

# TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

## AASB 107 “Cash Flow Statements” replaces AAS 28/AASB 1026 “Statement of Cash Flows”

### Major impacts of changes

- There is no major impact arising from AASB 107. However, the AASB 107 definition of ‘cash equivalents’ is potentially wider than AAS 28. This should have a limited impact in the public sector.

### Key features of Standard

- AASB 107 substantially replicates the requirements of AAS 28, except for the areas discussed under ‘main differences’ below.

### Main differences compared to previous Australian requirements

- *Definition of ‘cash equivalents’* - Under AASB 107, ‘cash equivalents’ are short-term highly liquid investments readily convertible to known amounts of cash (para 6). Under AAS 28 (para 14.1), highly liquid investments were convertible to cash *at the investor’s option*. Therefore, the AASB 107 definition is potentially wider as it includes investments convertible to cash at *both* the investor’s and purchaser’s option. However, this wider definition should have very limited impact in the public sector.
- *Credit stand-by disclosures* - AAS 28 required entities to disclose credit stand-by arrangements. This requirement is now included in AASB 132 *Financial Instruments: Disclosure and Presentation* (para Aus94.1).
- *Classification of cashflows* - AASB 107 allows interest and dividends received and interest paid to be classified as *operating or financing / investing* cash flows (para 33). AAS 28 was silent on this issue, although in the examples in the Appendix to AAS 28, these items were classified as ‘cash flows from operating activities’.

### Impact on the public sector

- AASB 107 includes an additional paragraph requiring *not-for-profit entities* that highlight the net cost of services in their income statement, to disclose a reconciliation of cash flows from operating activities to the net cost of services (para Aus20.2). This replicates the requirement in AAS 29 *Financial Reporting by Government Departments* (para 6.3.10).

### Policy and Implementation issues (see attached)

#### *Mandating options*

- To ensure consistency with GFS, Treasury is likely to mandate:
  - Interest and dividends received and interest paid to be classified as ‘operating cash flows’.
  - Reporting of cash flows on a net basis, in the limited instances where this is permitted in AASB 107 (paras 22-24) e.g. cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short. This option was also included in AAS 28, however, Treasury did not previously mandate whether agencies should exercise this option.

#### *Other implementation issues*

- Agencies should review their short-term investments to determine whether the wider definition of cash equivalents will result in additional items being included in cash.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES**  
**AASB 107 “CASH FLOW STATEMENTS”**  
**TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	Mandate Options for GFS Harmonisation	Budget / Total State Sector Issues
		Mandate Option	Additional Guidance			
1	Interest and dividends received and interest paid may be classified as operating or financing / investing flows	✓ Operating cash flows		✓	✓	✓
2	Reporting of cash flows on a net basis, in limited instances (paras 22-24)	✓ net basis, where permitted		✓	✓	✓
3	Agencies should review their short-term investments to determine whether the wider definition of cash equivalents will result in additional items being included in cash.			✓		✓