

U.S. GAAP vs. IFRS: Statement of cash flows

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS with respect to the statement of cash flows.

The guidance related to the statement of cash flows in U.S. GAAP is included in the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 230, *Statement of Cash Flows*. In IFRS, the guidance related to the statement of cash flows is included in International Accounting Standard (IAS) 7, *Statement of Cash Flows*.

Comparison

The significant differences between U.S. GAAP and IFRS related to the statement of cash flows are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 230	IAS 7
Cash flows from operating activities	<p>Either the direct or indirect method may be used.</p> <p>Net income must be reconciled to net cash flows from operating activities.</p>	<p>Either the direct or indirect method may be used.</p> <p>Net income must be reconciled to net cash flows from operating activities if the indirect method is used.</p>
Interest and dividends	<p>Interest received or paid is classified as operating activities.</p> <p>Dividends received are classified as operating activities.</p> <p>Dividends paid are classified as financing activities.</p>	<p>Interest and dividends received or paid are classified in a consistent manner as either operating, investing or financing cash activities.</p> <p>Interest paid and interest and dividends received are usually classified in operating cash flows by a financial institution.</p>
Taxes	Cash flows related to income taxes are generally classified as operating activities.	Cash flows related to income taxes are classified as operating activities, unless they can be specifically identified with financing or investing activities.
Overdrafts	Bank overdrafts are not included in cash and cash equivalents. Instead, they are accounted for as liabilities, and changes in the overdraft balances are classified as financing cash flows.	In certain facts and circumstances, bank overdrafts are included in cash and cash equivalents. In some countries, bank overdrafts repayable on demand constitute an integral part of an entity's cash management policies. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents.
Restricted cash	<p>An entity is required to include restricted cash in its beginning and ending balances of cash and cash equivalents on the statement of cash flows.</p> <p>Entities should present the change in total cash, cash equivalents and amounts described as restricted cash.</p>	No specific guidance exists.

These are the significant differences between U.S. GAAP and IFRS with respect to the statement of cash flows. Refer to ASC 230 and IAS 7 for all of the specific requirements applicable to the statement of cash flows. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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U.S. GAAP vs. IFRS: Statement of cash flows resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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