Disclosure of Cash Flow Information proposed by the IASB Discussion Paper

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The purpose of this paper is to examine the information of the statement of cash flow based on the IASB DP (2008) in comparison to IASR 7 and IASB "Reporting Performance Principles 10 (2001)". The researcher has considered several matters raised by the comment letters from major standard-setters in order to improve the disclosure of cash flow information in Japan.

DP refers to the following three objectives : cohesiveness, disaggregation and liquidity and financial flexibility, as those of financial statement presentation. Thus, DP proposes that financial statements should be classified into five categories and sections, and the operating cash flows should be shown by the direct method. Comment letters on DP shows that Japanese respondents differed greatly from other standard-setters. In particular, ASBJ is opposed to the proposal to show operating cash flows using the direct method. However, all of the other standard-setters agree that the direct method provides financial statement users with understandability and decision-usefulness. More over, there is much confusion about the classification of accounts and formats on the statement of cash flows in Japan. Therefore, with the IASB engaged in the "Project of Financial statements Presentation", the researcher argues that now is time for a change to reporting cash flow calculation in line with internatoinal convergence.

The present research makes recommendations to revise the current statement of cash flows as follows :

(1) it should be articulated in other financial statements, (2) the direct method should be used to show in operating cash flows, (3) the use of five categories and sections should be adopted, (4) the reconciliation schedule should be prepared in the footnote, (5) the financing section should be clearer, (6) interest and dividends paid should be shown in the financing section, interest and dividend received should be shown in the investing section, and (7) cash equivalents should be excluded from the amount of cash.