27 February 2025
Agenda Paper 8

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Statement of Cash Flows and Related Matters: Non-mandatory and Voluntary Cash Flow Disclosures Provided by UK Listed Companies

Executive Summary

Project Stage							
IASB	Research / Pipeline	Discussion paper	Redeliberation	Exposure Draft	Redeliberation	Final standard	Post Implementation Review
UKEB	Research / Influencing	Research / Influencing	Monitoring	Influencing	Monitoring	Endorsement	Influencing

Project Scope	Moderate

Purpose of the paper

This paper examines existing reporting practice among a sample of UK listed companies in relation to cash flow information included in the financial statements. It identifies both voluntary and non-mandatory disclosures that UK listed companies include in their financial statements beyond the requirements of IAS 7 and other IFRS Accounting The research suggests opportunities to improve the accounting more broadly to the benefit of users and at limited cost that will be explored further in future papers.

Summary of the Issue

This paper makes no recommendations. However, some high-level observations include:

- Few UK listed companies provide the encouraged disclosures from IAS 7. This includes segmental cash flows.
- UK listed companies provide a range of voluntary disclosures, but the sample did not identify any that are consistently provided.
- Very few UK listed companies in the sample provide cross-references from their statement of cash flows to other notes in the financial statements, missing the opportunity to explain certain cash flows.
- Few UK listed companies with exceptional items in their statement of profit or loss reflected these items in the statement of cash flow.
- A net debt reconciliation is extremely common among UK companies that are not financial institutions.

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Decisions for the Board	
The Board is not asked to make any decisions. The Board is asked for general comments or observations on the paper.	
Recommendation	
• N/A	
Appendices	
Appendix A	Non-mandatory and Voluntary Cash Flow Disclosures Provided by UK Listed Companies

Statement of Cash Flows and Related Matters
• The IASB decided to add a project on the *Statement of Cash Flows and Related Matters* to its research pipeline following feedback on its Request for Information: Third Agenda Consultation (published March 2021). • In the IASB's Feedback Statement to the Request for Information (published July 2022) most respondents recommended the addition of a potential project on cash flows to the IASB's workplan and many of them rated it as high priority. • The IASB staff are currently performing research to gather evidence of the nature and extent of the perceived deficiencies and the likely benefits of developing new financial reporting requirements for IAS 7. This research is intended to provide evidence to support the IASB's decision on the scope of the project. The initial research will also address possible ways of improving the perceived deficiencies. The IASB plans to discuss the initial research outcomes and determine next steps in the first quarter of 2025. • A UKEB research project is aimed at delivery of the Board's responsibilities regarding thought leadership in accordance with the UKEB Terms of Reference. It will also help deliver the UKEB's 2024-25 Regulatory Strategy (page 8) aim to influence IASB early in its development cycle. • The research is grounded in previous work undertaken by the IASB, FRC and UKEB. It is gathering primary evidence on the improvements investors and creditors want made to the statement of cash flows, and preparer views on these possible improvements. This will provide a foundation for the UKEB to propose potential solutions for the problems already identified by the IASB for this project.

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Appendix A: Non-mandatory and Voluntary Cash Flow Disclosures Provided by UK Listed Companies

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Background

Purpose of research paper

1. This paper is the second in a series of research papers, as part of the UKEB's proactive research project on the Statement of Cash Flows and Related Matters. The information in this paper builds on the information in the first research paper Statement of Cash Flow and Related Matters: Background and key issues presented to the Board in December 2024.

2. The main purpose of this paper is to examine existing reporting practice among a sample of UK listed companies in relation to cash flow information included in their financial statements. Specifically, it identifies both non-mandatory and voluntary disclosures that UK listed companies include in their financial statements beyond the requirements of IAS 7 *Statement of Cash Flows* and other IFRS Accounting Standards.

3. A review of UK listed companies' financial statements highlighted practical steps taken by those companies in the following areas:

   a) **Non-mandatory cash flow disclosures.** These disclosures are encouraged but not required by IAS 7 or other relevant standards.

   b) **Voluntary cash flow disclosures.** IAS 7 or other relevant standards lack explicit guidance about these disclosures.

   c) **Other cash flow reporting.** These disclosures require application of judgement and diverse approaches taken by companies have been identified.

4. The UKEB research project team is currently interviewing users[1] and preparers of financial statements to better understand their perspectives on how the statement of cash flows could be improved. Some of the disclosures identified in this paper have been explored during interviews to assess whether the disclosures provide useful information. The findings from these interviews are expected to be presented to the Board in a third research paper in March 2025.

Review process and methodology

5. A desktop review of reports published by the UK Regulator, the Financial Reporting Council (FRC) and input from the FRC's Corporate Reporting Review team identified examples of non-mandatory and voluntary cash flow related disclosures that are made by UK listed companies.

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[1] In this paper "users" is as described in paragraph 1.5 of the Conceptual Framework: "primary users of financial statements are existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need".

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6. After identifying such cash flow related disclosures included in this paper, a high-level analysis was conducted on a sample of 30 UK FTSE and AIM listed companies (the sample) to assess their prevalence among UK listed companies.

7. The tables below analyse companies in the sample by size and industry sector.

Sample by company size	
FTSE 100	50%
FTSE 250	27%
FTSE Small Cap	10%
AIM	13%

Sample by sector	
Consumer Products and Services	23%
Industrial Goods and Services	17%
Banks	10%
Insurance	10%
Energy and Mining	10%
Utilities	10%
Media	7%
Personal Products	7%
Telecommunications	3%
Travel and Leisure	3%

8. In this paper where specific numbers are not provided the following terms are used to give a broad indication of prevalence from the sample[2]:

[2] In the table "term used" and "extent of response" are consistent with the approach taken by the IASB – see for example paragraph 8 of IASB Staff paper January 2025 ap32-summary-of-feedback.pdf

Term used	Extent of response	Number of companies in the sample
Almost all	All except a small minority	26 - 29
Most	A large majority	21 - 25
Many	A small majority or large minority	11 - 20
Some	A small minority	6 - 10
A few	A very small minority	2 - 5

9. The disclosure examples included in this paper are sourced from publicly available information from annual reports, accessible via the websites of the stated companies or the Financial Conduct Authority's National Storage Mechanism.

10. Inclusion of a company's example in this paper does not imply an endorsement of those specific disclosures.

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Non-mandatory cash flow disclosures provided by UK listed companies

11. For the purposes of this paper, "non-mandatory cash flow" disclosures are those that are encouraged, but not required, by IAS 7. Two paragraphs in IAS 7 refer to such non-mandatory disclosures:

    a) IAS 7 paragraph 19 states that "Entities are encouraged to report cash flows from operating activities using the direct method. "

    b) IAS 7 paragraph 50 includes the following "encouraged" disclosures:

        i. "the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity"; and

        ii. "the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment"

12. The sub-sections below explain the research findings in each of these areas and provide examples where relevant, together with an explanation of why the disclosures are helpful.

Presentation of cash flows from operating activities

13. As noted above, IAS 7 allows companies to report their 'cash flows from operating activities' using either the direct method or the indirect method. It encourages the use of the direct method, as it is seen as providing information that may be useful for estimating future cash flows.

14. The direct method discloses major classes of gross cash receipts and payments. For example, cash receipts from the sale of goods and the rendering of services, cash payments to suppliers for goods and services, and cash payments to and on behalf of employees. These cash flows may be obtained either from an entity's underlying accounting records or they can be derived from information disclosed in the other primary statements.

15. All 30 companies in the sample presented their statement of cash flows using the indirect method. Additional searches of UK listed companies' annual reports did not identify any companies that separately disclosed supplementary information based on the direct method.

16. A more comprehensive search of UK listed companies' financial statements identified only a small number using the direct method. These UK listed companies appeared to be foreign issuers, with a secondary listing on the London Stock Exchange.

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Application of the indirect method

17. Of the 30 companies sampled, 22 (73%) provided a reconciliation from 'profit or loss' to 'cash flows from operating activities' on the face of the statement of cash flows. The **starting point** for calculating **net cash flow from operating activities** varied across the sample:

    a) 6 companies (20%) used 'operating profit or loss' as the starting point.

    b) 15 companies (50%) started with 'profit or loss before tax'.

    c) 9 companies (30%) used 'profit or loss for the year' as the starting point.

18. The diversity of approaches noted above is expected to reduce when companies begin reporting under IFRS 18 *Presentation and Disclosure in Financial Statements*, as the new Standard will require all companies to use 'operating profit' as the starting point for calculating 'cash flows from operating activities' presented using the indirect method.

19. Companies in the sample made and average of 17 adjustments between their starting point and 'cash flows from operating activities', with individual companies' adjustments ranging from 5 to 33 in number. The number of adjustments could be due to the level of disaggregation provided or the number of non-cash items in the statement of profit and loss.

20. In many cases, the high number of reconciling items was associated with companies in the sample using a profit measure other than 'operating profit' as their starting point. Few companies in the sample explicitly distinguished between:

    a) adjustments required to 'operating profit' to calculate 'cash flows from operating activities' (e.g. non-cash items included in profit or loss and working capital movements); and

    b) adjustments arising from using a starting point other than 'operating profit' in their cash flow calculations (e.g. profit before tax would require adding back investing and financing profit and loss items).

Growth and maintenance expenditure

21. IAS 7 paragraphs 50–51, state that it may be helpful for companies to disclose aggregate cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity.

22. Such information is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to shareholders.

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23. The extract below shows an example of a company that provides such disclosures.

Example disclosure: growth and maintenance capital expenditure

Maintenance capital expenditure relates to spends for additions or improvements that are required to sustain the existing operations of the Group.

Growth capital expenditure relates to spends associated with delivering business growth, including: onboarding of new customers, expansion of services with existing customers or the development of new product offerings.

	2023 USD'000	2022 USD'000
Total capital expenditure	86,618	59,149
Core capital expenditure	78,159	53,430
of which is maintenance capital expenditure	26,969	19,872
of which is growth capital expenditure	51,190	33,558
Kingdom of Saudi Arabia market entry	8,459	4,778

Network International Holdings Plc, Annual Report and Accounts 2023, p132

Explains the distinction between growth and maintenance capital expenditure. Subsequent table then quantifies relevant amounts.

24. None of the companies in the sample disaggregated capital expenditure into growth and maintenance expenditure. Four companies in the sample partially addressed this matter by disaggregating asset additions made during the period (rather than the cash payments) or by making comments in the strategic report (but no corresponding disclosures in the financial statements were included). In one case, comments in the strategic report included references to maintenance capital expenditure but provided no information on growth capital expenditure.

Segmental cash flows

25. As noted above, IAS 7 paragraph 50–51 encourage companies to disclose the amount of cash flows arising from the operating, investing and financing activities of each reportable segments. The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows. For example, different business segments may have differing cash generation and usage profiles, or differing working capital absorption.

26. Disclosures in this regard were relatively uncommon in the sample. Where provided, they were generally more detailed than the illustrative example in IAS 7 (Illustrative Example[3] D), which presents only aggregate operating, investing, and financing cash flows for each operating segment. The extract below shows

[3] Illustrative Examples (IEs) are part of the Accompanying Guidance to IFRS Accounting Standards. However, the IEs do not form a mandatory part of the Standards.

how one company provided the segmental cash flow information encouraged by the Standard.

Example disclosure: segment cash flows

For the year ended 31 December 2023	Total US$'000	Egypt Mining US$'000	Egypt Exploration US$'000	Burkina Faso US$'000	Côte d'Ivoire US$'000	Corporate US$'000
Statement of cash flows						
Net cash generated from/(used in) operating activities	353,600	419,210	(395)	54	(1,384)	(63,885)
Net cash (used in)/generated from investing activities	(198,768)	(200,631)	(512)	–	(276)	2,651
Net cash used in financing activities	(164,994)	(232,994)	–	–	–	68,000
Own shares acquired	(245)	–	–	–	–	(245)
Cash component of share-based payments	(583)	–	–	–	–	(583)
Dividend paid – non-controlling interest in SGM	(112,000)	(112,000)	–	–	–	–
Dividend paid – intercompany	–	(120,994)	–	–	–	120,994
Dividend paid – owners of the parent	(52,166)	–	–	–	–	(52,166)
Net increase/(decrease) in cash and cash equivalents	(10,163)	(14,416)	(907)	54	(1,660)	6,766
Cash and cash equivalents at the beginning of the year	102,373	27,373	1,971	1	1,422	71,606
Effect of foreign exchange rate changes	1,112	729	100	(25)	1,782	(1,474)
Cash and cash equivalents at the end of the year	93,322	13,686	1,164	30	1,544	76,898

Centamin plc, Annual Report and Accounts 2023, p156

Entity presents summarized operating, investing and financing cash flows for each segment.

Corporate office cash flows, intercompany dividends and cash balances included to fully reconcile individual segment cash flow statements to the consolidated amounts.

27. A few companies in the sample went further still. One company included full segmental cash flow information, and additionally provided a separate column for exceptional and adjusting items.

Observations on non-mandatory cash flow disclosures

28. It is striking how few UK listed companies provide the encouraged disclosures from IAS 7.

29. Regarding the direct method, IAS 7 paragraph 19 encourages the direct method as it "provides information which may be useful in estimating future cash flows and which is not available under the indirect method". It may be better if the Standard explicitly identified this information and required it to be disclosed in the financial statements when the indirect method is used.

30. The virtual absence of information on segmental cash flows also seems anomalous. IFRS 8 *Operating Segments* paragraph 23 requires companies to report a measure of profit or loss for each reportable segment along with total assets and liabilities if this is regularly provided to the chief operating decision

maker. The fact that segmental disclosure is not required for cash flow information, even if regularly provided to the chief operating decision maker, is notable.

31. It will be important to consider the extent to which these disclosures are seen by users to be particularly relevant, and whether on this basis they should be required.

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Voluntary cash flow disclosures provided by UK listed companies

33. For the purposes of this paper 'voluntary cash flow disclosures' refer to cash flow-related information that UK companies include in the financial statements at their own discretion. Unlike the 'non-mandatory cash flow disclosures' described above, voluntary cash flow disclosures are not explicitly referenced or suggested in IAS 7 or other IFRS Accounting Standards.

Cash impact of exceptional or other adjusting items

34. IFRS Accounting Standards do not explicitly refer to exceptional or other adjusting items. However, they are frequently included in the statement of profit or loss to communicate information intended to help users better understand the financial statements.

35. Understanding the cash impact of non-recurring items is important to allow for a more realistic view of a company's financial health and in making informed investment decisions. Understanding the nature of a non-recurring item and its cash flow impact is important in financial valuation. Generally, analysts adjust for non-recurring items. These one-time events can significantly distort a company's reported profitability and/or cash flow, and if not adequately disclosed can lead to difficulty in accurately assessing a company's true operating performance and future potential. Examples of such exceptional items might be:

    a) Selling a major asset at a significant gain or loss.

    b) Restructuring costs related to layoffs or major organisational changes.

    c) Legal settlements.

    d) Losses arising from natural disasters.

36. IAS 7 does not explicitly require the disclosure of the cash impact of exceptional, one-off or infrequently recurring items. As noted, almost all UK listed companies use the indirect method for disclosing operating cash flows, by adjusting a profit measure as the starting point. If the starting point includes exceptional items, the cash impact of those exceptional items is not transparent, unless the full profit or loss impact is added back and then the cash impact separately disclosed, or otherwise explicitly disclosed in supporting commentary.

37. The Basis for Conclusions to IFRS 18 paragraph BC93 notes that "an entity might disclose information about an aspect of its operating performance by presenting a management-defined performance measure of operating profit excluding expenses it regards as non-recurring or unusual". No such requirement is set out in IFRS 18 in relation to 'cash flows from operating activities'.

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38. As illustrated in the example below, some UK listed companies, that include exceptional or other profit-related adjusting items, separately disclose their cash impact in the statement of cash flows.

39. Disclosing the cash impact of exceptional items enhances consistency between cash flow disclosures and the statement of profit or loss disclosure requirements set out in IAS 1 *Presentation of Financial Statements* paragraphs 97–98. The UK Regulator encourages companies to include this information.

Example disclosure: cash flow statement impacts of unusual or exceptional items

For the year ended 31 December	Note	£m	2023 £m	£m	2022 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items	2.1		**556**		590
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	**(77)**		(65)	
Increase in exceptional payables		**9**		12	
Cash outflow from exceptional items			**(68)**		(53)
Cash generated from operations			**488**		537
Defined benefit pension deficit funding		**(40)**		(137)	
Interest received		**20**		15	
Interest paid*		**(51)**		(56)	
Net taxation paid		**(32)**		(55)	
			(103)		(233)
Net cash inflow from operating activities			**385**		304

ITV plc, Annual Report and Accounts 2023, p161

Cash flow impact of exceptional items is presented on the face of the cash flow statement.

40. Most companies in the sample (23 companies) disclosed exceptional and other adjusting items in their statement of profit or loss. However, only seven of them disclosed cash flows relating to exceptional items either in their statement of cash flow or in a note to the financial statements.

41. One such company, as shown in the extract below, demonstrates how the cash impact of exceptional and other adjusting items can be disaggregated by nature and by cash flow classification, clearly showing exceptional cash flows relating to operating, investing and financing activities.

Example disclosure: cash flow statement impacts of adjusting items across all cash flow categories

The table below shows the impact of adjusting items on the Group cash flow statement:

	Cash flows from operating activities		Cash flows from investing activities		Cash flows from financing activities	
	52 weeks 2024 £m	52 weeks 2023 (restated[a]) £m	**52 weeks 2024 £m**	52 weeks 2023 £m	**52 weeks 2024 £m**	52 weeks 2023 £m
Property transactions[b]	–	–	53	335	–	–
Disposal of subsidiaries[c]	–	–	15	–	–	–
Restructuring[d]	(100)	(68)	–	–	–	–
Disposal of China associate	–	–	9	–	–	–
Customer redress claims settlement in Tesco Bank	–	(4)	–	–	–	–
ATM business rates refund	–	5	–	–	–	–
Disposal of Asia operations	–	(2)	–	–	–	–
Acquisition of property joint venture	–	–	7	(40)	–	–
Special dividend	–	–	–	–	(1)	(1)
Total adjusting items from continuing operations	**(100)**	**(69)**	**84**	**295**	**(1)**	**(1)**
Adjusting items relating to discontinued operations	(1)	(8)	–	–	–	–
Total	**(101)**	**(77)**	**84**	**295**	**(1)**	**(1)**

(a) Comparatives have been restated to present Banking operations as a discontinued operation. Refer to Notes 1 and 7.
(b) Property transactions include £14m proceeds (2023: £43m) relating to the sale of stores in Poland not included in the sale of the corporate business.
(c) On 30 June 2023, the Group disposed of its Booker subsidiary Ritter-Courivaud Limited, part of the UK & ROI segment.
(d) Cash outflows relating to operational restructuring changes as part of the multi-year 'Save to Invest' programme, which commenced in June 2022.

Tesco PLC, Annual Report and Accounts 2024, p147

Reconciliation of amounts in the statement of cash flows to other primary statements

42. Users often assess company performance holistically by considering the statement of cash flows alongside other primary financial statements, therefore cohesiveness between the primary financial statements is important.

43. Being able to reconcile between the primary financial statements ensures that the information presented is accurate, reliable and provides transparency for users. This would be expected to enhance decision-making by users. For example, by comparing the cash generated from operations to operating profit, users can assess the quality of earnings and understand how well the company is managing its working capital.

44. Thematic review reports published by the FRC note that reconciliations between the statement of cash flows and other primary financial statements are useful for understanding relationships between the different statements[4]. These reconciliations are especially helpful for understanding the impact of non-cash movements, such as exchange differences, fair value movements and acquisitions or disposals, on changes in working capital.

45. IAS 7 paragraph 45 requires a company to present a reconciliation of the cash and cash equivalent amounts in its statement of cash flows with equivalent items reported in the statement of financial position.

4 FRC Thematic Review: Reporting by Smaller Listed and AIM Quoted Companies (pages 38 and 39); FRC Thematic Review: Cash flow statements and liquidity (IAS 7, IFRS 7) (page 8)

46. The only other relevant paragraph is IAS 7 paragraph 44D, which explains that if a company chooses to use a reconciliation of opening and closing balances in the statement of financial position for liabilities arising from financing activities (including both changes arising from cash flows and non-cash changes), the company shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

47. With regard to reconciling the statement of cash flows to the statement of profit or loss, there are no specific requirements. However, where a company uses the indirect method for disclosing cash flows from operating activities, a reconciliation to the statement of profit or loss is implicit. Where the indirect method is used, adjustments to the starting profit figure, made by adding back non-cash items, provides an opportunity to reconcile items to the statement of financial position, where the notes have enough granularity to show increases and decreases in the balances that are the result of non-cash transactions.

48. Some UK listed companies voluntarily provide reconciliations to clarify how working capital movements in the statement of cash flows relate to amounts in the statement of financial position (see example below).

Example disclosure: reconciliation of working capital movements in the cash flow statement to the balance sheet

	Inventories £m	Financial assets at fair value through OCI £m	Trade and other receivables £m	Amounts due from Financial Services customers £m	Trade and other payables £m	Amounts due to Financial Services customers and other deposits £m	Provisions £m
At 4 March 2023	**1,899**	**1,009**	**683**	**5,392**	**(4,837)**	**(5,946)**	**(272)**
At 5 March 2022	1,797	800	748	5,189	(4,570)	(5,259)	(271)
Balance sheet movement	**(102)**	**(209)**	**65**	**(203)**	**267**	**687**	**1**
Fair value movements	–	2	–	(27)	–	–	–
Hedge adjustments	(3)	–	–	–	(2)	–	–
Interest in working capital	–	–	–	–	9	–	–
Reclassification to other lines in the cash flow statement	–	–	3	–	11	–	–
Financial Services ECL impairments	–	–	–	(76)	–	–	–
Movement in capital accruals	–	–	–	–	(8)	–	–
Other	–	–	–	(1)	3	–	(1)
Movement shown in cash flow statement	**(105)**	**(207)**	**68**	**(307)**	**280**	**687**	**–**

J Sainsbury plc, Annual Report and Accounts 2023, p189

Working capital movements in the cash flow statement are reconciled to related balance sheet amounts. Any elements that do not have a corresponding impact on operating profit are excluded from the working capital movements in the cash flow statement.

Columnar presentation ensures that all relevant disclosures are presented in a single location

49. One company in the sample included a reconciliation similar to the one noted above. Other voluntary disclosures of a similar type included:

a) A reconciliation between tax payments in the statement of cash flows and tax charges recognised in the statement of profit or loss and statement of financial position (provided by two companies in the sample):

Example disclosure: reconciliation of tax payments to other primary statements

£ million	2024	2023
At 1 October	(306)	27
Charged to the consolidated income statement	(569)	(813)
Charged to other comprehensive income	(197)	(115)
Credited to equity	4	-
Cash paid	888	590
Exchange movements	17	6
Balance sheet reclassification	-	(1)
At 30 September	(163)	(306)

The cash tax paid in the year is £303 million higher than the current tax charge (2023: £223 million lower). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions

Imperial Brands PLC, Annual Report and Accounts 2024, p164

Reconciliation of opening and closing liability, along with supplementary comments, explains the relationship between the balance sheet liability and other primary statements, including the cash flow statement.

b) A reconciliation explaining differences between capital expenditure payments and additions to property, plant, and equipment (provided by three companies in the sample):

Example disclosure: reconciliation of capex cash flows to asset additions

Reconciliation of capital expenditure to the cash spend in the consolidated cash flow	2023 USD'000	2022 USD'000
Total capital expenditure	86,618	59,149
Goods and services received in the current period, but yet to be paid	(22,852)	(11,963)
Goods and services received in the previous period, and paid in the current period	11,048	18,222
Total consolidated capital expenditure spends (as per consolidated statement of cash flows)	74,814	65,408

Network International Holdings Plc, Annual Report and Accounts 2023, p132

The difference between in-year capital asset additions and related cash outflows explained as being due to the timing of payments. The impact of prior year payables brought forward, and current year payables carried forward is separately identified.

50. More generally, the research highlighted that very few companies in the sample (all of which applied the indirect method), provide cross references from their statement of cash flows to relevant notes in their financial statements. This made it challenging to clearly understand the relationship between the statement of cash flows and other sections of the financial statements.

Derivatives cash flows

51. IAS 7 paragraph 16 states that where a contract is accounted for as a hedge, its cash flows should be classified in the same manner as the hedged item. It does

not, however, specify whether such cash flows should be separately identifiable. In addition, the Standard does not provide guidance on economic hedges or derivatives where hedge accounting is not applied.

52. Understanding the cash flows from derivatives help users evaluate the potential financial impact of a derivative strategy, considering factors like the timing and amount of future payments, which is crucial for deciding whether to enter into a derivative position. The cash flows may also help users to assess whether there is sufficient liquidity to meet future obligations arising from derivative contracts.

53. Our research highlighted that UK listed companies typically provide limited information on the cash effects of derivatives in the statement of cash flows.

54. Some UK listed companies provide transparency by describing their accounting policies for classification of derivative cash flows – see example below.

Example disclosure: accounting policy for derivative cashflows

The cash flows from derivatives as a result of the group's hedging activities are presented together with the cash flows relating to the underlying hedged item to provide a more faithful representation of the substance of the transaction.

United Utilities Group PLC, Annual Report and Accounts 2024, p227

55. A review of the sample identified the following:

a) No companies voluntarily provided an accounting policy, explaining the classification of derivative cash flows in circumstances where hedge accounting is applied and those where hedge accounting is not applied.

b) It was apparent, from disclosures provided in other sections of the financial statements, that many the companies in the sample had hedges relating to operating activities; however, none disclosed the impact of those derivatives in the operating activities section of the statement of cash flows.

c) Seven companies disclosed derivative cash flows relating to investing and financing activities on the face of the statement of cash flows, as illustrated in the example below.

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Example disclosure: gross derivative cash flows on the face of the statement of cash flows

Cash flows generated from/(used in) investing activities			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale		55	342
Purchase of property, plant and equipment, investment property and other long-term assets		(1,108)	(971)
Purchase of intangible assets		(278)	(279)
Disposal of subsidiaries, net of cash disposed		15	–
Acquisition of subsidiaries, net of cash acquired		(17)	(71)
Proceeds from sale of joint ventures and associates		9	–
Increase in loans to joint ventures and associates		(61)	(1)
Investments in joint ventures and associates		(9)	(10)
Net (investments in)/proceeds from sale of short-term investments		(507)	451
Proceeds from sale of other investments		352	230
Purchase of other investments		(390)	(529)
Dividends received from joint ventures and associates		9	14
Interest received		249	70
Cash inflows from derivative financial instruments		5	54
Cash outflows from derivative financial instruments		(24)	(6)
Net cash generated from/(used in) investing activities		**(1,700)**	**(706)**
Cash flows generated from/(used in) financing activities			
Own shares purchased for cancellation	30	(752)	(781)
Own shares purchased for share schemes	28	(93)	(86)
Repayment of capital element of obligations under leases		(627)	(593)
Cash outflows exceeding the incremental increase in assets in a property buyback		(62)	(21)
Increase in borrowings		1,232	–
Repayment of borrowings		(775)	(709)
Cash inflows from derivative financial instruments		98	232
Cash outflows from derivative financial instruments		(102)	(371)
Dividends paid to equity owners	8	(778)	(859)
Net cash generated from/(used in) financing activities		**(1,859)**	**(3,188)**

Tesco PLC, Annual Report and Accounts 2024, p133

Gross derivative cash inflows and outflows within investing and financing activities disclosed on the face of the statement of cash flows.

Aggregate cash impact of M&A transactions

56. Reporting the aggregate cash and non-cash impact of merger and acquisition (M&A) activities in a single note in the financial statements is useful as such transactions may be reported in different sections of the statement of cash flows. For example, the cash balance of a new subsidiary is reported as a cash inflow when first consolidated, the acquisition may be paid for in cash or by the issue of equity and there may be a deferred or contingent consideration element. Such cash flows should be disclosed within investing activities (as required by IAS 7 paragraph 39). There may also be cash flows for related acquisition costs which should be disclosed within cash flows from operating activities (as required by IAS 7 paragraph 14).

57. Some transactions that result in a zero cash flow in fact comprise two offsetting 'effective' flows which, had they been transacted separately, would each have appeared in the statement of cash flows. Whether the purchase is a single transaction, or a separate equity issue followed by a cash purchase, does not affect the underlying economics, but does produce very different disclosures in the statement of cash flows. This applies to several situations in addition to business combinations, including leasing and supplier finance arrangements. Considering just cash flows reported in the statement of cash flows can lead to analyst metrics, such as free cash flow, which are incomplete and unsuitable for use in equity valuation.

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58. Issues may arise due to inherent tensions between the IFRS Accounting Standard requirements and companies' desire to present the aggregate cash impact of M&A transactions.

59. One company in the sample addressed this challenge by:

a) classifying acquisition-related expenses within operating activities (as required by IAS 7 paragraph 14) and net cash flows from the settlement of acquisition consideration within investing activities (as required by IAS 7 paragraph 39); and

b) voluntarily providing a table in the notes to consolidate the aggregate cash impact of the various elements, even though they were included in different notes to the statement of cash flows (see extract below).

60. The sample identified only three other companies whose reports included broadly similar disclosures, despite there being 16 companies in the sample that disclosed acquisitions during the year.

Example disclosure: aggregate impact of M&A transactions on cash flow

	Business acquisitions £m	Business disposals - demerger £m	Business disposals - other £m
Cash consideration	(3,392)	–	–
Net deferred consideration paid	–	–	(34)
Cash and cash equivalents (divested)/acquired	284	(933)	(9)
	(3,108)	(933)	(43)
Transaction costs paid	(79)	(141)	–
Cash (outflow)/inflow	(3,187)	(1,074)	(43)

GSK plc, Annual Report and Accounts 2023, p239

Entity provides a separate note that shows the aggregate impact of M&A-related cash flows that are reported in different parts of the cash flow statement.

61. Users also need cash flow information about an acquired entity to accurately assess its ability to generate cash for future operations, and to evaluate the impact of an acquisition on the acquiring company's liquidity.

Observations on voluntary cash flow disclosures

62. UK listed companies provide a range of voluntary disclosures, but the sample did not identify any that are consistently provided.

63. The absence of cross referencing in the statement of cash flows to notes in the financial statements was surprising. There is often relevant information in various notes distributed across the financial statements (for example in the leases note,

the reconciliation of financing liabilities and the provisions note). However few companies provide references to these notes for relevant cash flows. There would appear to be an opportunity to enhance the cohesiveness of the financial statements and enhance user understanding.

64. Despite the UK Regulator specifically identifying information on the cash impact of exceptional or other adjusting items as an area in which they would like to see better disclosure, such information is not widely reported by companies in the sample.

65. The fact that UK listed companies are voluntarily providing additional cash flow and related disclosures indicates that they believe they provide useful information to users. It will be important to explore these areas further with users as they provide an opportunity to leverage existing practice and identify potential improvements to disclosure requirements.

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Other areas of cash flow reporting

66. This section analyses areas where companies may need to exercise judgement when determining or disclosing cash flow amounts and related balances. These represent aspects of cash flow reporting where there is a high potential for diverse approaches being adopted by companies.

67. Users understand cash and cash equivalents to be readily available funds for day-to-day operations and therefore provide an indication of its ability to pay short-term debts, that is its liquidity. In this context, it is important that amounts that companies include in cash equivalents reflect their cash management strategy.

Composition of cash and cash equivalents

68. IAS 7 paragraph 46 requires companies to disclose their accounting policy for determining the composition of cash and cash equivalents. The FRC's thematic review on cash flow and liquidity disclosures, emphasised the importance of:

    a) Providing sufficiently detailed accounting policies that clearly define the items included in cash and cash equivalents.

    b) Explaining the rationale for including overdrafts within cash and cash equivalents, if applicable.

    c) Providing information about restricted cash balances and the nature of the restrictions.

69. The following sub-sections analyse disclosure practices observed in each of these areas during the research.

Composition of cash and cash equivalents

70. IAS 7 paragraph 6 describes cash equivalents as "investments" that have three distinguishing features: short maturities, high liquidity and are subject to an insignificant risk of changes in value.

71. Most companies in the sample included passing references to one or more of these features in their accounting policies. However, apart from "short-term maturity" (which was generally interpreted as referring to balances with an original maturity of three months or less), none of the companies provided company-specific interpretations of the other terms.

Restricted balances

72. IAS 7 paragraph 48 sets a high-level disclosure requirement for restricted cash balances, requiring companies to disclose significant restricted balances and provide commentary. As a result, companies have to exercise judgement in determining the level of detail to include in their disclosures.

73. The extract below provides an example of a company which:

a) described the nature of the restricted balances and the associated restrictions; and

b) explained the accounting implications – in this case, that the restrictions meant that the balances should not be included in cash and cash equivalents.

Example disclosure: restricted balances

Cash and cash equivalents and restricted monetary assets
Cash and cash equivalents comprise cash and short term bank deposits with an original maturity of three months or less which are readily accessible.

Restricted monetary assets relate to cash balances which legally belong to the Group but which the Group cannot readily access owing to restrictions imposed by law or legislation and include cash and monies held in escrow accounts for a specified purpose. These do not meet the definition of cash and cash equivalents and consequently are presented separately in the consolidated balance sheet.

Hammerson plc, Annual Report and Accounts 2023, p131

Explains that amounts must be readily accessible to be included in cash and cash equivalents. Also specifically explains exclusion of restricted balances.

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74. Disclosure of restricted balances was relevant to 12 of the 30 companies in the sample. However, for all but one, the accounting policies and related disclosures lacked sufficient detail to clearly explain the nature of the restrictions. In particular, companies did not explain their conclusion that the restrictions were not severe enough to impact their inclusion in cash and cash equivalents.

75. In the companies sampled, the value of restricted cash ranged from £1m to £530m. On average, these balances represented 5% of the relevant companies' total cash balances and 1% of their net assets.

Bank overdrafts

76. IFRS Accounting Standards apply different criteria for offsetting bank overdrafts against cash and cash equivalents, depending on whether they relate to the statement of financial position or the statement of cash flows. As a result, companies may be able to offset overdrafts in the statement of cash flows but not in the statement of financial position.

a) In the statement of financial position, overdrafts can only be offset if the two offsetting criteria in IAS 32 *Financial Instruments: Presentation* paragraph 42 are satisfied.

b) In the statement of cash flows IAS 7 paragraph 8 states that bank overdrafts repayable on demand and forming an integral part of cash management should be included in cash and cash equivalents. A key characteristic of such arrangements is that those bank balances frequently fluctuate between positive and overdrawn.

77. The disclosure example below illustrates the key points:

Example disclosure: overdrafts

Cash comprises cash in hand and on-demand deposits. Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and original maturities of three months or less.

The cash and cash equivalents shown in the cashflow statement are stated net of bank overdrafts that are repayable on demand in accordance with IAS 7. This includes the structured trade finance facility held in South Africa as detailed in note 22. These facilities are considered to form an integral part of the treasury management of the Group and can fluctuate from positive to negative balances during the period.

London & Associated Properties PLC, Annual Report and Accounts 2023, p53

Specifically explains the basis on which overdrafts are netted against cash and cash equivalents for the purposes of the cash flow statement..

78. In the sample, 16 companies (or 60%) had offset bank overdrafts against cash and cash equivalents for the purposes of the statement of cash flows but not the statement of financial position. However, only three of them explained the rationale for including overdrafts within cash and cash equivalents (for example, by explaining whether they were integral to cash management or by explaining that the relevant balances frequently fluctuate between negative and positive balances).

Alternative Performance Measures (APMs) in cash flow reporting

79. In our previous research paper provided to the Board in December 2024, we noted that free cash flow and net debt were two of the most common cash flow alternative performance measures (APMs) among UK companies.

80. Whilst users often calculate their own free cash flow measures, using information disclosed in the statement of cash flows and elsewhere in the financial statements, users often rely more heavily upon the information provided for net debt.

81. The following sub-sections explore UK reporting practices in relation to these measures.

Reporting practices for free cash flow

82. Free cash flow plays an essential role in valuation and is one of the most important ways to measure a company's financial performance, as it demonstrates the cash flow a company can potentially distribute i.e. return dividends to investors or buy back shares, after making reinvestments in the business via capital expenditure and working capital.

83. Free cash flow can be defined and calculated in many ways. However, in its most generic form, free cash flow is calculated as cash from operations minus capital expenditure.

84. UK reporting practices for free cash flow vary in several ways, including differences in terminology and calculation methods. The extract below illustrates how one company calculates free cash flow.

Example disclosure: free cash flow

	2023 £m	2022 £m
Net cash inflow from continuing operating activities	6,768	6,634
Purchase of property, plant and equipment	(1,314)	(1,143)
Purchase of intangible assets	(1,030)	(1,115)
Proceeds from sale of property, plant and equipment	28	146
Proceeds from sale of intangible assets	12	196
Net finance costs	(651)	(784)
Dividends and disposal proceeds from joint ventures and associates	12	6
Contingent consideration paid (reported in investing activities)	(11)	(79)
Contribution from non-controlling interests	7	8
Distributions to non-controlling interests	(412)	(521)
Free cash inflow	3,409	3,348

Reconciles free cash flow to net cash from operating activities, which is the most directly reconcilable line item in the IFRS cash flow statement.

GSK plc, Annual Report and Accounts 2023, p97

85. Of the sample, 16 companies presented a free cash flow measure in the annual report. There was an almost equal split between including free cash flow in their financial statements and including the measure in their strategic report.

86. Nearly all the companies in the sample that presented free cash flow used net cash flow from operating activities as the starting point for their calculations. The precise composition of the starting point was, however, not identical.

87. In eight cases net cash flow from operating activities was after net interest payments, whilst in six cases it was before net interest payments; the difference reflects the choice currently available in IAS 7 paragraph 31 in relation to whether companies present interest receipts and payments in operating, investing or financing activities[5]. The six UK companies in the latter category, separately adjusted for net interest payments in their free cash flow calculations.

88. The most common adjustments made in free cash flow calculations were for capital expenditure (adjusted by all 16 companies in the sample that presented free cash flow) and the capital element of lease payments (adjusted by 13 companies).

89. There were also other variations: some companies adjusted for cash flows relating to M&A transactions (four companies in the sample), proceeds from asset disposals (three companies) and exceptional cash flows (two companies).

Reporting practices for net debt

90. Net debt is a financial liquidity metric that is used to determine how well a company can pay all its debts if they come due immediately, and whether the company is able to take on more debt. It measures a company's current interest-bearing debt on its statement of financial position compared to its liquid assets i.e. cash and cash equivalents. It shows how much cash would remain if all debts were paid off, and if a company has sufficient liquidity to meet its debt obligations. Net debt is commonly used in valuation.

91. IAS 7 paragraph 44A requires companies to disclose information about changes in financing liabilities. The subsequent paragraphs explain, amongst other matters, that this information may be presented in the form of a reconciliation of the opening and closing balances of liabilities arising from financing activities[6] (IAS 7 paragraph 44D).

92. IAS 7 paragraph 44E explains that the information may be combined with disclosures of changes in other assets and liabilities. Most UK companies do this by presenting a net debt reconciliation.

93. The extract below illustrates one company's approach to presenting its net debt reconciliation. This includes a cash column that reconciles to the statement of cash flows.

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[5] IFRS 18 removes the option to choose how to classify interest and dividend cash flows. In the future, paid interest and dividends should be classified as financing activities. Received interest and dividends should be classified as investing activities. There are exceptions for certain business models, such as banks.

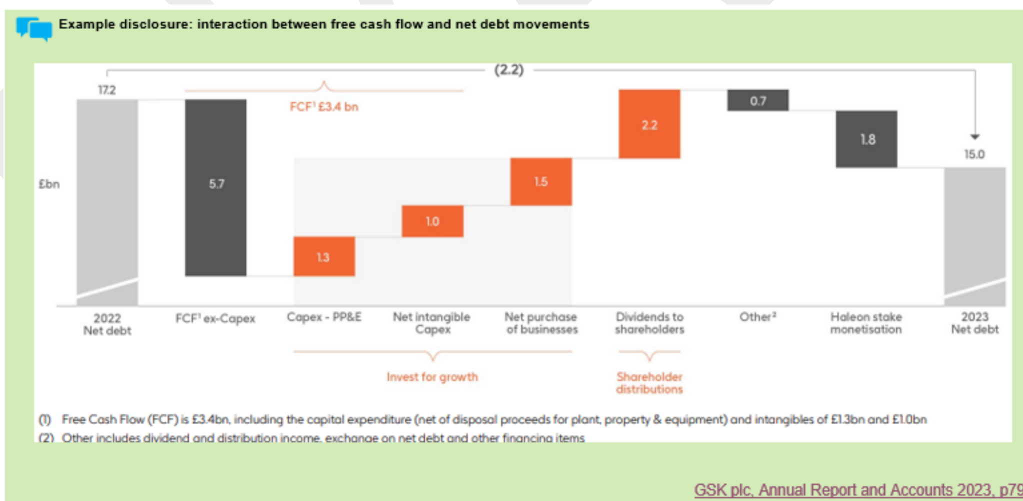
[6] The Standard defines liabilities arising from financing activities as liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

Example disclosure: net debt reconciliation

	Borrowings			Derivatives					
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m	Total liabilities from financing activities £m	Cash and cash equivalents £m	Adjustments in calculating net debt[3] £m	Net debt £m
At 31 March 2023	(6,378.9)	(1,985.9)	(58.3)	(151.1)	349.8	(8,224.4)	327.9	(304.3)	(8,200.8)
Non-cash movements:									
Inflation uplift on index-linked debt	(178.2)	(47.7)	–	–	–	(225.9)	–	–	(225.9)
Fair value movements	(11.2)	3.3	–	1.5	(54.7)	(61.1)	–	6.7	(54.4)
Foreign exchange	26.6	8.6	–	–	–	35.2	–	–	35.2
Other	(4.3)	–	(3.8)	–	–	(8.1)	–	–	(8.1)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives[2]	(1,492.0)	(103.8)	–	(14.2)	–	(1,610.0)	1,610.0	–	–
Payments in respect of borrowings and derivatives[2]	111.4	129.9	1.5	5.7	–	248.5	(248.5)	–	–
Dividends paid	–	–	–	–	–	–	(320.0)	–	(320.0)
Exercise of share options – purchase of shares	–	–	–	–	–	–	(3.8)	–	(3.8)
Changes arising from financing activities	(1,547.7)	(9.7)	(2.3)	(7.0)	(54.7)	(1,621.4)	1,037.7	6.7	(577.0)
Cash flows used in investing activities	–	–	–	–	–	–	(731.4)	–	(731.4)
Cash flows generated from operating activities	–	–	1.4	–	–	1.4	745.1	–	746.5
At 31 March 2024	(7,926.6)	(1,995.6)	(59.2)	(158.1)	295.1	(9,844.4)	1,379.3	(297.6)	(8,762.7)

United Utilities Group PLC, Annual Report and Accounts 2024, p206

94. Another company provided an alternative format to demonstrate the interaction between free cash flow and the increase in net debt (see below).



GSK plc, Annual Report and Accounts 2023, p79

95. In the sample, most companies reported a net debt measure. Almost all of them included net debt in their financial statements. The banking and insurance companies in the sample however did not disclose net debt.

96. As with free cash flow, calculation methods varied, primarily depending on whether companies in the sample included or excluded from their net debt calculations:

a) Leases.

b) Investments.

c) Debt-related derivatives.

d) Other derivatives not related to debt.

e) Other investments not classified as cash equivalents.

Observations on other areas of cash flow reporting

97. Most companies in the sample provide a net debt reconciliation. On one level this is not surprising as it is suggested as one way a company can meet the requirements of IAS 7 paragraph 44A to disclose information about changes in financing liabilities. Given its prevalence there may be an opportunity to incorporate it into the cash flow reporting requirement to provide more cohesiveness between the statement of financial position and the statement of cash flows.

98. The disclosures on cash equivalents continue to be boilerplate in most instances with the IAS 7 paragraph 7 reference to short term maturity being "say, three months or less" being interpreted as a de facto rule.

99. Free cash flow was disclosed by many companies in the sample. While it was variously defined entities tended to provide a clear reconciliation to the statement of cash flows.

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Concluding Observations

100. The purpose of this paper is to inform the Board about the nature and prevalence of non-mandatory and voluntary cash flow disclosures currently reported in UK listed companies' financial statements.

101. Analysing current practice by UK listed companies has identified a number of possible enhancements to the reporting on cash flows and related matters. This includes "encouraged" disclosures that are rarely provided and voluntary disclosures that are more widely observed.

102. This research provides evidence that can inform future Board discussions on the *Statement of Cash Flows and Related Matters* project.

103. The Board's feedback, along with relevant findings from this paper, will inform the remaining interviews to further assess the extent to which the voluntary disclosures reflect users' needs and expectations. The findings from this assessment will, where relevant, also be reflected in the research paper to be submitted expected to be discussed at the March 2025 Board meeting.

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