



Project:	Presentation and Disclosure in Financial Statements by Not-for-Profit and Superannuation Entities	Meeting:	AASB 3 July 2025 (M213)
Topic:	Indirect method of presenting operating cash flows	Agenda Item:	3.2
		Date of paper:	17 June 2025
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		Decision-Making:	High
		Project Status:	Consider cash flow statement presentation

Objective of this paper

- 1 In respect to the indirect method of presenting operating cash flows, the objectives of this paper are for the Board to:
 - (a) **decide** whether to propose modifying AASB 107 (as amended by AASB 18 *Presentation and Disclosure in Financial Statements*) for application by the following entities in preparing their Tier 1 general purpose financial statements (GPFS):
 - (i) not-for-profit (NFP) public sector entities, including entities applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
 - (ii) universities; and
 - (iii) entities applying AASB 1056 *Superannuation Entities*; and
 - (b) **decide** whether to propose modifying AASB 1054 *Australian Additional Disclosures* regarding the requirement to include in Tier 1 GPFS a reconciliation of the net cash flow from operating activities to the 'profit or loss' subtotal presented in the income statement.

Structure of this paper

- 2 This paper is structured as follows:
 - (a) [Section 1](#): Considerations for NFP public sector entities, universities and superannuation entities
 - (b) [Section 2](#): Interaction with AASB 1054
 - (c) [Appendix](#): IASB's rationale for amending IAS 7 *Statement of Cash Flows*.

Section 1: Considerations for NFP public sector entities, universities and superannuation entities

- 3 Currently, paragraphs 18(b) and 20 of AASB 107 require an entity to use the 'profit or loss' subtotal as the starting point for the indirect method of reporting cash flows from operating activities. AASB 18 amended those paragraphs to require all entities to use the 'operating profit or loss' subtotal as the starting point. The IASB's rationale for this amendment is summarised in the [Appendix](#) to this paper.
- 4 At its May 2025 meeting (M212), the Board decided to propose in an Exposure Draft that NFP public sector entities, universities and superannuation entities would not be required to classify income and expenses into the operating, investing, and financing categories in the income statement. Therefore, these entities would not be expected to present a subtotal in their income statement for 'operating profit or loss'.
- 5 Consistent with that Board decision, staff recommend the Board propose further modifications to AASB 107 (as amended by AASB 18) so that NFP public sector entities, universities and superannuation entities would continue to be required to use the 'profit or loss' subtotal, instead of the 'operating profit or loss' subtotal, as a starting point when applying the indirect method.

Question for Board members:

Q1: Do Board members agree with the staff recommendation in paragraph 5?

Section 2: Interaction with AASB 1054

- 6 Paragraph 16 of AASB 1054 states:

“When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to **profit (loss)**.” [emphasis added]
- 7 Paragraph 16 of AASB 1054 requires an entity to provide a reconciliation of the net cash flow from operating activities to the 'profit or loss' subtotal presented in the income statement.
- 8 Since the indirect method in AASB 107 has been amended by AASB 18 to require adjustment from the 'operating profit or loss' subtotal, instead of the 'profit or loss' subtotal, staff recommend proposing to modify paragraph 16 of AASB 1054 so that:
 - (a) all entities preparing Tier 1 GPFS, other than those entities noted in (b), would be required to use the 'operating profit or loss' subtotal as a starting point in preparing the reconciliation of the net cash flow from operating activities; and
 - (b) consistent with the staff recommendation in Section 1, NFP public sector entities, universities and superannuation entities would continue to be required to use the 'profit or loss' subtotal in preparing the reconciliation of the net cash flow from operating activities.

Question for Board members:

Q2: Do Board members agree with the staff recommendation in paragraph 8?

Appendix: IASB's rationale for amending IAS 7 *Statement of Cash Flows*

- A1 Paragraph BC47 of the IASB's [Basis for Conclusions](#) added to IAS 7 (from page 131) states that the IASB decided to require all entities to use the same starting point for the indirect method because diversity in practice reduces comparability between entities, and so makes analysis by users of financial statements more difficult.
- A2 The IASB decided to use the 'operating profit or loss' subtotal as the starting point because:
- (a) an entity using operating profit or loss needs to present fewer adjustments to the starting point, which simplifies the presentation of the operating cash flows category. Fewer adjustments are needed because, compared to profit or loss, operating profit or loss includes fewer items of income and expenses for which the cash effects are classified as investing or financing cash flows. For example, operating profit or loss does not include the share of profit or loss of associates and joint ventures accounted for using the equity method.
 - (b) The difference between cash flows from operating activities and operating profit or loss provides a measure of operating accruals. Some users of financial statements find such a measure useful because it helps them understand how operating profit or loss is converted into cash flows. The IASB acknowledged that the cash conversion analysis may not be as effective given that the operating category as defined in IFRS 18 differs in composition from operating activities as defined in IAS 7.