Nexia SAB&T
Training and Technical

Classification of Cash Flows

July 2019

Cash receipts and cash payments must be classified as operating, investing, or financing activities on the basis of the nature of the cash flow

Cash flows should be grouped into operating, investing or financing activities to enable investors and creditors to evaluate significant relationships within and between those activities.

Investing Activities

Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the entity (other than materials that are part of the entity's inventory). Investing activities exclude acquiring and disposing of certain loans or other debt or equity instruments that are acquired specifically for resale.

Examples	
Cash inflows	**Cash outflows**
Receipts from collections or sales of loans made by the entity and of other entities' debt instruments (other than cash equivalents, certain debt instruments that are acquired specifically for resale, and certain donated debt instruments received by not-for-profit entities (NFPs))	Disbursements for loans made by the entity and payments to acquire debt instruments of other entities (other than cash equivalents and certain debt instruments that are acquired specifically for resale)
Receipts from sales of equity instruments of other entities (other than certain equity instruments carried in a trading account and certain donated equity instruments received by NFPs and from returns of investment in those instruments)	Payments to acquire equity instruments of other entities (other than certain equity instruments carried in a trading account)
Receipts from sales of property, plant, and equipment and other productive assets	Payments at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets, including interest capitalized as part of the cost of those assets. Generally, only advance payments, the down payment, or other amounts paid at the time of purchase or soon before or after purchase of property, plant, and equipment and other productive assets are investing cash outflows. However, incurring directly related debt to the seller is a financing transaction, and subsequent payments of principal on that debt thus are financing cash outflows.
Receipts from sales of loans that were not specifically acquired for resale. That is, if loans were acquired as investments, cash receipts from sales of those loans shall be classified as investing cash inflows regardless of a change in the purpose for holding those loans.	

Financing activities

Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; receiving restricted resources that by donor stipulation must be used for long-term purposes; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.

Examples	
Cash inflows	**Cash outflows**
Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing	Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments.
Proceeds from issuing equity instruments	Repayments of amounts borrowed.
Receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment	Other principal payments to creditors who have extended long-term credit
Proceeds received from derivative instruments that include financing elements at inception whether the proceeds were received at inception or over the term of the derivative instrument, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments	Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument
Cash retained as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services that is recognizable for financial reporting purposes. For this purpose, excess tax benefits shall be determined on an individual award (or portion thereof) basis.	Payments for debt issue costs

Certain cash receipts and payments may have aspects of more than one class of cash flows. In such circumstances, entities must determine the appropriate classification by considering when to (1) separate cash receipts and cash payments and classify them into more than one class of cash flows and (2) classify the aggregate of those cash receipts and payments into one class of cash flows based on predominance.

Nexia SAB&T

Training and Technical

Classification of Cash Flows

July 2019

Cash receipts and cash payments must be classified as operating, investing, or financing activities on the basis of the nature of the cash flow

Operating Activities

Operating activities include all transactions and other events that are not defined as investing or financing activities. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

Examples	
Cash inflows	**Cash outflows**
Cash receipts from sales of goods or services, including receipts from collection or sale of accounts and both short- and long-term notes receivable from customers arising from those sales. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale	Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. The term goods includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale
Cash receipts from returns on loans, other debt instruments of other entities, and equity securities — interest and dividends	Cash payments to other suppliers and employees for other goods or services.
All other cash receipts that do not stem from transactions defined as investing or financing activities, such as amounts received to settle lawsuits; proceeds of insurance settlements except for those that are directly related to investing or financing activities, such as from destruction of a building; and refunds from suppliers.	Cash payments to governments for taxes, duties, fines, and other fees or penalties
	Cash payments to lenders and other creditors for interest
	Cash payment made to settle an asset retirement obligation.
	All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash contributions to charities, and cash refunds to customers.

Specific Considerations

- Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Accordingly, payments to acquire noncontrolling interests in a subsidiary, or those associated with the sale of noncontrolling interests in a subsidiary, should be classified as financing activities in the statement of cash flows.
- An entity that actively and frequently purchases, sells, or trades equity securities, intending to sell them in the near term (e.g., hours or days) to generate short-term profits, would generally present such cash flow activity as operating activities; otherwise, presentation within investing activities would generally be required.
- When an entity pays for capital expenditures or operating expenses before the reimbursement of government grant monies, it should present the receipt of the government grant in the statement of cash flows in a manner consistent with the presentation of the related cash outflow. For example, a government grant that is intended to reimburse an entity for qualifying operating expenses would be presented in the statement of cash flows as an operating activity if the grant was received after the operating expenses were incurred.
- When an entity receives the government grant before incurring the related capital or operating expenses, it should present the receipt of the government grant as a financing cash inflow in the statement of cash flows.
- Lease payments made to repay a finance lease liability should be classified as follows: (1) the principal portion of the payments as cash outflows from financing activities and (2) the interest portion of the payments as cash outflows from operating activities.
- Cash flows related to the purchases and sales of businesses; property, plant, and equipment; and other productive assets are presented as investing activities in the statement of cash flows. In a business combination, all cash paid to purchase the business is presented as a single line item in the statement of cash flows, net of any cash acquired.
- Acquisition-related costs such as advisory, legal, accounting, valuation, and professional and consulting fees in a business combination should be reflected as operating cash outflows in the statement of cash flows.
- The effects of exchange rate changes on cash should be shown as a separate line item in the statement of cash flows as part of the reconciliation of beginning and ending cash balances.