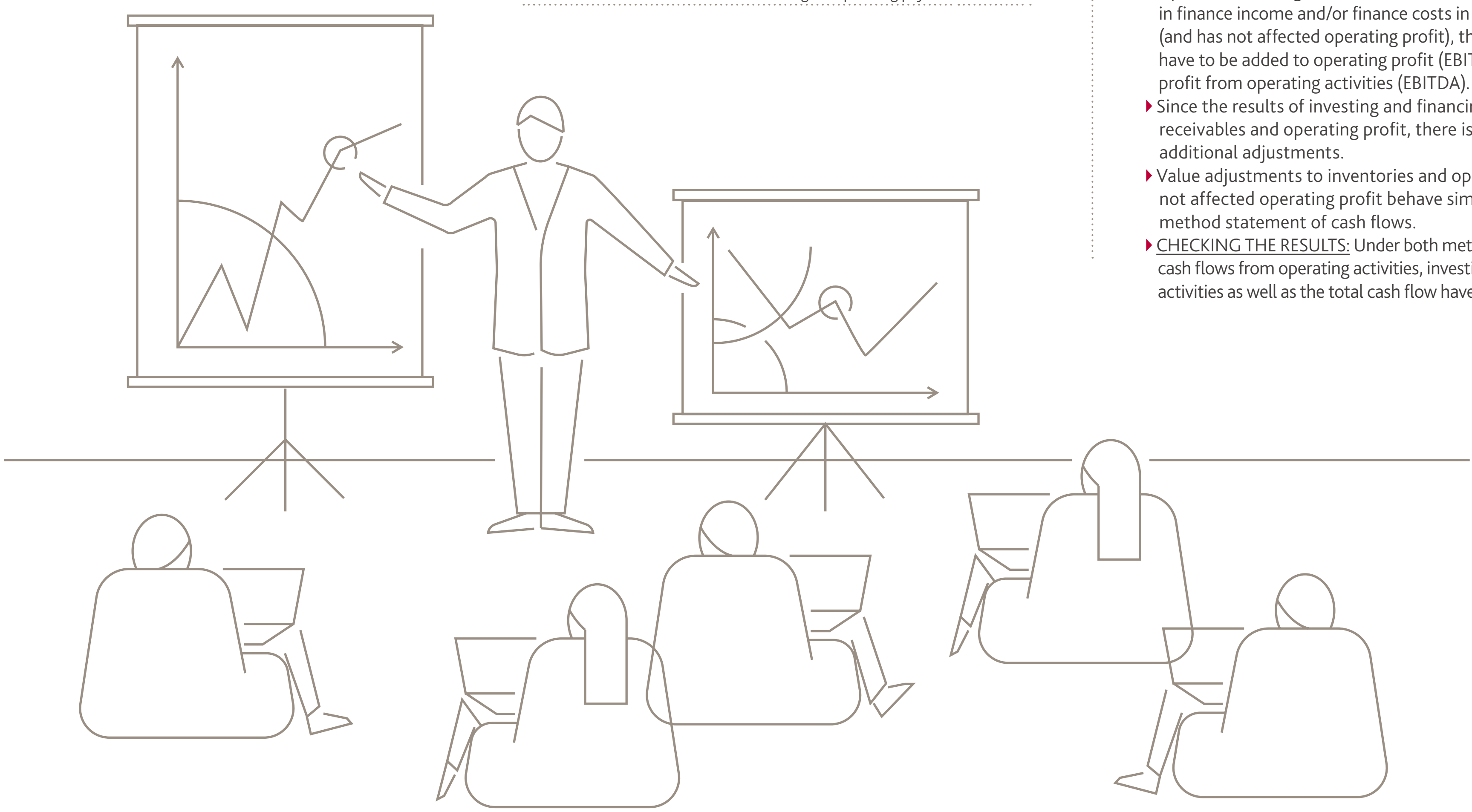
GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Expenses from doubtful receivables	8,000	*Credit*	Allowance for doubtful receivables	8,000
Debit	Finance costs	850	*Credit*	Trade receivables	850

BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	**35,000**	**55,000**
...	...	...
Receivables and prepayments	**15,000**	**24,150**
Allowance for doubtful receivables	**0**	**-8,000**
...	...	...
TOTAL ASSETS	50,000	71,150
...	...	...
Retained earnings (prior periods)	...	50,000
Profit for the period	50,000	21,150
TOTAL LIABILITIES AND EQUITY	50,000	71,150

INCOME STATEMENT	1 Jan 2021-31 Dec 2021
Revenue	**30,000**
...	...
Expenses from doubtful receivables	**-8,000**
...	...
OPERATING PROFIT (EBIT)	**22,000**
...	...
Finance costs (exchange loss on receivables)	**-850**
...	...
Profit for the period	21,150

Operating profit (EBIT)	**22,000**
Finance income related to operating activities = 0	0
Finance costs related to operating activities = -850	-850
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**21,150**
Change in working capital (excl. cash and cash equivalents) = (24,150-8,000-15,000)-(0-0)	1,150
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**1,150**
Of which change in operating receivables = (24,150-8,000-15,000)	1,150
Of which change in inventories	0
Of which change in operating payables	0



STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 202	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**22,000**
Adjustments for:		
...		...
Finance costs related to operating activities		**-850**
Change in operating receivables and prepayments		**-1,150**
...		...
Receipts from customers	**20,000**	
...	**...**	
Total cash flow from operating activities	**20,000**	**20,000**
...	...	...
Total cash flow from investing activities	0	0
...	...	...
Total cash flow from financing activities	0	0
Total cash flow	20,000	20,000
Cash and cash equivalents at beginning of period	35,000	35,000
Change in cash and cash equivalents	20,000	20,000
...	...	...
Cash and cash equivalents at end of period	55,000	55,000

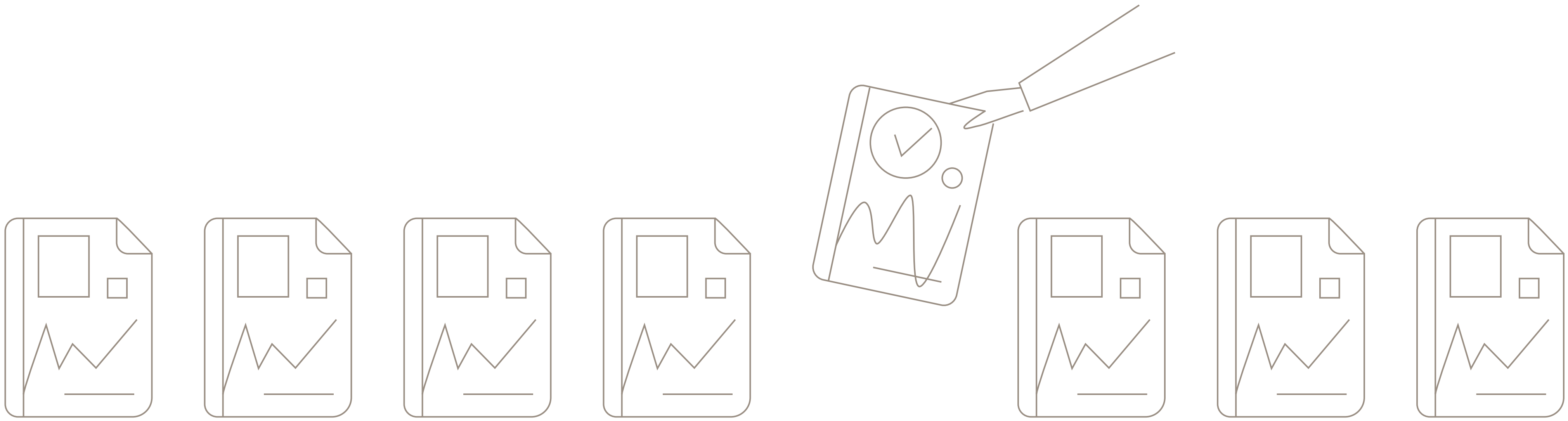
Commentary:

- To obtain net cash flow from operating activities under the indirect method, operating profit has to be adjusted for the change in operating receivables. The balance of receivables increased by the period-end. Thus, the adjustment is negative compared to the revenue recognised in the income statement (a comparable portion of revenue was not received during the period).
- If part of the change in the value of receivables has been recognised in finance income and/or finance costs in the income statement (and has not affected operating profit), those income and/or costs have to be added to operating profit (EBIT) in identifying operating profit from operating activities (EBITDA).
- Since the results of investing and financing activities did not affect receivables and operating profit, there is no need to make additional adjustments.
- Value adjustments to inventories and operating payables that have not affected operating profit behave similarly in the indirect method statement of cash flows.
- CHECKING THE RESULTS: Under both methods, the total amounts of cash flows from operating activities, investing activities, and financing activities as well as the total cash flow have to be the same.

SPECIAL CASES

Special case	Why a special case?	Examples and explanations
Reporting cash flows on a net basis,instead of a gross basis, i.e. cases where it is not reasonable to disclose additional items in presenting cash receipts and cash payments in the statement of cash flows	As a rule, entities report cash flows on a gross basis, i.e. by summarising cash receipts and cash payments into separate gross classes because this provides a better overview of their cash inflows and outflows. Exceptions include cases where separate presentation of cash receipts and cash payments would not provide significant additional information (would obscure reporting by the inclusion of insignificant detail).	**Example:** Receipts from the sale of non-current assets are significantly (times) larger than payments for the acquisition of non-current assets and the amount of the payments is also insignificant compared to the amounts of other line items in the statement of cash flows. As a rule, in reporting cash flows on a gross basis, two line items should be presented in the statement of cash flows: ▸ Proceeds from sale of non-current assets; ▸ Payments for non-current assets. However, to improve the conciseness of the statement of cash flows, the entity should consider presenting only one line item (net cash flow): ▸ Cash flow from sale and acquisition of non-current assets.
	Exceptions include cases where cash receipts and cash payments reflect the activities of an entity's customers or business partners rather than those of the entity itself.	**Example:** An entity acts as an intermediary (an agent) for customers' cash receipts and cash payments (e.g. financial institutions' client accounts; intermediaries of securities transactions, etc.) in such a manner that the risks associated with the transactions are substantively borne by the customers and/or their stakeholder groups. In situations, where the entity cannot withdraw from the transaction when customers or stakeholder groups do not meet their obligations, reporting cash flows on a net basis is probably not justified.
	Exceptions include cases where cash receipts and cash payments are for items in which the amounts are large, the turnover is quick, and the maturities are short.	**Example:** There is a significant amount of daily receipts and payments through an account linked to an overdraft facility made available to an entity and the account fluctuates continuously from being positive to being negative and vice versa. In reporting cash flows on a gross basis, two line items should be presented in the statement of cash flows: ▸ Proceeds from an overdraft facility; ▸ Repayments to an overdraft facility. However, summarising such cash receipts and cash payments on a daily basis over an extended period may significantly distort assessments of the volume of the entity's financing activities and to improve the conciseness of the statement of cash flows, the entity should consider presenting only one line item (net cash flow): ▸ Cash flows from use of an overdraft facility (Change in overdraft balance)
Foreign currency cash flows, i.e. changes in cash and cash equivalents that did not arise from cash receipts or cash payments	The balance of cash and cash equivalents usually changes due to cash inflows or outflows (receipts or payments). However, the amount of cash equivalents denominated in a foreign currency that has a floating exchange rate may change in the presentation currency even without cash flow, i.e. due to changes in the exchange rate.	**Example:** An entity presents its financial statements in euros. At the beginning and end of the reporting period, it has cash equivalents of USD 11. During the period, there were no receipts or payments in USD but the USD/EUR exchange rate changed: ▸ Cash and cash equivalents at beginning of period 10.5 euros. ▸ Cash and cash equivalents at end of period 9.9 euros. The change in cash and cash equivalents that did not result from cash flow is thus -0.6 euros.
	In the consolidated financial statements, the transactions of foreign subsidiaries should be reported in the presentation currency using the exchange rate at the date of the transaction. For practical reasons, foreign subsidiaries' items in a financial statement prepared as at a certain date (e.g. the balance sheet) are translated using the closing exchange rate at the reporting date and items in financial statements prepared for a period (e.g. the income statement and the statement of cash flows) are translated using the weighted average exchange rate for the period. Differences between the exchange rates at the date of the transaction, the reporting date, and the average exchange rate for the period affect cash flows and the balances of cash equivalents.	**Example:** A foreign subsidiary has prepared its financial statements in USD, where: ▸ Cash and cash equivalents at beginning of period: USD 11; ▸ Cash receipts of the period: USD 11 (incl. operating, investing and financing activities); ▸ Cash payments of the period: USD 11 (incl. operating, investing and financing activities); ▸ Cash and cash equivalents at end of period: USD 11. By applying closing exchange rates at the reporting dates (see the previous example) to the opening and closing balances and the average exchange rate for the period (1 euro = 1.1 US dollars) to turnovers of the period, the result in euros is 10.5+10-10=9.9, which is mathematically incorrect. The change in cash and cash equivalents that did not result from cash flow is thus -0.6 euros.
Taxes on income, i.e. cases where for practical considerations it is not reasonable to specifically identify cash receipts and cash payments of income tax with operating, investing and financing activities	In the income statement of an entity, usually the results of all three activities (operating, investing, and financing) are recognised and income tax is calculated on the summary result. Accordingly, it may be difficult to specifically identify which portions of income tax are related to operating activities, investing activities, and financing activities.	**Example:** When income tax is classified as cash flow from operating activities, then in identifying net cash flow from operating activities by adjusting operating profit (EBIT) under the indirect method: ▸ Accrual-based income tax expense recognised in the income statement or income tax paid during the period have to be deducted from operating profit. ▸ When accrual-based income tax expense has been deducted from operating profit, income tax receivable and/or payable is not eliminated from changes in working capital. When income tax paid has been deducted from operating profit, income tax receivable and/or payable has to be eliminated from changes in working capital.

Special case	Why a special case?	Examples and explanations
Interest and dividends, i.e. cases where for practical considerations it is not reasonable to specifically identify relevant cash receipts and cash payments with operating, investing, and financing activities or those items rather accompany operating activities	Interest and dividends are usually related to investing activities (on the side of the investor) or financing activities (on the side of the investee). However, there are interest and dividends that cannot be associated with investing or financing activities such as distributions related to cash and cash equivalents (e.g. interest received on a demand deposit, etc.) or the recognition of gains or losses on operating receivables and payables (e.g. items that reflect the effective interest rate and/or settlement delays) in a specific period.	**Example:** A bank calculated and paid interest of 10 euros on an entity's current account (demand deposit). For the purposes of the statement of cash flows, cash in a demand deposit is a component of cash and cash equivalents. A demand deposit is designed for daily settlements rather than for earning interest income. Therefore, interest received on it constitutes other income from operating activities rather than income from investing activities. When interest and/or dividend income is classified as cash flow from operating activities, then in determining net cash flow from operating activities by adjusting operating profit (EBIT) under the indirect method: ▸ Interest and dividend income recognised in finance income in the income statement or interest and dividends received during the period have to be added to operating profit. ▸ When accrued interest and/or dividend income has been added to operating profit, interest and/or dividends receivable are not eliminated from the change in working capital. When actual interest and/or dividend receipts have been added to operating profit, interest and/or dividends receivables have to be eliminated from the change in working capital.
	There are entities whose principal activity (operating activity) is making transactions with equity and debt instruments, which at other entities could only be classified as investing or financing activities. In such a case, any dividends and interest related to the equity and debt instruments also constitute (other) cash flows from operating activities.	**Example:** A bank calculated and paid interest of 10 euros on a customer's current account (demand deposit). Liabilities arising from customers' demand deposits are part of a bank's regular operating activities even though the liabilities are interest-bearing and they do not constitute financing activities aimed at obtaining funds (borrowings). Since liabilities arising from customers' demand deposits constitute a result of a bank's regular operating activities, interest paid constitutes other expense from the bank's operating activities rather than an expense from financing activities. When interest and/or dividend expenses are classified as cash flow from operating activities, then in determining net cash flow from operating activities by adjusting operating profit (EBIT) under the indirect method: ▸ Interest and/or dividend expenses recognised in finance costs in the income statement or interest and/or dividends paid during the period have to be deducted from operating profit. ▸ When accrued interest and/or dividend expenses have been deducted from operating profit, interest and/or dividends payable are not eliminated from the change in working capital. When actual interest and/or dividend payments have been deducted from operating profit, interest and/or dividends payable have to be eliminated from the change in working capital.
Investments in subsidiaries, associates, and joint ventures and selection of accounting and reporting policies	The accounting and reporting method chosen by the investor, which may be: ▸ the cost method; ▸ the fair value method; ▸ the equity method; ▸ the line-by-line consolidation method, determines how cash flows related to the investee affect the investor's financial statements.	**Example:** Under the cost method and the fair value method, dividends received are recognised as finance income through the income statement but under the equity method dividends received are deducted from the carrying amount of the investment and the decrease in value is not recognised in the income statement. Under the line-by-line consolidation method, transactions between a parent and a subsidiary (incl. dividend payments and receipts) are eliminated in full and they do not affect line items in the consolidated balance sheet and income statement. **Example:** In the preparation of consolidated financial statements, the statement of cash flows cannot be prepared by simply combining line items in the statements of cash flows of the parent and its subsidiaries. Besides those made in the balance sheet and the income statement, adjustments and eliminations resulting from intra-group transactions must also be made in the statement of cash flows.



CONSOLIDATED STATEMENT OF CASH FLOWS AND COMBINING THE STATEMENTS OF CASH FLOWS OF A PARENT AND A SUBSIDIARY

The principles and techniques of preparing a consolidated statement of cash flows do not differ significantly from those of other so-called primary consolidated financial statements. Unless consolidated reporting is based on direct inquiries from databases, in combining/consolidating the statements of cash flows of a parent and a subsidiary intragroup transactions have to be eliminated and other necessary adjustments have to be made.

Although under the indirect method, cash flows from operating activities are not reported by presenting major classes of cash receipts and cash payments, the effect of the elimination of intragroup transactions on operating receivables, inventories, and operating payables has to be taken into account in presenting the consolidated figures.

In addition to eliminating intragroup transactions, the consolidating entity should analyse the need to change the consolidated entities' classification of activities into operating, investing, and financing activities. For example, an activity, which in the subsidiary's statement has been classified as an investing or financing activity may constitute an (other) operating activity for the parent. In that case, the activity has to be presented in the consolidated statement of cash flows (and the balance sheet and the income statement) based on the parent's accounting and reporting policies.

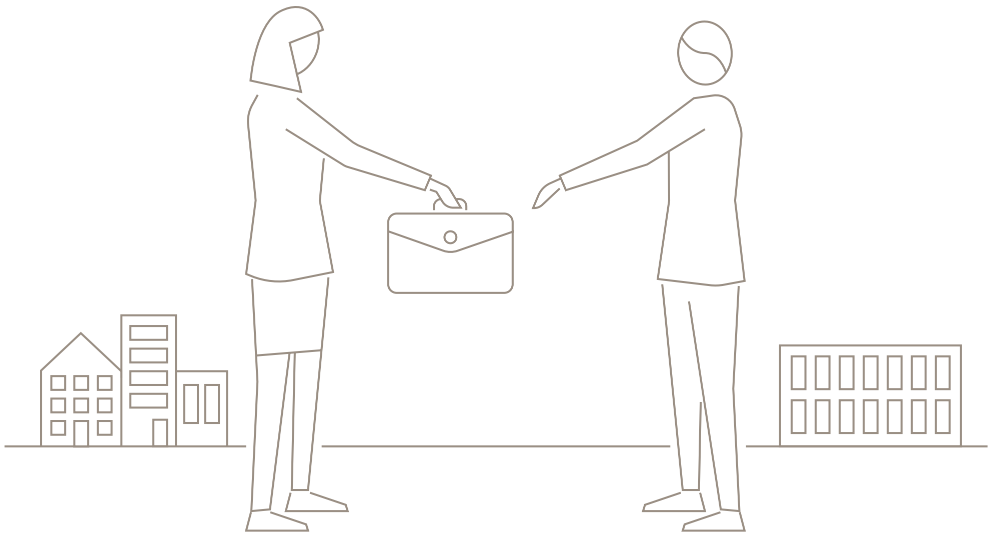
CONSOLIDATED STATEMENT OF CASH FLOWS ON THE ACQUISITION OF A SUBSIDIARY

The rule in preparing consolidated financial statements based on the financial statements of a parent and a subsidiary is that the activities/transactions of the subsidiary are consolidated into (combined with) those of the parent from the date the subsidiary is acquired, i.e. control of the subsidiary is obtained. A parent and a subsidiary usually prepare individual (separate) financial statements. Therefore, in preparing consolidated financial statements, the parent has to add to its figures for the period those of the subsidiary from the date of acquisition. If the subsidiary was not acquired at the beginning (1 January in the following examples) or end (31 December in the following examples) of the financial year, then in preparing consolidated financial statements, it is necessary to prepare the subsidiary's (interim) balance sheet as at the date of acquisition and the figures in the subsidiary's statements for the period (income statement, statement of cash flows, and statement of changes in equity) have to be divided into two parts:

- transactions of the pre-acquisition period, which are not consolidated; and
- transactions of the post-acquisition period, which are consolidated.

Significant differences in preparing a consolidated statement of cash flows compared to a separate (unconsolidated) statement of cash flows are the following:

- The cash paid on the acquisition of a subsidiary is reduced by the amount of cash and cash equivalents recognised in the subsidiary's balance sheet as at the date of acquisition because the balance of cash and cash equivalents changes by the difference between cash paid and cash acquired on the acquisition. If the cash and cash equivalents balance of the acquired subsidiary exceeds the amount of cash paid on acquisition, net cash flow from the acquisition is positive.
- In preparing an indirect method statement of cash flows, the change in operating working capital (excl. cash and cash equivalents) has to be calculated by taking into account the change in the subsidiary's working capital from the date of acquisition (not from the beginning of the subsidiary's financial year).



EXAMPLE: Combining of the cash flows of a parent and a subsidiary

A parent purchased and a subsidiary sold services of 100,000. At the year-end, the amount payable for the services was 25,000. In addition, the parent gave the subsidiary a loan of 250,000 and the subsidiary paid interest of 15,000. The presentation currency is the euro, there are no other relevant disclosures.

STATEMENT OF CASH FLOWS (Indirect method)	PARENT 1 Jan 2021- 31 Dec 2021	SUBSIDIARY 1 Jan 2021- 31 Dec 2021	ELIMI-NATIONS	CONSOLIDATED 1 Jan 2021- 31 Dec 2021
OPERATING PROFIT (EBIT)	-100,000	100,000	0	0
Adjustments for:				
...	...	...	...	...
Change in operating receivables and prepayments	0	-25,000	25,000	0
...	...	...	...	...
Change in operating payables and deferred income	25,000	0	-25,000	0
...	...	...	...	...
Total cash flow from operating activities	**-75,000**	**75,000**	**0**	**0**
...	...	...	...	...
Loans provided	-250,000	0	250,000	0
...	...	...	...	...
Interest received	15,000	0	-15,000	0
...	...	...	...	...
Total cash flow from investing activities	**-235,000**	**0**	**235,000**	**0**
...	...	...	...	...
Proceeds from loans received	0	250,000	-250,000	0
...	...	...	...	...
Interest paid	0	-15,000	15,000	0
...	...	...	...	...
Total cash flow from financing activities	**0**	**235,000**	**-235,000**	**0**
Total cash flow	**-310,000**	**310,000**	**0**	**0**
Cash and cash equivalents at beginning of period	...	...	...	...
Change in cash and cash equivalents	-310,000	310,000	0	0
Cash and cash equivalents at end of period	...	...	...	...

STATEMENT OF CASH FLOWS (Direct method)	PARENT 1 Jan 2021- 31 Dec 2021	SUBSIDIARY 1 Jan 2021- 31 Dec 2021	ELIMI-NATIONS	CONSOLIDATED 1 Jan 2021- 31 Dec 2021
Receipts from customers	0	75,000	-75,000	0
Payments to suppliers	-75,000	0	75,000	0
...	...	...	...	...
Total cash flow from operating activities	**-75,000**	**75,000**	**0**	**0**
...	...	...	...	...
Loans provided	-250,000	0	250,000	0
...	...	...	...	...
Interest received	15,000	0	-15,000	0
...	...	...	...	...
Total cash flow from investing activities	**-235,000**	**0**	**235,000**	**0**
...	...	...	...	...
Proceeds from loans received	0	250,000	-250,000	0
...	...	...	...	...
Interest paid	0	-15,000	15,000	0
...	...	...	...	...
Total cash flow from financing activities	**0**	**235,000**	**-235,000**	**0**
Total cash flow	**-310,000**	**310,000**	**0**	**0**
Cash and cash equivalents at beginning of period	...	...	...	...
Change in cash and cash equivalents	-310,000	310,000	0	0
Cash and cash equivalents at end of period	...	...	...	...

Commentary:

- In the example, the figures in the consolidated statements are zeros because all presented items were intragroup transactions, which are eliminated in consolidation in full.

CONSOLIDATED STATEMENT OF CASH FLOWS ON THE DISPOSAL OF A SUBSIDIARY

The rule in preparing consolidated financial statements based on the financial statements of a parent and a subsidiary is that the activities/transactions of the subsidiary are consolidated into (combined with) those of the parent until the date the subsidiary is disposed of, i.e. control of the subsidiary is lost. A parent and a subsidiary usually prepare individual (separate) financial statements. Therefore, in preparing consolidated financial statements, the parent has to add to its figures for the period those of the subsidiary until the date of disposal.
If the subsidiary was not disposed of at the beginning (1 January in the following examples) or end (31 December in the following examples) of the financial year, then in preparing consolidated financial statements, it is necessary to prepare the subsidiary's (interim) balance sheet as at the date of disposal and the figures in the subsidiary's statements for the period (income statement, statement of cash flows, and statement of changes in equity) have to be divided into two parts:

- transactions of the pre-disposal period, which are consolidated; and
- transactions of the post-disposal period, which are not consolidated.

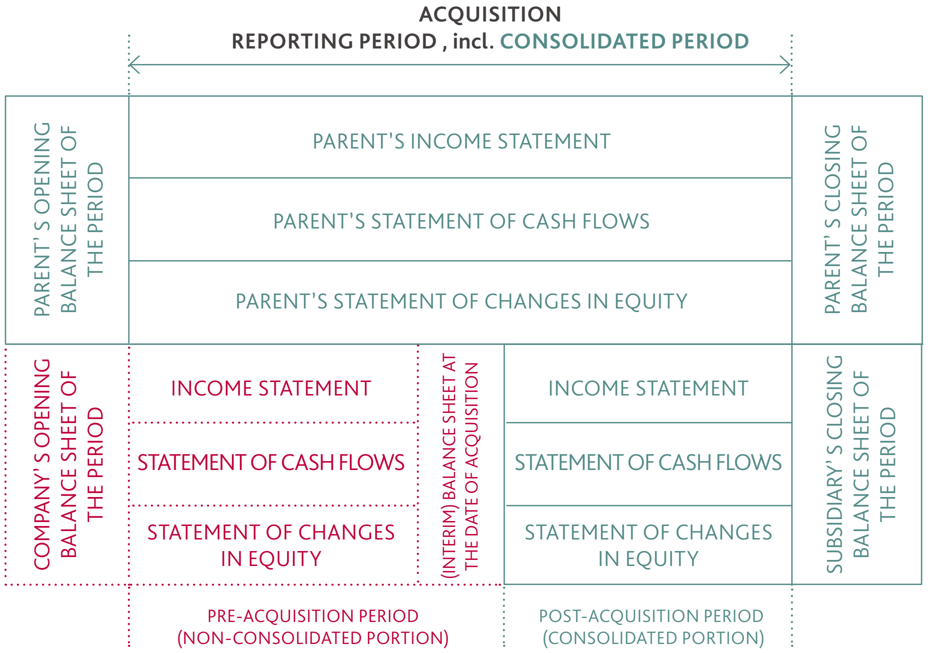
Significant differences in preparing a consolidated statement of cash flows compared to a separate (unconsolidated) statement of cash flows are the following:

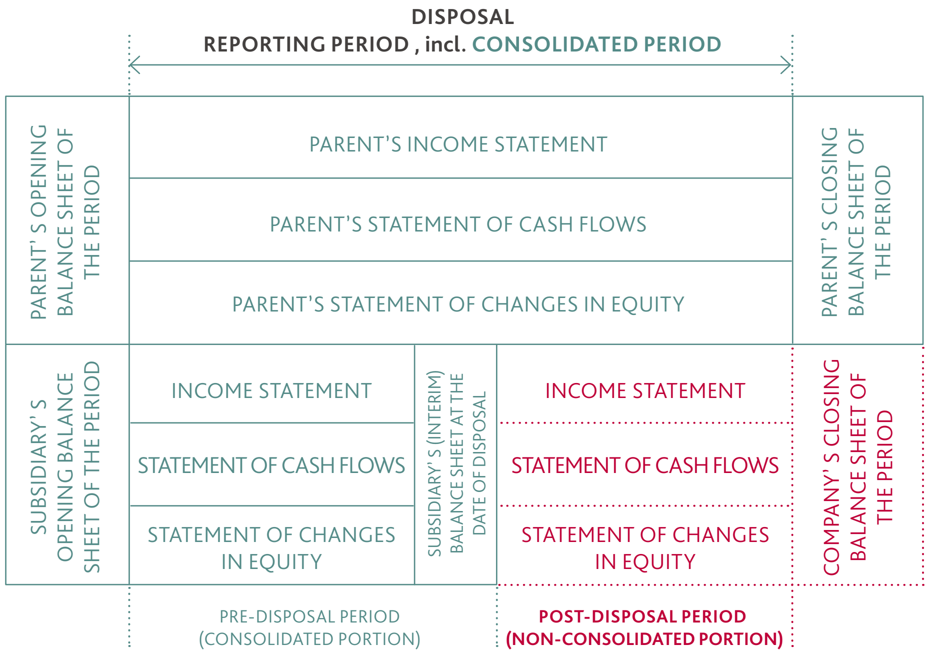
- The cash received on the disposal of a subsidiary is reduced by the amount of cash and cash equivalents recognised in the subsidiary's balance sheet as at the date of disposal because the balance of cash and cash equivalents changes by the difference between cash received and disposed of. If the subsidiary's cash and cash equivalents balance at the date of disposal exceeds the amount of cash received on disposal, net cash flow from the disposal is negative.
- In preparing an indirect method statement of cash flows, the change in operating working capital (excl. cash and cash equivalents) has to be calculated by taking into account the change in the subsidiary's working capital until the date of disposal (i.e. the change in working capital is not the difference between the closing and opening balances of current assets and current liabilities in the consolidated financial statements).

EXAMPLE: Reclassification of investing activities to operating activities
For the parent, providing loans is an operating activity; the subsidiary treats this as an investing activity. Accrued interest income on the loan provided to the subsidiary and interest received during the period was 6,680. At the end of the period, an exchange difference on the loan was recognised in the amount of 5,000. The presentation currency is the euro, there are no other relevant disclosures.

INCOME STATEMENT	PARENT 1 Jan 2021- 31 Dec 2021	SUBSIDIARY 1 Jan 2021- 31 Dec 2021	ELIMI- NATIONS	CONSOLIDATED 1 Jan 2021- 31 Dec 2021
...	...	...	...	...
Other income (income on loans)	**...**	**0**	**11,680**	**11,680**
...	...	...	...	...
OPERATING PROFIT (EBIT)	**...**	**0**	**11,680**	**11,680**
...	...	...	...	...
Interest income	**...**	**6,680**	**-6,680**	**0**
Other finance income and costs	**...**	**5,000**	**-5,000**	**0**
Profit before tax	...	11,680	0	11,680
...	...	...	...	...
Profit for the period	...	11,680	0	11,680

STATEMENT OF CASH FLOWS (Indirect method)	PARENT 1 Jan 2021- 31 Dec 2021	SUBSIDIARY 1 Jan 2021- 31 Dec 2021	ELIMI- NATIONS	CONSOLIDATED 1 Jan 2021- 31 Dec 2021
OPERATING PROFIT (EBIT)	...	0	11,680	11,680
Adjustments for:				
...	...	...	...	...
Change in operating receivables and prepayments	**...**	**0**	**-5,000**	**-5,000**
...	...	...	...	...
Total cash flow from operating activities	...	0	6,680	6,680
...	...	...	...	...
Interest received	**...**	**6,680**	**-6,680**	**0**
...	...	...	...	...
Total cash flow from investing activities	...	6,680	-6,680	0
...	...	...	...	...
Total cash flow from financing activities	...	0	0	0
Total cash flow	...	6,680	0	6,680
Cash and cash equivalents at beginning of period	...	...	...	...
Change in cash and cash equivalents	...	6,680	0	6,680
Cash and cash equivalents at end of period	...	...	...	...





EXAMPLE: Acquisition of a subsidiary and consolidated cash flows

Parent. Financial statements reflect the following transactions: In the previous year, sales of services amounted to 50,000 and year-end trade receivables totalled 15,000. In the reporting period, sales amounted to 30,000 and year-end trade receivables totalled 25,000. At the previous year-end, the inventory balance was 25,000. Inventory purchases (goods and materials) of the reporting period amounted to 14,000 and inventories used and sold amounted to 18,000. Inventories were purchased against payments. At the previous year-end, trade payables for services and supplies totalled 15,000. Purchases of services and supplies of the reporting period amounted to 20,000 and year-end trade payables totalled 25,000. A subsidiary was acquired (100% interest) on 1 December 2021 for 150,000 and at the year-end the amount payable for the acquisition was 115,000. The subsidiary is accounted for using the equity method. The presentation currency is the euro, there are no other relevant disclosures.

PARENT'S GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Inventories	14,000	*Credit*	Cash and cash equivalents	14,000
Debit	Cost of sales	18,000	*Credit*	Inventories	18,000
Debit	Cost of sales	20,000	*Credit*	Payables and deferred income	20,000
Debit	Payables and deferred income	10,000	*Credit*	Cash and cash equivalents	10,000
Debit	Investments in subsidiaries	150,000	*Credit*	Payables and deferred income	150,000
Debit	Payables and deferred income	35,000	*Credit*	Cash and cash equivalents	35,000
Debit	Loss on investments in subsidiaries	8,500	*Credit*	Investments in subsidiaries	8,500
Debit	Loss on investments in subsidiaries	2,208	*Credit*	Investments in subsidiaries	2,208

Simplified calculation of goodwill:

Cost of investment in a subsidiary	150,000
Subsidiary's net assets at the date of acquisition (=25,000+45,000+500)	70,500
Adjustments to net assets	0
Subsidiary's total adjusted net assets:	70,500
100% of net assets	70,500
Goodwill for the parent (=150,000-70,500):	**79,500**
Period of amortisation of goodwill (in months)	36
Amortisation of goodwill per month (straight-line)	-2,208

PARENT'S STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021- 31 Dec 2021	INDIRECT 1 Jan 2021- 31 Dec 2021
OPERATING PROFIT (EBIT)		**-8,000**
Adjustments for:		
Change in operating receivables and prepayments		-10,000
Change in inventories		4,000
Change in operating payables and deferred income		10,000
Receipts from customers	20,000	
Payments to suppliers	-24,000	
Total cash flow from operating activities	**-4,000**	**-4,000**
Paid on acquisition of a subsidiary	-35,000	-35,000
Total cash flow from investing activities	**-35,000**	**-35,000**
Total cash flow from financing activities	**0**	**0**
Total cash flow	**-39,000**	**-39,000**

PARENT'S BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	45,000	6,000
Receivables and prepayments	15,000	25,000
Inventories	25,000	21,000
Investments in subsidiaries	0	139,292
TOTAL ASSETS	**85,000**	**191,292**
Payables and deferred income	15,000	140,000
Share capital	12,000	12,000
Retained earnings (prior periods)	21,000	58,000
Profit for the period	37,000	-18,708
TOTAL LIABILITIES AND EQUITY	**85,000**	**191,292**

PARENT'S INCOME STATEMENT	1 Jan 2021- 31 Dec 2021
Revenue	30,000
Cost of sales	-38,000
OPERATING PROFIT (EBIT)	**-8,000**
Loss on investments in subsidiaries	-10,708
Profit for the period	-18,708

Operating profit (EBIT)	**-8,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-8,000**
Change in working capital (excl. cash and cash equivalents) = (46,000-40,000)-(140,000-15,000)	-119,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(115,000-0))	115,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents	**-4,000**
Of which change in operating receivables = (25,000-15,000)	10,000
Of which change in inventories = (21,000-25,000)	-4,000
Of which change in operating payables = -(25,000-15,000)	-10,000

Subsidiary. Financial statements reflect the following transactions: In the previous year, sales of services amounted to 50,000 and year-end trade receivables totalled 15,000. In the reporting period, sales amounted to 30,000 and year-end trade receivables totalled 25,000. At the previous year-end, the inventory balance was 25,000. Inventory purchases (goods and materials) of the reporting period amounted to 14,000 and inventories used and sold amounted to 18,000. Inventories were purchased against payments. At the previous year-end, trade payables for services and supplies totalled 15,000. Purchases of services and supplies of the reporting period amounted to 20,000 and year-end trade payables totalled 25,000. The subsidiary's financial statements as at or from the date of acquisition (1 December 2021) are presented separately. The presentation currency is the euro, there are no other relevant disclosures.

SUBSIDIARY'S GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Inventories	14,000	*Credit*	Cash and cash equivalents	14,000
Debit	Cost of sales	18,000	*Credit*	Inventories	18,000
Debit	Cost of sales	20,000	*Credit*	Payables and deferred income	20,000
Debit	Payables and deferred income	10,000	*Credit*	Cash and cash equivalents	10,000

SUBSIDIARY'S STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021- 31 Dec 2021	INDIRECT 1 Jan 2021- 31 Dec 2021	DIRECT 1 Dec 2021- 31 Dec 2021	INDIRECT 1 Dec 2021- 31 Dec 2021
OPERATING PROFIT (EBIT)		**-8,000**		**-8,500**
Adjustments for:				
Change in operating receivables and prepayments		-10,000		2,000
Change in inventories		4,000		1,500
Change in operating payables and deferred income		10,000		7,000
Receipts from customers	20,000		4,000	
Payments to suppliers	-24,000		-2,000	
Total cash flow from operating activities	**-4,000**	**-4,000**	**2,000**	**2,000**
Total cash flow from investing activities	**0**	**0**	**0**	**0**
Total cash flow from financing activities	**0**	**0**	**0**	**0**
Total cash flow	**-4,000**	**-4,000**	**2,000**	**2,000**

SUBSIDIARY'S BALANCE SHEET	31 Dec 2020	1 Dec 2021	31 Dec 2021
Cash and cash equivalents	45,000	39,000	41,000
Receivables and prepayments	15,000	27,000	25,000
Inventories	25,000	22,500	21,000
TOTAL ASSETS	**85,000**	**88,500**	**87,000**
Payables and deferred income	15,000	18,000	25,000
Share capital	25,000	25,000	25,000
Retained earnings (prior periods)	20,000	45,000	45,000
Profit for the period	25,000	500	-8,000
TOTAL LIABILITIES AND EQUITY	**85,000**	**88,500**	**87,000**

SUBSIDIARY'S INCOME STATEMENT	1 Jan 2021- 31 Dec 2021	1 Jan 2021- 30 Nov 2021	1 Dec 2021- 31 Dec 2021
Revenue	30,000	28,000	2,000
Cost of sales	-38,000	-27,500	-10,500
OPERATING PROFIT (EBIT)	**-8,000**	**500**	**-8,500**
Profit for the period	-8,000	500	-8,500

Operating profit (EBIT)	**-8,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-8,000**
Change in working capital (excl. cash and cash equivalents) = (46,000-40,000)-(25,000-15,000)	-4,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**-4,000**
Of which change in operating receivables = (25,000-15,000)	10,000
Of which change in inventories = (21,000-25,000)	-4,000
Of which change in operating payables = -(25,000-15,000)	-10,000

Parent's consolidated financial statements. The 100% interest in the subsidiary was acquired as at 1 December 2021 through a transaction with the subsidiary's shareholders. A subsidiary's activities/transactions have to be consolidated with those of the parent from the date of acquisition. There were no transactions between the parent and the subsidiary during the period 1 December-31 December 2021.
The presentation currency is the euro, there are no other relevant disclosures.

CONSOLIDATION ENTRIES (required for the preparation of the consolidated financial statements only):

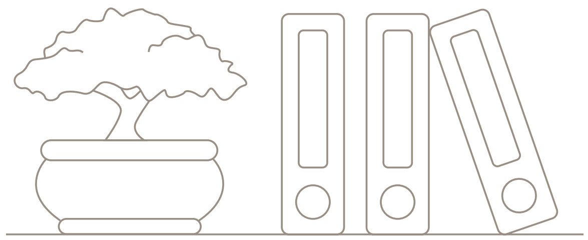
Debit	Investments in subsidiaries	8,500	*Credit*	Loss on investments in subsidiaries	8,500	Elimination of results under the equity method (share of subsidiary's loss)
Debit	Investments in subsidiaries	2,208	*Credit*	Loss on investments in subsidiaries	2,208	Elimination of results under the equity method (amortisation of goodwill)
Debit	Intangible assets (goodwill related to a subsidiary)	79,500	*Credit*	Investments in subsidiaries	79,500	Identification and recognition of goodwill
Debit	Depreciation, amortisation and impairment	2,208	*Credit*	Intangible assets (goodwill related to a subsidiary)	2,208	Identification and recognition of amortisation of goodwill
Debit	Share capital (subsidiary's share capital at acquisition)	25,000				
Debit	Retained earnings (prior periods) (at acquisition of a subsidiary)	20,000	*Credit*	Investments in subsidiaries	45,500	Elimination of subsidiary's net assets at the date of acquisition (against the parent's investment)
Debit	Profit for the period (at acquisition of a subsidiary)	500				

PARENT'S CONSOLIDATED BALANCE SHEET	PARENT		SUBSIDIARY	Adjust-ments	CONSOLIDATED	
	31 Dec 2020	31 Dec 2021	31 Dec 2021		31 Dec 2020	31 Dec 2021
Cash and cash equivalents	45,000	6,000	41,000	0	45,000	47,000
...	...	...	...	...	...	...
Receivables and prepayments	15,000	25,000	25,000	0	15,000	50,000
Inventories	25,000	21,000	21,000	0	25,000	42,000
...	...	...	...	...	...	...
Investments in subsidiaries	0	139,292	0	-139,292	0	0
...	...	...	...	...	...	...
Intangible assets (goodwill related to a subsidiary)	0	0	0	77,292	0	77,292
...	...	...	...	...	...	...
TOTAL ASSETS	**85,000**	**191,292**	**87,000**	**-62,000**	**85,000**	**216,292**
...	...	...	...	...	...	...
Payables and deferred income	15,000	140,000	25,000	0	15,000	165,000
...	...	...	...	...	...	...
Share capital	12,000	12,000	25,000	-25,000	12,000	12,000
...	...	...	...	...	...	...
Retained earnings (prior periods)	21,000	58,000	45,000	-45,000	21,000	58,000
Profit for the period	37,000	-18,708	-8,000	8,000	37,000	-18,708
TOTAL LIABILITIES AND EQUITY	**85,000**	**191,292**	**87,000**	**-62,000**	**85,000**	**216,292**

PARENT'S CONSOLIDATED INCOME STATEMENT	PARENT	SUBSIDIARY	-SUBSIDIARY	Adjust-ments	CONSOLI-DATED
	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-30 Nov 2021		1 Jan 2021-31 Dec 2021
Revenue	30,000	30,000	-28,000	0	32,000
...	...	...	...	...	...
Cost of sales	-38,000	-38,000	27,500	0	-48,500
...	...	...	...	...	...
Depreciation, amortisation and impairment	0	0	0	-2,208	-2,208
...	...	...	...	...	...
OPERATING PROFIT (EBIT)	**-8,000**	**-8,000**	**-500**	**-2,208**	**-18,708**
...	...	...	...	...	...
Loss on investments in subsidiaries	-10,708	0	0	10,708	0
...	...	...	...	...	...
Profit for the period	-18,708	-8,000	-500	8,500	-18,708

PARENT'S CONSOLIDATED STATEMENT OF CASH FLOWS	PARENT		SUBSIDIARY		-SUBSIDIARY		Adjust-ments	CONSOLIDATED	
	DIRECT	INDIRECT	DIRECT	INDIRECT	DIRECT	INDIRECT		DIRECT	INDIRECT
	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-30 Nov 2021	1 Jan 2021-30 Nov 2021		1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-8,000**		**-8,000**		**-500**	**-2,208**		**-18,708**
Adjustments for:									
Depreciation, amortisation and impairment		0		0		0	2,208		2,208
...		...		...		...	...		...
Change in receivables and prepayments		-10,000		-10,000		12,000	0		-8,000
Change in inventories		4,000		4,000		-2,500	0		5,500
Change in payables and deferred income		10,000		10,000		-3,000	0		17,000
...		...		...		...	...		...
Receipts from customers	20,000		20,000		-16,000		0	24,000	
Payments to suppliers	-24,000		-24,000		22,000		0	-26,000	
...	...		...		...		...	...	
Total cash flow from operating activities	**-4,000**	**-4,000**	**-4,000**	**-4,000**	**6,000**	**6,000**	**0**	**-2,000**	**-2,000**
...	...	...	...	...	...	...	...	...	...
Cash flow on acquisition of a subsidiary	-35,000	-35,000	0	0	0	0	39,000	4,000	4,000
...	...	...	...	...	...	...	...	...	...
Total cash flow from investing activities	**-35,000**	**-35,000**	**0**	**0**	**0**	**0**	**39,000**	**4,000**	**4,000**
...	...	...	...	...	...	...	...	...	...
Total cash flow from financing activities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total cash flow	**-39,000**	**-39,000**	**-4,000**	**-4,000**	**6,000**	**6,000**	**39,000**	**2,000**	**2,000**
Cash and cash equivalents at beginning of period	45,000	45,000	45,000	45,000	-45,000	-45,000	0	45,000	45,000
Change in cash and cash equivalents	-39,000	-39,000	-4,000	-4,000	6,000	6,000	39,000	2,000	2,000
...	...	...	...	...	...	...	...	...	...
Cash and cash equivalents at end of period	6,000	6,000	41,000	41,000	-39,000	-39,000	39,000	47,000	47,000

Consolidated operating profit (EBIT)	**-18,708**
Elimination of effect of investing activities on operating profit (amortisation) = -2,208	2,208
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-16,500**
Change in consolidated working capital (excl. cash and cash equivalents) = (50,000+42,000-15,000-25,000-27,000-22,500)-(165,000-15,000-18,000)	-129,500
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(115,000-0))	115,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = -((0-0)-(115,000-0))	0
Change in consolidated operating working capital (excl. cash and cash equivalents)	**-14,500**
Of which change in operating receivables = (50,000-15,000-27,000)	8,000
Of which change in inventories = (42,000-25,000-22,500)	-5,500
Of which change in operating payables = -(50,000-15,000-18,000)	-17,000



EXAMPLE: Disposal of a subsidiary and consolidated cash flows

Parent. Financial statements reflect the following transactions: In the previous year, sales of services amounted to 50,000 and year-end trade receivables totalled 15,000. In the reporting period, sales amounted to 30,000 and year-end trade receivables totalled 25,000. At the previous year-end, the inventory balance was 25,000. Purchases of the period amounted to 14,000 and inventories used and sold amounted to 18,000. Inventories were purchased against payments. At the previous year-end, trade payables for services and consumables totalled 15,000. Purchases of services and consumables of the period amounted to 20,000 and year-end trade payables totalled 25,000. A subsidiary was disposed of (100% interest) on 1 December 2021 for 150,000 and at the year-end the amount receivable for the disposal was 115,000. The subsidiary was accounted for using the equity method. The presentation currency is the euro, there are no other relevant disclosures.

PARENT'S GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Inventories	14,000	*Credit*	Cash and cash equivalents	14,000
Debit	Cost of sales	18,000	*Credit*	Inventories	18,000
Debit	Cost of sales	20,000	*Credit*	Payables and deferred income	20,000
Debit	Payables and deferred income	10,000	*Credit*	Cash and cash equivalents	10,000
Debit	Profit on investments in subsidiaries	23,617	*Credit*	Investments in subsidiaries	23,617
Debit	Investments in subsidiaries	500	*Credit*	Profit on investments in subsidiaries	500
Debit	Trade receivables	150,000	*Credit*	Investments in subsidiaries	124,175
			Credit	Profit on investments in subsidiaries	25,825
Debit	Cash and cash equivalents	35,000	*Credit*	Trade receivables	35,000

PARENT'S BALANCE SHEET	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	45,000	76,000
Receivables and prepayments	15,000	140,000
Inventories	25,000	21,000
Investments in subsidiaries	147,292	0
TOTAL ASSETS	**232,292**	**237,000**
Payables and deferred income	15,000	25,000
Share capital	12,000	12,000
Retained earnings (prior periods)	224,000	205,292
Profit for the period	-18,708	-5,292
TOTAL LIABILITIES AND EQUITY	**232,292**	**237,000**

PARENT'S INCOME STATEMENT	1 Jan 2021-31 Dec 2021
Revenue	30,000
Cost of sales	-38,000
OPERATING PROFIT (EBIT)	**-8,000**
Profit on investments in subsidiaries	2,708
Profit for the period	-5,292

PARENT'S STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-8,000**
Adjustments for:		
Change in operating receivables and prepayments		-10,000
Chang in inventories		4,000
Change in operating payables and deferred income		10,000
Receipts from customers	20,000	
Payments to suppliers	-24,000	
Total cash flow from operating activities	**-4,000**	**-4,000**
Proceeds from sale of subsidiaries	35,000	35,000
Total cash flow from investing activities	**35,000**	**35,000**
Total cash flow from financing activities	**0**	**0**
Total cash flow	**31,000**	**31,000**

Operating profit (EBIT)	**-8,000**
Elimination of effect of investing activities on operating profit = 0	0
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-8,000**
Change in working capital (excl. cash and cash equivalents) = (140,000-15,000+21,000-25,000)-(25,000-15,000)	111,000
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((115,000-0)-(0-0))	-115,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in operating working capital (excl. cash and cash equivalents)	**-4,000**
Of which change in operating receivables = (25,000-15,000)	10,000
Of which change in inventories = (21,000-25,000)	-4,000
Of which change in operating payables = -(25,000-15,000)	-10,000

Simplified calculation of goodwill:

Cost of investment in a subsidiary	160,000
Subsidiary's adjusted net assets at the date of acquisition	80,561
Positive goodwill at the date of acquisition	79,439
Prior periods' amortisation of goodwill	-2,147
Carrying amount of goodwill for the parent at 31 Dec 2020:	**77,292**
Period of amortisation of goodwill (in months)	36
Amortisation of goodwill per month (straight-line)	-2,147
Amortisation of goodwill (straight-line) 11 months	-23,617
Carrying amount of goodwill at 30 Nov 2021	**53,675**

Simplified calculation of the results of the disposal:

Sales price of the subsidiary	150,000
Value of subsidiary under the equity method at beginning of year	147,292
Prior periods' result under the equity method	-12,708
Added to the investment: result under the equity method for 1 Jan-30 Nov 2021	-23,117
Value of subsidiary at disposal on 30 Nov 2021	124,175
Gain on sale of the subsidiary (=150,000-124,175):	**25,825**

Subsidiary. Financial statements reflect the following transactions: In the previous year, sales of services amounted to 50,000 and year-end trade receivables totalled 15,000. In the reporting period, sales amounted to 30,000 and year-end trade receivables totalled 25,000. At the previous year-end, the inventory balance was 25,000. Purchases of the period amounted to 14,000 and inventories used and sold amounted to 18,000. Inventories were purchased against payments. At the previous year-end, trade payables for services and consumables totalled 15,000. Purchases of services and consumables of the period amounted to 20,000 and year-end trade payables totalled 25,000. The subsidiary's financial statements as at the date of disposal (1 December 2021) are presented separately. The presentation currency is the euro, there are no other relevant disclosures.

SUBSIDIARY'S STATEMENT OF CASH FLOWS	DIRECT 1 Jan 2021-31 Dec 2021	INDIRECT 1 Jan 2021-31 Dec 2021	DIRECT 1 Jan 2021-30 Nov 2021	INDIRECT 1 Jan 2021-30 Nov 2021
OPERATING PROFIT (EBIT)		**-8,000**		**500**
Adjustments for:				
Change in operating receivables and prepayments		-10,000		-12,000
Change in inventories		4,000		2,500
Change in operating payables and deferred income		10,000		3,000
Receipts from customers	20,000		16,000	
Payments to suppliers	-24,000		-22,000	
Total cash flow from operating activities	**-4,000**	**-4,000**	**-6,000**	**-6,000**
Total cash flow from investing activities	**0**	**0**	**0**	**0**
Total cash flow from financing activities	**0**	**0**	**0**	**0**
Total cash flow	**-4,000**	**-4,000**	**-6,000**	**-6,000**

SUBSIDIARY'S GENERAL LEDGER:

Debit	Trade receivables	30,000	*Credit*	Revenue	30,000
Debit	Cash and cash equivalents	20,000	*Credit*	Trade receivables	20,000
Debit	Inventories	14,000	*Credit*	Cash and cash equivalents	14,000
Debit	Cost of sales	18,000	*Credit*	Inventories	18,000
Debit	Cost of sales	20,000	*Credit*	Payables and deferred income	20,000
Debit	Payables and deferred income	10,000	*Credit*	Cash and cash equivalents	10,000

	1 Jan 2021-31 Dec 2021	1 Jan 2021-30 Nov 2021
Operating profit (EBIT)	**-8,000**	**500**
Elimination of effect of investing activities on operating profit = 0	0	0
Elimination of effect of financing activities on operating profit = 0	0	0
Operating profit from operating activities (EBITDA)	**-8,000**	**500**
Change in working capital (excl. cash and cash equivalents)	-4,000	6,500
Effect of investing activities on change in working capital (excl. cash and cash equivalents)	0	0
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0	0
Change in operating working capital (excl. cash and cash equivalents)	**-4,000**	**6,500**
Of which change in operating receivables	10,000	12,000
Of which change in inventories	-4,000	-2,500
Of which change in operating payables	-10,000	-3,000

SUBSIDIARY'S BALANCE SHEET	31 Dec 2020	1 Dec 2021	31 Dec 2021	*Change 1 Jan 2021-30 Nov 2021*
Cash and cash equivalents	45,000	39,000	41,000	*-6,000*
Receivables and prepayments	15,000	27,000	25,000	*12,000*
Inventories	25,000	22,500	21,000	*-2,500*
TOTAL ASSETS	**85,000**	**88,500**	**87,000**	*3,500*
Payables and deferred income	15,000	18,000	25,000	*3,000*
Share capital	25,000	25,000	25,000	*0*
Retained earnings (prior periods)	20,000	45,000	45,000	*25,000*
Profit for the period	25,000	500	-8,000	*-24,500*
TOTAL LIABILITIES AND EQUITY	**85,000**	**88,500**	**87,000**	*3,500*

SUBSIDIARY'S INCOME STATEMENT	1 Jan 2021-31 Dec 2021	1 Jan 2021-30 Nov 2021
Revenue	30,000	28,000
Cost of sales	-38,000	-27,500
OPERATING PROFIT (EBIT)	**-8,000**	**500**
Profit for the period	-8,000	500

Parent's consolidated financial statements. The 100% interest in the subsidiary was disposed of as at 1 December 2021 through the sale of the subsidiary. A subsidiary's activities/transactions have to be consolidated with those of the parent until the date of disposal. There were no transactions between the parent and the subsidiary during the period 1 January-30 November 2021.
The presentation currency is the euro, there are no other relevant disclosures.

CONSOLIDATION ENTRIES (required for the preparation of the consolidated financial statements only):

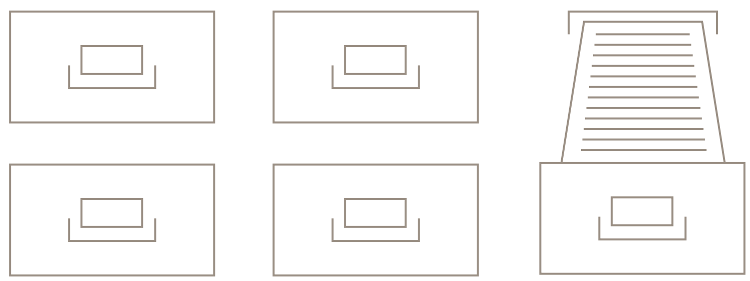
Opening balances for the reporting period:						
Debit	Share capital (subsidiary's share capital)	25,000	*Credit*	Investments in subsidiaries	80,561	Elimination of subsidiary's net assets at the date of acquisition (against the parent's investment)
Debit	Retained earnings (prior periods)(subsidiary's earnings at acquisition)	55,561				
Debit	Intangible assets (goodwill related to a subsidiary)	79,439	*Credit*	Investments in subsidiaries	79,439	Identification and recognition of goodwill
Debit	Investments in subsidiaries	10,561	*Credit*	Retained earnings (prior periods)	10,561	Elimination of prior periods' results under the equity method (share of subsidiary's loss and amortisation of goodwill)
Debit	Investments in subsidiaries	2,147	*Credit*	Retained earnings (prior periods)	2,147	
Debit	Retained earnings (prior periods)	2,147	*Credit*	Intangible assets (goodwill related to a subsidiary)	2,147	Identification and recognition of prior periods' amortisation of goodwill
Transactions of the reporting period:						
Debit	Profit on investments in subsidiaries	500	*Credit*	Investments in subsidiaries	500	Elimination of the effects of the equity method for the reporting period (share of subsidiary's profit and amortisation of goodwill)
Debit	Investments in subsidiaries	23,617	*Credit*	Profit on investments in subsidiaries	23,617	
Debit	Depreciation, amortisation and impairment	23,617	*Credit*	Intangible assets (goodwill related to a subsidiary)	23,617	Identification and recognition of amortisation of goodwill

PARENT'S CONSOLIDATED BALANCE SHEET	PARENT		SUBSIDIARY	Adjustments	CONSOLIDATED	
	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2020	31 Dec 2020	31 Dec 2021
Cash and cash equivalents	45,000	76,000	45,000	0	90,000	76,000
...	...	...	...	...	...	...
Receivables and prepayments	15,000	140,000	15,000	0	30,000	140,000
Inventories	25,000	21,000	25,000	0	50,000	21,000
...	...	...	...	...	...	...
Investments in subsidiaries	147,292	0	0	-147,292	0	0
...	...	...	...	...	...	...
Intangible assets (goodwill related to a subsidiary)	0	0	0	77,292	77,292	0
...	...	...	...	...	...	...
TOTAL ASSETS	**232,292**	**237,000**	**85,000**	**-70,000**	**247,292**	**237,000**
...	...	...	...	...	...	...
Payables and deferred income	15,000	25,000	15,000	0	30,000	25,000
...	...	...	...	...	...	...
Share capital	12,000	12,000	25,000	-25,000	12,000	12,000
...	...	...	...	...	...	...
Retained earnings (prior periods)	224,000	205,292	20,000	-20,000	224,000	205,292
Profit for the period	-18,708	-5,292	25,000	-25,000	-18,708	-5,292
TOTAL LIABILITIES AND EQUITY	**232,292**	**237,000**	**85,000**	**-70,000**	**247,292**	**237,000**

PARENT'S CONSOLIDATED INCOME STATEMENT	PARENT	SUBSIDIARY	Adjust-ments	CONSOLI-DATED
	1 Jan 2021-31 Dec 2021	1 Jan 2021-30 Nov 2021		1 Jan 2021-31 Dec 2021
Revenue	30,000	28,000	0	58,000
...	...	...	...	...
Cost of sales	-38,000	-27,500	0	-65,500
...	...	...	...	...
Depreciation, amortisation and impairment	0	0	-23,617	-23,617
...	...	...	...	...
OPERATING PROFIT (EBIT)	**-8,000**	**500**	**-23,617**	**-31,117**
...	...	...	...	...
Profit on investments in subsidiaries	2,708	0	23,117	25,825
...	...	...	...	...
Profit for the period	-5,292	500	-500	-5,292

PARENT'S CONSOLIDATED STATEMENT OF CASH FLOWS	PARENT		SUBSIDIARY		Adjust-ments	CONSOLIDATED	
	DIRECT	INDIRECT	DIRECT	INDIRECT		DIRECT	INDIRECT
	1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021	1 Jan 2021-30 Nov 2021	1 Jan 2021-30 Nov 2021		1 Jan 2021-31 Dec 2021	1 Jan 2021-31 Dec 2021
OPERATING PROFIT (EBIT)		**-8,000**		**500**	**-23,617**		**-31,117**
Adjustments for:							
Depreciation, amortisation and impairment		0		0	23,617		23,617
...		...		...	...		...
Change in receivables and prepayments		-10,000		-12,000	0		-22,000
Change in inventories		4,000		2,500	0		6,500
Change in payables and deferred income		10,000		3,000	0		13,000
...		...		...	...		...
Receipts from customers	20,000		16,000		0	36,000	
Payments to suppliers	-24,000		-22,000		0	-46,000	
...	...		...		...	...	
Total cash flow from operating activities	**-4,000**	**-4,000**	**-6,000**	**-6,000**	**0**	**-10,000**	**-10,000**
...	...	...	...	...	...	...	...
Cash flow on disposal of a subsidiary	35,000	35,000	0	0	-39,000	-4,000	-4,000
...	...	...	...	...	...	...	...
Total cash flow from investing activities	**35,000**	**35,000**	**0**	**0**	**-39,000**	**-4,000**	**-4,000**
...	...	...	...	...	...	...	...
Total cash flow from financing activities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total cash flow	**31,000**	**31,000**	**-6,000**	**-6,000**	**-39,000**	**-14,000**	**-14,000**
Cash and cash equivalents at beginning of period	45,000	45,000	45,000	45,000	0	90,000	90,000
Change in cash and cash equivalents	31,000	31,000	-6,000	-6,000	-39,000	-14,000	-14,000
...	...	...	...	...	...	...	...
Cash and cash equivalents at end of period	76,000	76,000	39,000	39,000	-39,000	76,000	76,000

Consolidated operating profit (EBIT)	**-31,117**
Elimination of effect of investing activities on operating profit (amortisation) = -23,617	23,617
Elimination of effect of financing activities on operating profit = 0	0
Operating profit from operating activities (EBITDA)	**-7,500**
Change in consolidated working capital (excl. cash and cash equivalents) = (140,000-30,000+21,000-50,000+27,000+22,500)-(25,000-30,000+18,000)	117,500
Effect of investing activities on change in working capital (excl. cash and cash equivalents) = -((115,000-0)-(0-0))	-115,000
Elimination of effect of financing activities on change in working capital (excl. cash and cash equivalents) = 0	0
Change in consolidated operating working capital (excl. cash and cash equivalents)	**2,500**
Of which change in operating receivables = (25,000-30,000+27,000)	22,000
Of which change in inventories = (21,000-50,000+22,500)	-6,500
Of which change in operating payables = -(25,000-30,000+18,000)	-13,000



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In today's rapidly evolving economy and regulatory environment, the right guidance is more important than ever. BDO professionals draw on extensive private and public sector experience and global resources to help clients navigate change and find the most suitable solutions.

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MARILIIS RAHKEMA
Partner, Head of Audit & Assurance Services,
Certified Public Accountant, Certified Public Sector Accountant
Tel +372 5554 3915
mariliis.rahkema@bdo.ee

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TERJE KAASIK
Partner, Head of Payroll & Reporting Services
Tel +372 5905 8975
terje.kaasik@bdo.ee

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KAROLIINA TRETER
Partner, Head of Accounting and Reporting Services
Tel +372 521 0529
karoliina.treter@bdo.ee

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TIIU MÕTTUS
Partner, Head of Tax
& Legal Services
Tel +372 564 0358
tiiu.mottus@bdo.ee

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GLEN MADIS
Head of Financial
Advisory Services
Tel +372 518 0636
glen.madis@bdo.ee

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Registry number 12252563
VAT payer number: EE101525455

BDO ESTONIA PAYROLL & ACCOUNTING OÜ
Registry number 14648992
VAT payer number: EE102131233

Avala, Veskiposti 2
10138 Tallinn
Phone +372 627 5500
adm@bdo.ee
www.bdo.ee

Strategist: Sulev Luiga
Project manager: Karin Luiga
Translation: Inga Aarpuu
Design: Brand New Day
Photos: Gert Kelu, Egert Kamenik

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