This IFRS Supplement provides expanded discussions of accounting guidance under International Financial Reporting Standards (IFRS) for the topics in Intermediate Accounting. The discussions are organized according to the chapters in Intermediate Accounting (13th or 14th Editions) and therefore can be used to supplement the U.S. GAAP requirements as presented in the textbook. Assignment material is provided for each supplement chapter, which can be used to assess and reinforce student understanding of IFRS.

**DISCLOSURES**

**Significant Non-Cash Transactions**

Because the statement of cash flows reports only the effects of operating, investing, and financing activities in terms of cash flows, it omits some significant non-cash transactions and other events that are investing or financing activities. Among the more common of these non-cash transactions that a company should report or disclose in some manner are the following.

1. Acquisition of assets by assuming liabilities (including finance lease obligations) or by issuing equity securities.
2. Exchanges of non-monetary assets.
3. Refinancing of long-term debt.
4. Conversion of debt or preference shares to ordinary shares.
5. Issuance of equity securities to retire debt.

Investing and financing transactions that do not require the use of cash are excluded from the statement of cash flows. [1] If material in amount, these disclosures may be either narrative or summarized in a separate schedule. This schedule may appear in a separate note or supplementary schedule to the financial statements. [1] Illustration 23-1 shows the presentation of these significant non-cash transactions or other events in a separate schedule in the notes to the financial statements.

Companies do not generally report certain other significant non-cash transactions or other events in conjunction with the statement of cash flows. Examples of these types of transactions are share dividends, share splits, and restrictions on retained earnings. Companies generally report these items, neither financing nor investing activities, in conjunction with the statement of changes in equity or schedules and notes pertaining to changes in equity accounts.

**Note G: Significant non-cash transactions.** During the year, the company engaged in the following significant non-cash investing and financing transactions:

- Issued 250,000 ordinary shares to purchase land and building $1,750,000
- Exchanged land in Steadfast, New York, for land in Bedford, Pennsylvania $2,000,000
- Converted 12% bonds to 50,000 ordinary shares $ 500,000

[1] Some non-cash investing and financing activities are part cash and part non-cash. Companies should report only the cash portion on the statement of cash flows. The non-cash component should be reported in a separate note.
Special Disclosures

IAS 7 indicates that cash flows related to interest received and paid, and dividends received and paid, should be separately disclosed in the statement of cash flows. Each item should be classified in a consistent manner from period to period as operating, investing, or financing cash flows. For homework purposes classify interest received and paid and dividends received as part of cash flows from operating activities and dividends paid as cash flows from financing activities. The justification for reporting the first three items in cash flows from operating activities is that each item affects net income. Dividends paid, however, do not affect net income and are often considered a cost of financing.

Companies should also disclose income taxes paid separately in the cash flows from operating activities unless they can be separately identified as part of investing or financing activities. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. IFRS requires that the cash paid for taxes, as well as cash flows from interest and dividends received and paid, be disclosed. The category (operating, investing, or financing) that each item was included in must be disclosed as well.

An example of such a disclosure from the notes to Daimler’s (DEU) financial statement is provided in Illustration 23-2.

**ILLUSTRATION 23-2**

**Note Disclosure of Interest, Taxes, and Dividends**

<table>
<thead>
<tr>
<th>Daimler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating activities includes the following cash flows:</td>
</tr>
<tr>
<td>(in millions of €)</td>
</tr>
<tr>
<td>Interest paid</td>
</tr>
<tr>
<td>Interest received</td>
</tr>
<tr>
<td>Income taxes paid, net</td>
</tr>
<tr>
<td>Dividends received</td>
</tr>
</tbody>
</table>

Other companies choose to report these items directly in the statement of cash flows. In many cases, companies start with income before income taxes and then show income taxes paid as a separate item. In addition, they often add back interest expense on an accrual basis and then subtract interest paid. Reporting these items in the operating activities section is shown for Mermel Company in Illustration 23-3.

**ILLUSTRATION 23-3**

**Reporting of Interest, Taxes, and Dividends in the Operating Section**

<table>
<thead>
<tr>
<th>MERMEL COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STATEMENT OF CASH FLOWS ($000,000)</strong></td>
</tr>
<tr>
<td><strong>(OPERATING ACTIVITIES SECTION ONLY)</strong></td>
</tr>
<tr>
<td>Income before income tax</td>
</tr>
<tr>
<td>Adjustments to reconcile income before income tax to net cash provided by operating activities</td>
</tr>
<tr>
<td>Depreciation expense</td>
</tr>
<tr>
<td>Interest expense</td>
</tr>
<tr>
<td>Investment revenue</td>
</tr>
<tr>
<td>Decrease in inventories</td>
</tr>
<tr>
<td>Increase in trade receivables</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Cash generated from operations</td>
</tr>
<tr>
<td>Interest paid</td>
</tr>
<tr>
<td>Income taxes paid</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
</tr>
</tbody>
</table>

Companies often provide a separate section to identify interest and income taxes paid.
AUTHORITATIVE LITERATURE

Authoritative Literature References


QUESTIONS

1. Classify the following items as (1) operating, (2) investing, (3) financing, or (4) significant non-cash investing and financing activities, using the direct method.
   (a) Cash payments to employees.
   (b) Redemption of bonds payable.
   (c) Sale of building at book value.
   (d) Cash payments to suppliers.
   (e) Exchange of equipment for furniture.
   (f) Issuance of preference shares.
   (g) Cash received from customers.
   (h) Purchase of treasury shares.
   (i) Issuance of bonds for land.
   (j) Payment of dividends.
   (k) Purchase of equipment.
   (l) Cash payments for operating expenses.

2. Stan Conner and Mark Stein were discussing the statement of cash flows of Bombeck Co. In the notes to the statement of cash flows was a schedule entitled “Non-cash investing and financing activities.” Give three examples of significant non-cash transactions that would be reported in this schedule.

EXERCISES

E23-1 (Classification of Transactions) Springsteen Co. had the following activity in its most recent year of operations.

(a) Pension expense exceeds amount funded.
(b) Redemption of bonds payable.
(c) Sale of building at book value.
(d) Depreciation.
(e) Exchange of equipment for furniture.
(f) Issuance of ordinary shares.
(g) Amortization of intangible assets.
(h) Purchase of treasury shares.
(i) Issuance of bonds for land.
(j) Payment of dividends.
(k) Increase in interest receivable on notes receivable.
(l) Purchase of equipment.

Instructions
Classify the items as (1) operating—add to net income; (2) operating—deduct from net income; (3) investing; (4) financing; or (5) significant non-cash investing and financing activities. Use the indirect method.

E23-2 (Classification of Transactions) Following are selected statement of financial position accounts of Sander Bros. Corp. at December 31, 2010 and 2009, and the increases or decreases in each account from 2009 to 2010. Also presented is selected income statement information for the year ended December 31, 2010, and additional information.

<table>
<thead>
<tr>
<th>Selected statement of financial position accounts</th>
<th>2010</th>
<th>2009</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>$277,000</td>
<td>$247,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(178,000)</td>
<td>(167,000)</td>
<td>(11,000)</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>34,000</td>
<td>24,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>
Equity and liabilities
Share capital—ordinary, $1 par $ 22,000 $ 19,000 $ 3,000
Share premium—ordinary 9,000 3,000 6,000
Retained earnings 104,000 91,000 13,000
Bonds payable 49,000 46,000 3,000
Dividends payable 8,000 5,000 3,000

Selected income statement information for the year ended December 31, 2010
Sales revenue $ 155,000
Depreciation 38,000
Gain on sale of equipment 14,500
Net income 31,000

Additional information:
1. During 2010, equipment costing $45,000 was sold for cash.
2. Accounts receivable relate to sales of merchandise.
3. During 2010, $25,000 of bonds payable were issued in exchange for property, plant, and equipment. There was no amortization of bond discount or premium.

Instructions
Determine the category (operating, investing, or financing) and the amount that should be reported in the statement of cash flows for the following items.

(a) Payments for purchase of property, plant, and equipment.
(b) Proceeds from the sale of equipment.
(c) Cash dividends paid.
(d) Redemption of bonds payable.

E23-3 (Classification of Transactions) In 2010, Leppard Inc. issued 1,000 ordinary shares of $10 par value for land worth $40,000.

Instructions
(a) Prepare Leppard’s journal entry to record the transaction.
(b) Indicate the effect the transaction has on cash.
(c) Indicate how the transaction is reported on the statement of cash flows.

P23-1 (SCF—Indirect Method) The comparative statements of financial position for Hinckley Corporation show the following information.
Additional data related to 2010 are as follows.

1. Equipment that had cost $11,000 and was 40% depreciated at time of disposal was sold for $2,500.
2. $10,000 of the long-term note payable was paid by issuing ordinary shares.
3. Cash dividends paid were $5,000.
4. On January 1, 2010, the building was completely destroyed by a flood. Insurance proceeds on the building were $32,000.
5. Equity investments (non-trading) were sold at $1,700 above their cost.
6. Cash was paid for the acquisition of equipment.
7. A long-term note for $16,000 was issued for the acquisition of equipment.
8. Interest of $2,000 and income taxes of $6,500 were paid in cash.

**Instructions**

Prepare a statement of cash flows using the indirect method.

---

P23-2 (Indirect SCF) Dingel Corporation has contracted with you to prepare a statement of cash flows. The controller has provided the following information.

<table>
<thead>
<tr>
<th>December 31</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$38,500</td>
<td>$13,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>12,250</td>
<td>10,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>12,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Equity investments (non-trading)</td>
<td>–0–</td>
<td>3,000</td>
</tr>
<tr>
<td>Building</td>
<td>–0–</td>
<td>29,750</td>
</tr>
<tr>
<td>Equipment</td>
<td>40,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Copyright</td>
<td>5,000</td>
<td>5,250</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$107,750</strong></td>
<td><strong>$91,000</strong></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>$3,000</td>
<td>$4,500</td>
</tr>
<tr>
<td>Accumulated depreciation on equipment</td>
<td>2,000</td>
<td>4,500</td>
</tr>
<tr>
<td>Accumulated depreciation on building</td>
<td>–0–</td>
<td>6,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>5,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>–0–</td>
<td>5,000</td>
</tr>
<tr>
<td>Notes payable, short-term (non-trade)</td>
<td>3,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Long-term notes payable</td>
<td>36,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Share capital—ordinary</td>
<td>38,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>20,750</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$107,750</strong></td>
<td><strong>$91,000</strong></td>
</tr>
</tbody>
</table>

Additional data related to 2010 are as follows.

1. Equipment that had cost $11,000 and was 30% depreciated at time of disposal was sold for $2,500.
2. $5,000 of the long-term note payable was paid by issuing ordinary shares.
3. Cash dividends paid were $5,000.
4. On January 1, 2010, the building was completely destroyed by a flood. Insurance proceeds on the building were $33,000 (net of $4,000 taxes).
5. Equity investments (non-trading) were sold at $1,500 above their cost. The company has made similar sales and investments in the past.
6. Cash and a long-term note for $16,000 were given for the acquisition of equipment.
7. Interest of $2,000 and income taxes of $5,000 were paid in cash.

**Instructions**

(a) Use the indirect method to analyze the above information and prepare a statement of cash flows for Dingel.

(b) What would you expect to observe in the operating, investing, and financing sections of a statement of cash flows of:

(1) A severely financially troubled firm?
(2) A recently formed firm that is experiencing rapid growth?
FINANCIAL REPORTING

Financial Reporting Problem
Marks and Spencer plc (M&S)
The financial statements of M&S or can be accessed at the book’s companion website, www.wiley.com/college/kiesoifrs.

Instructions
Refer to M&S’s financial statements and the accompanying notes to answer the following questions.
(a) Which method of computing net cash provided by operating activities does M&S use? What were the amounts of net cash provided by operating activities for the years 2007 and 2008? Which two items were most responsible for the increase in net cash provided by operating activities in 2008?
(b) What was the most significant item in the cash flows used for investing activities section in 2008? What was the most significant item in the cash flows used for financing activities section in 2008?
(c) Where is “deferred income taxes” reported in M&S’s statement of cash flows? Why does it appear in that section of the statement of cash flows?
(d) Where is depreciation reported in M&S’s statement of cash flows? Why is depreciation added to net income in the statement of cash flows?

BRIDGE TO THE PROFESSION

Professional Research
As part of the year-end accounting process for your company, you are preparing the statement of cash flows according to IFRS. One of your team, a finance major, believes the statement should be prepared to report the change in working capital because analysts many times use working capital in ratio analysis. Your supervisor would like research conducted to verify the basis for preparing the statement of cash flows.

Instructions
Access the IFRS authoritative literature at the IASB website (http://eifrs.iasb.org/). When you have accessed the documents, you can use the search tool in your Internet browser to respond to the following questions. (Provide paragraph citations.)
(a) What is the primary objective for the statement of cash flows? Is working capital the basis for meeting this objective?
(b) What information is provided in a statement of cash flows?
(c) List some of the typical cash inflows and outflows from operations.