OIC – ORGANISMO ITALIANO DI CONTABILITÀ

ACCOUNTING STANDARDS

Cash Flow Statement

10

December 2016

INTRODUCTION

The Organismo Italiano di Contabilità (OIC), a foundation created under private law with full statutory autonomy, was recognised by Law No. 116 of 11 August 2014 (which converted Decree Law 91/2014) as the "*national institute for accounting standards*" with the following functions:

a) It issues national accounting standards based on best operating practices to prepare financial statements in accordance with the Civil Code;
b) It provides support to parliament and government bodies in the area of accounting regulations and expresses opinions when required by specific legal provisions or at the request of other government institutions;
c) It participates in the process of developing the international accounting standards adopted in Europe and maintains relationships with the International Accounting Standards Board (IASB), European Financial Reporting Advisory Group (EFRAG) and accounting bodies in other countries.

With regard to the activities indicated in paragraphs a), b) and c), it coordinates with national authorities charged with accounting responsibilities.

In the performance of its duties, the OIC pursues objectives of public interest, acts independently, and makes changes to its by-laws to comply with standards of efficiency and cost savings. It reports annually to the Ministry for the Economy and Finance on its activities.

The national accounting standards are approved by the Management Board and subject to a rigorous due process of consultation.

Following consultation and prior to final publication, pursuant to Article 12 of the by-laws, the national accounting standards are subject to the opinion of the Revenue Agency, Bank of Italy, CONSOB, IVASS and Ministries which have jurisdiction on this matter.

Any negative opinion of the above institutions is published together with the accounting standard approved by the Management Board.

The previous edition of this standard was published in June 2014 as an update to the November 2005 version.

CONTENTS

OBJECTIVE

1. The purpose of accounting standard OIC 10 is to govern the criteria for the preparation and presentation of the cash flow statement. Cash is the financial resource used as a reference for the preparation of the cash flow statement.
2. The cash flow statement provides information to assess the company's financial situation (including liquidity and solvency) during the financial year concerned as well as its changes in future financial years.
3. The cash flow statement also provides information on:
   a. cash generated/absorbed by operating activities and procedures for use/coverage;
   b. the company's ability to address short-term financial obligations; and
   c. the company's ability to fund itself internally.

SCOPE

4. Article 2423(1) of the Civil Code specifies that Directors must prepare the financial statements consisting of the balance sheet, income statement, cash flow statement and notes to the financial statements.
5. Article 2435-*bis*(2) and Article 2435-*ter* of the Civil Code specify that companies that prepare abridged financial statements and the financial statements of micro-undertakings are exempt from preparing the cash flow statement.
6. Thus, this accounting standard is intended for companies that prepare their financial statements in ordinary form in accordance with the provisions of the Civil Code.
7. The provisions of the Civil Code used as a reference for preparing this standard are indicated in the section "*The Cash Flow Statement in Civil Law*".
8. Rules in other accounting standards shall be followed when they govern specific issues related to the cash flow statement.

DEFINITIONS

9. The *cash flow statement* is an accounting table that presents positive and negative changes in cash during a specific financial year.
10. *Cash flows* represent an increase or decrease in the amount of cash. Cash flows presented in the cash flow statement result from operating activities, investing activities and financing activities.
11. *Cash* is made up of bank and post office deposits, cheques and cash on hand. Cash also includes bank and post office deposits, cheques and cash on hand expressed in a foreign currency (see OIC 14 "Cash").

12. *Operating activities* generally include transactions connected with the purchase, production and distribution of goods and the performance of services, including those related to ancillary operations, as well as other transactions not included in investing and financing activities.
Investing activities include transactions for the purchase and sale of tangible and intangible assets, financial fixed assets and financial assets not recognised as fixed assets.
Financing activities include transactions aimed at obtaining and repaying cash in the form of equity or borrowed funds.

13. *Changes in net working capital* consist of changes in inventories, receivables, payables, accruals and deferrals related to operating revenues and costs.

14. *Financial statements in ordinary form* are financial statements prepared in accordance with the provisions of the Civil Code by companies that do not prepare abridged financial statements pursuant to Article 2435-*bis* of the Civil Code, and that do not prepare financial statements pursuant to Article 2435-*ter* of the Civil Code (financial statements of micro-undertakings).

CONTENT AND STRUCTURE OF CASH FLOW STATEMENT

15. Article 2425-*ter* of the Civil Code specifies that the cash flow statement shall present, for the financial year to which the financial statements refer and the preceding financial year, the amount and composition of cash at the beginning and end of the financial year, and cash flows for the financial year from operating activities, investing activities and financing activities including transactions with shareholders.

16. In the cash flow statement, individual cash flows shall be presented separately in one of the following categories:
    a. operating activities;
    b. investing activities;
    c. financing activities.

    Cash flow categories shall be presented in the sequence indicated above.

17. Cash flows from operating activities may be determined using the indirect method (adjusting the profit or loss for the financial year reported in the income statement) or the direct method (by reporting cash flows).

18. The algebraic sum of cash flows from each of the above categories represents the net change (increase or decrease) in cash during the financial year.

19. The cash flow statement is to be presented in graduated form. Reference layouts are presented in Appendix A; categories preceded by capital letters and sub-totals preceded by Arabic numerals may not be grouped.

Addition, breakdown and grouping of cash flows

20. The company shall add cash flows in addition to those specified in the reference layouts when doing so is necessary for clarity and to provide a true and fair view of the financial situation.

21. Individual cash flows presented in categories preceded by capital letters may be broken down further to provide a better description of activities performed by the company.

22. The individual cash flows presented in categories preceded by capital letters may be grouped when their grouping enhances the clarity of the cash flow statement, or when doing so is insignificant for the purposes of providing a true and fair view of the company's financial situation.

23. The amount of the cash flow for the preceding financial year shall be indicated for each cash flow presented in the cash flow statement. If cash flows are not comparable, those for the preceding financial year shall be adapted; the inability to compare, and the adjustment or inability to adjust items shall be reported with comments at the foot of the cash flow statement.

Cash flow offsetting

24. Unless otherwise indicated, cash flows shall be presented as a gross amount with no offsets. Offsetting of cash flows with opposite signs is not allowed in order to avoid altering the significance of the cash flow statement. This applies to cash flows of different categories and cash flows in the same category. For example, a company shall separately present: i) under investing activities, payments made to purchase a fixed asset from proceeds received separately from the sale of another fixed asset; ii) under financing activities, proceeds from new loans provided separately from payments of instalments made.

Details of cash

25. The amount and composition of cash at the beginning and end of the financial year shall be presented in the cash flow statement.

CLASSIFICATION OF CASH FLOWS

Operating activities

26. Cash flows from operating activities generally include flows from the purchase, production and distribution of goods and the performance of services, including those related to ancillary operations, and other flows not included in investing and financing activities.

27. The following are examples of cash flows generated or absorbed by operating activities :
    - cash receipts from the sale of goods and the rendering of services;
    - proceeds from royalties, fees, compensation, insurance reimbursements and other revenues;
    - payments for the purchase of raw materials, semi-finished goods, merchandise and other factors of production;
    - payments for the purchase of services;
    - cash payments to and on behalf of employees;
    - tax payments and reimbursements;

– proceeds from financial income.

28. Operating activities consist of transactions that result in revenues and costs to produce such revenues. Transactions in the area of operating activities shall be reflected in the income statement and also represent the undertaking’s sources of funding, and especially its self-funding sources. These generate the cash necessary to fund future operations.

29. Cash flows from operating activities shall be determined using the indirect method, based on which, the profit (or loss) for the financial year, or profit (or loss) before taxes, shall be adjusted to reflect:

   – non-cash elements, meaning accounting entries that required no disbursement/receipt of cash during the financial year, and that had no balancing entry in net working capital. These include: the amortisation/depreciation of fixed assets, provisions for risks and charges, provisions for post-employment benefits, impairment losses and undistributed profits related to equity investments in associates measured with the equity method;

   – changes in net working capital related to the costs or revenues from operating activities. These include changes in inventories, changes in accounts receivable and accounts payable and changes in prepayments, accrued income, accrued expenses and deferred income. Changes in net working capital reflect the deviations from the preceding financial year’s balances;

   – transactions whose impact is included under cash flows from investing and financing activities. These include gains and losses from the sale of assets.

   The aim of these adjustments is to transform positive and negative income components into collections and payments (i.e. into changes in cash).

30. The profit/loss for the financial year shall be adjusted to take into account changes in net working capital, including under the following circumstances:

   – the increase in accounts receivable shall be subtracted from the profit (loss) for the financial year since this increase represents the amount received from customers which is lower than revenues accrued in the financial year and credited to the income statement; on the other hand, a reduction in receivables shall be added to the profit (loss) for the financial year since it represents the amount of receivables collected which is higher than revenues accrued in the financial year and credited to the income statement;

   – an increase (decrease) in accounts payable shall be added to (subtracted from) the profit (loss) for the financial year since it represents a portion of production costs not yet paid (or a portion of production costs paid in excess of accrued costs);

   – an increase (decrease) in inventories shall be subtracted from (added to) the profit (loss) for the financial year since the profit calculation includes production costs, which incorporate purchases as well as the change in inventories, while only purchases have an effect on changes in cash . As an example, if there is an increase in the inventories of merchandise, this increase shall be subtracted from the profit (loss) for the financial year since during the financial year, purchases made were greater than the merchandise sold in an amount equal to the difference between ending inventory (higher) and beginning inventory (lower). Subtracting the change in inventories from the profit/loss for the financial year neutralises their operating impact so that the cash flow statement only reflects the impact of cash used for purchases during the financial year on the financial position;

– the increase in accrued expenses shall be added to the profit/loss for the financial year since this increase represents the amount of expenses not yet paid for out of cash that is higher than expenses charged to the income statement.

31. The cash flow from operating activities may also be determined using the direct method by presenting gross positive and negative cash flows from transactions included in operating activities (see Appendix A “*Reference layouts for the preparation of the cash flow statement*”).

Investing activities

32. Cash flows from investing activities shall include cash flows from the purchase and sale of tangible and intangible assets, financial fixed assets and financial assets not recognised as fixed assets.

33. Cash flows generated or absorbed by investing activities shall include investing activities from:
    – purchases or sales of buildings, plants, equipment or other tangible assets (including tangible assets constructed internally);
    – purchases or sales of intangible assets including patents, trademarks and concessions; these payments shall also include those related to capitalised multi-year costs;
    – purchases or sales of equity investments in subsidiaries and associates;
    – purchases or sales of other equity investments;
    – purchases or sales of other securities including government securities and bonds;
    – advances and loans made to third parties and collections from their repayment.

34. Cash flows from the purchase of fixed assets shall be presented separately in investing activities to reflect the actual outflow of cash during the financial year, which is equal to the total purchase price adjusted for the change in payables to suppliers of fixed assets; this is done in order to report the financial resources absorbed by a purchase transaction as a single unit.

35. Cash flows from the sale of fixed assets shall be presented separately in investing activities to reflect the proceeds actually collected during the financial year, which are equal to the sale price (i.e. the net book value increased for the gain or decreased for the loss) adjusted for the change in receivables from customers for fixed assets; this is done in order to report the source of financial resources generated from the sale transaction as a single unit.

36. Since the income statement reflects the gain or loss over the net book value of the fixed asset, the company shall adjust the profit/loss for the financial year from operating activities by the amount of the gain/loss.

37. The company shall separately present the main cash proceeds or payments from investing activities, divide them based on the various categories of fixed assets (intangible, tangible and financial fixed assets) and present financial assets not recognised as fixed assets separately.

Financing activities

38. Cash flows from financing activities shall include flows from obtaining or repaying cash in the form of equity or borrowed funds.

39. Cash flows generated or absorbed by financing activities include:
   - proceeds from the issuance of shares or equity interests;
   - the payment of dividends;
   - payments for the redemption of equity, including in the form of the purchase of treasury shares;
   - cash proceeds or payments from issuing or repaying bonds and fixed-income securities, and from obtaining or repaying mortgage loans and other short-term or long-term borrowings;
   - an increase or decrease in other short- or medium-term payables of a financial nature.
40. The company shall separately present the main categories of cash proceeds or payments from financing activities and make a distinction between cash flows from equity and those from borrowed funds.

SPECIAL CASES OF CASH FLOWS

Interest and dividends

41. Interest paid and collected shall be presented separately under cash flows from operating activities, except in special cases in which the interest is directly related to investments (investing activities) or loans (financing activities).
42. Dividends received and paid shall be presented separately, under operating activities and financing activities respectively.
43. Cash flows from interest and dividends shall be presented separately in the cash flow statement. Thus, a single amount of dividends and interest shall not be presented in the cash flow statement. The classification of cash flows from interest and dividends shall remain constant over time.

Income Taxes

44. Cash flows related to income taxes shall be presented separately and classified under operating activities. Outgoing cash flows shall include the payment of taxes to tax authorities including advance tax payments. Incoming cash flows include compensation from tax authorities such as excess payments and reimbursements.

Foreign currency cash flows

45. Cash flows arising from transactions in a foreign currency shall be recorded in the company’s financial statements in euros by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the time of the cash flow.
46. Unrealised profits or losses resulting from changes in foreign currency exchange rates are not cash flows; thus, the profit (or loss) for the financial year is adjusted to take these transactions into account which are non-monetary in nature.

47. The impact from changes in exchange rates on cash held in a foreign currency shall be presented separately from cash flows from operating activities, investing activities and financing activities.

Derivative financial instruments

48. Cash flows from derivative financial instruments (as defined in OIC 32) shall be presented in the cash flow statement under investing activities.
49. If a derivative financial instrument, such as a futures contract, a forward contract, an option or a swap) is designated as a hedging instrument, the related cash flows shall be presented in the same category as the cash flows from the item hedged (e.g. a medium-/long-term loan). Incoming and outgoing cash flows from the hedging derivative shall be presented separately from the cash flows of the item hedged.

Purchase or sale of business divisions

50. The cash flow resulting from the consideration paid/received for the acquisition and sale of a business division shall be presented separately under investing activities net of cash acquired or disposed of as a part of the transaction.
51. In addition, the company shall indicate the following information at the foot of the cash flow statement: a) total consideration paid or received; b) the portion of consideration consisting of cash; c) the amount of cash purchased or sold in the transaction to purchase/sell the business division; and d) the book value of the assets/liabilities purchased or sold.
52. The cash flow related to the purchase of a business division may not be set off against that related to the sale of another business division.

NON-CASH TRANSACTIONS

53. Investing and financing transactions that do not require the use of cash shall not be presented in the cash flow statement. Examples of non-cash transactions include i) the exchange of equity investments; ii) the conversion of debt into equity; iii) the exchange of assets.

INFORMATION AT THE FOOT OF THE CASH FLOW STATEMENT

54. The company shall present the amount of any significant balances of cash that cannot be freely used by the company at the foot of the cash flow statement, and explain the reasons why such amounts cannot be used. These reasons may include legal restrictions making the balances unusable, or a restricted current account provided as a guarantee on behalf of a subsidiary.

EFFECTIVE DATE

55. This edition of OIC 10 shall apply to financial statements related to financial years beginning on or after 1 January 2016.

FIRST-TIME APPLICATION PROVISIONS

56. Article 2425-*ter* of the Civil Code specifies that the cash flow statement shall present, for the financial year to which the financial statements refer and the preceding financial year, the amount and composition of cash at the beginning and end of the financial year, and cash flows for the financial year from operating activities, investing activities and financing activities including transactions with shareholders. Article 12 of Legislative Decree 139/2015 provides no exception to the retroactive application of this provision. Thus, at the time of the first application of this accounting standard, it is necessary to present the cash flow statement for the preceding financial year for comparison purposes.

APPENDIX A – REFERENCE LAYOUTS FOR THE PREPARATION OF THE CASH FLOW STATEMENT

This appendix is an integral part of the standard.

Layout No. 1: Cash flow from operating activities determined using the indirect method

	200X	200X-1
A. Cash flows from operating activities (indirect method)		
Profit (loss) for the financial year		
Income Taxes		
Interest expense /(Interest income)		
(Dividends)		
(Gains)/Losses resulting from the sale of assets		
1. Profit (loss) for the financial year, before income taxes, interest, dividends and gains and losses from asset sales		
Adjustments for non-cash items that were not offset in net working capital		
Provisions		
Amortisation and depreciation of fixed assets		
Impairment losses		
Value adjustments in respect of financial assets and financial liabilities and derivative financial instruments not affecting cash flows		
Other adjustments for non-cash items		
2. Cash flow before changes in net working capital		
Changes in net working capital		
Decrease/(increase) in inventory		
Decrease/(increase) in accounts receivable		
Increase/(decrease) in accounts payable		
Decrease/(increase) in prepayments and accrued income		
Increase/(decrease) in accrued expenses and deferred income		
Other changes in net working capital		
3. Cash flow after changes in net working capital		
Other adjustments		
Interest collected/(paid)		

(Income tax paid)		
Dividends collected		
(Utilisation of provisions)		
Other collections/payments		
Cash flow from operating activity (A)		
B. Cash flows from investing activities		
Tangible assets		
(Investments)		
Divestments		
Intangible assets		
(Investments)		
Divestments		
Financial fixed assets		
(Investments)		
Divestments		
Financial assets not recognised as fixed assets		
(Investments)		
Divestments		
(Acquisition of business divisions net of cash)		
Sale of business divisions net of cash		
Cash flows from investing activities (B)		
C. Cash flows from financing activities		
Borrowed funds		
Increase(decrease) in short-term payables to banks		
New loans		
(Repayment of loans)		
Equity		
Capital increase by contribution		
(Capital redemption)		
Sale (purchase) of treasury shares		
(Dividends (and advance payments on dividends) paid)		
Cash flows from financing activities (C)		

Increase (decrease) in cash (A+/-B+/-C)		
Impact of exchange rates on cash		
Cash at the beginning of the financial year of which: Bank and postal deposits Cheques Cash on hand		
Cash at the end of the financial year of which: Bank and postal deposits Cheques Cash on hand		

Layout No. 2: Cash flow from operating activities determined using the direct method

	200X	200X-1
A. Cash flows from operating activities (direct method)		
Cash collected from customers		
Other cash collections		
(Payments to suppliers for purchases)		
(Payments to suppliers for services)		
(Payments to personnel)		
(Other payments)		
(Income taxes paid)		
Interest collected/(paid)		
Dividends collected		
Cash flow from operating activity (A)		
B. Cash flows from investing activities		
Tangible assets		
(Investments)		
Divestments		
Intangible assets		
(Investments)		

Divestments		
Financial fixed assets		
(Investments)		
Divestments		
Financial assets not recognised as fixed assets		
(Investments)		
Divestments		
(Acquisition of business divisions net of cash)		
Sale of business divisions net of cash		
Cash flows from investing activities (B)		
C. Cash flows from financing activities		
Borrowed funds		
Increase(decrease) in short-term payables to banks		
New loans		
(Repayment of loans)		
Equity		
Capital increase by contribution		
(Capital redemption)		
Sale (purchase) of treasury shares		
(Dividends (and advance payments on dividends) paid)		
Cash flows from financing activities (C)		
Increase (decrease) in cash (A+/-B+/-C)		
Impact of exchange rates on cash		
Cash at the beginning of the financial year of which: Bank and postal deposits Cheques Cash on hand		
Cash at the end of the financial year of which: Bank and postal deposits Cheques Cash on hand		

THE CASH FLOW STATEMENT IN CIVIL LAW

Below are the provisions of the Civil Code concerning the preparation of the cash flow statement:

– Article 2423(1) of the Civil Code specifies that "*gli amministratori devono redigere il bilancio di esercizio, costituito dallo stato patrimoniale, dal conto economico, dal rendiconto finanziario e dalla nota integrativa*".

– Article 2423(4) of the Civil Code: "*Non occorre rispettare gli obblighi in tema di rilevazione, valutazione, presentazione e informativa quando la loro osservanza abbia effetti irrilevanti al fine di dare una rappresentazione veritiera e corretta. Rimangono fermi gli obblighi in tema di regolare tenuta delle scritture contabili. Le società illustrano nella nota integrativa i criteri con i quali hanno dato attuazione alla presente disposizione*".

– Article 2425-*ter* of the Civil Code specifies that "*Dal rendiconto finanziario risultino, per l'esercizio a cui è riferito il bilancio e per quello precedente, l'ammontare e la composizione delle disponibilità liquide, all'inizio e alla fine dell'esercizio, ed i flussi finanziari dell'esercizio derivanti dall'attività operativa, da quella di investimento, da quella di finanziamento, ivi comprese, le operazioni con soci*".

– Article 2435-*bis*(2) specifies that "*...le società che redigono il bilancio in forma abbreviata sono esonerate dalla redazione del rendiconto finanziario*".

– Article *2435-ter* of the Civil Code specifies that "*...Le micro imprese sono esonerate dalla redazione del rendiconto finanziario ...*".