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# **Audit Alert:** Board issues new standard affecting the cash flows statement

The Board recently issued ASU 2016 - 15, *Classification of Certain Cash Receipts and Cash Payments a consensus of the EITF*, which is intended to reduce areas where diversity in practice exists with respect to classifying cash receipts and payments within the statement of cash flows.

The key provisions of ASU 2016 -15 are summarized below:

- cash payments for debt prepayment or extinguishment costs are classified as cash outflows from financing activities.
- the cash payment at maturity of a zero - coupon bond is split into two components: (1) The portion attributable to interest is classified as a cash outflow from operating activities, and (2) the portion attributable to principal is classified as a cash outflow from financing activities.
- the cash payment to settle a contingent consideration liability arising from a business combination is split into two components: (1) The portion up to the acquisition -date fair value of the liability, including measurement - period adjustments, is classified as a cash outflow from financing activities, and (2) any amount paid in excess of the liability's acquisition - date fair value is classified as a cash outflow from operating activities.
- proceeds from an insurance settlement are classified in the statement of cash flows based on the nature of the loss.
- cash proceeds and payments from the settlement of corporate owned life insurance (COLI) policies are classified as cash inflows/outflow from investing activities or as a combination of investing and operating activities of the payments made.
- the amendments in the new guidance do not address equity method investments that are measured using the fair value option. For other equity method investments, entities should determine if distributions received from equity method investees are either a return on investment and classified as cash inflows from operating activities, or a return of investment and classified as cash inflows from investing activities. Please refer to the recently issued ASU 2016-15 referred above for details.

The new guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December15, 2017. *For all other entities, the new guidance is effective for fiscal years beginning after December 15, 2018* and for interim periods within fiscal years beginning after December 15, 2019. *Early adoption is permitted, as long as all amendments are adopted in the same period.*

Source: Grant Thornton, *On the Horizon*, September 1, 2016

**Please contact us should further assistance in relation to this or any other matter is required.**

Contact us

For assistance in this matter, please contact us via luiscarlos.marcano@pr.gt.com

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