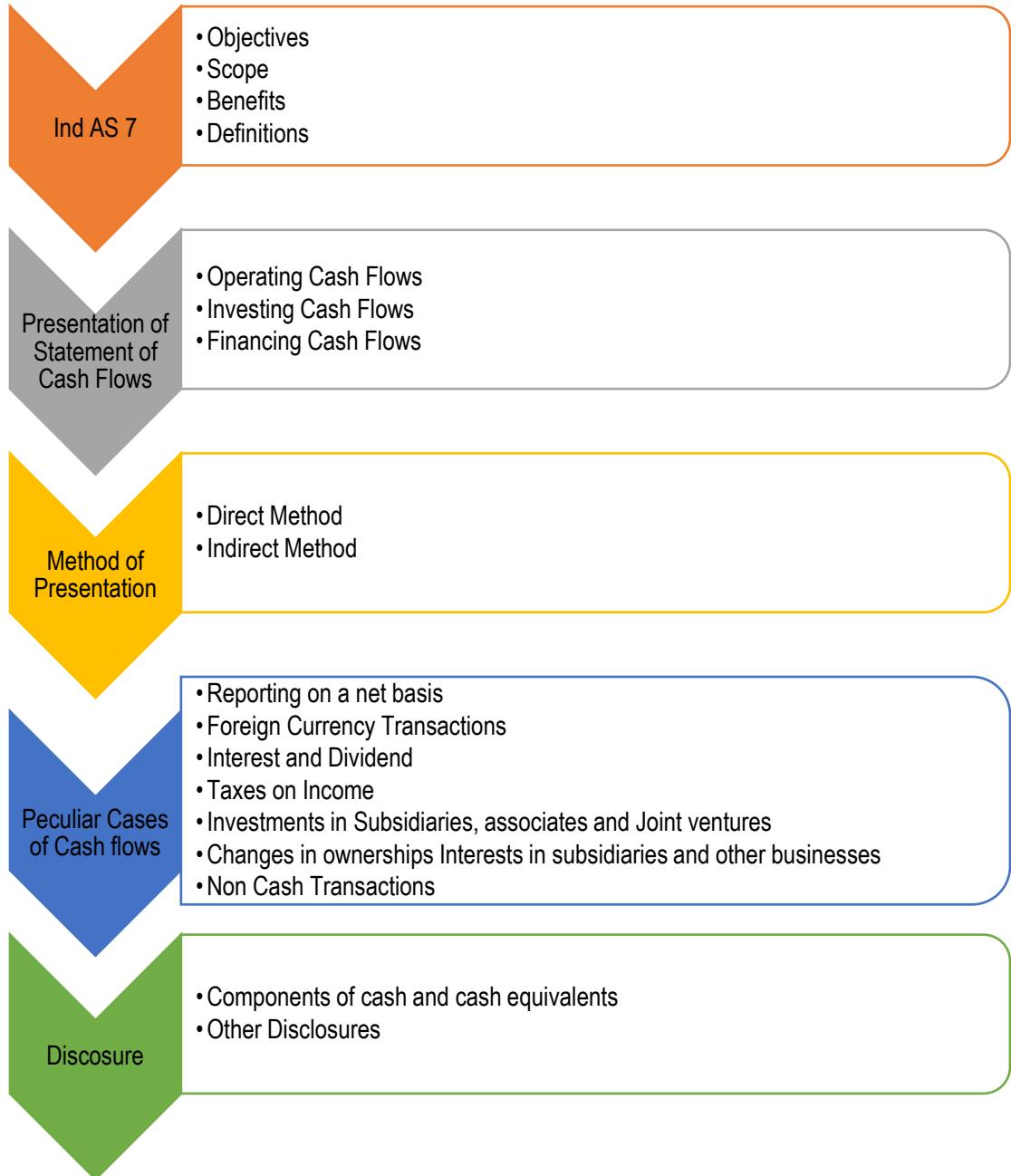


## UNIT 3: INDIAN ACCOUNTING STANDARD 7: STATEMENT OF CASH FLOWS

### LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the meaning of cash flow statement
- Describe the objective and scope of issuance of Ind AS 7
- Define the relevant terms used in the Ind AS
- Classify the types of cash flows into operating, investing and financing activities
- Distinguish between direct and indirect method of presentation of cash flows under the operating activity
- Identify the provision applicable to various peculiar situations of cash flows
- Disclose the necessary information as required in the standard
- Differentiate between Ind AS 7 and AS 3.

**UNIT OVERVIEW** 



## 3.1 INTRODUCTION

The balance sheet is a snapshot of entity's financial resources and obligations at a particular point of time and the statement of profit and loss reflects the financial performance for the period. These two components of financial statements are based on accrual basis of accounting. The statement of cash flows includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not affect cash receipts and payments.

The information on cash flows is useful in assessing sources of generating and deploying cash and cash equivalents during the reporting period. The statement of cash flows can be used for comparison with earlier reporting periods of the same entity as well as comparison with other entities for the same reporting period.

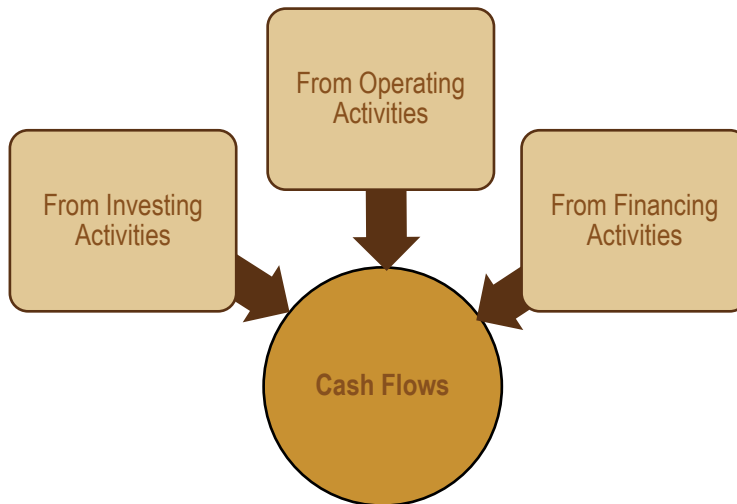
Ind AS 7, Statement of Cash Flows, prescribes principles and guidance on preparation and presentation of cash flows of an entity from operating activities, investing activities and financing activities for a reporting period.



## 3.2 MEANING OF STATEMENT OF CASH FLOWS

Cash flow statement, in simple words is a statement, which provides the details about how the cash is generated by an entity during the particular reporting period and how it is applied. While doing so, it takes into consideration the opening balances of cash and cash equivalents, adds the cash generated, deducts the cash payments and reconciles it with closing balances of cash and cash equivalents. The cash flows are classified into following three main categories:

- (a) Cash flows from Operating Activities
- (b) Cash flows from Investing Activities
- (c) Cash flows from Financing Activities



The simplified example of cash flow statement, for understanding purpose is given below

Particulars	Amount (₹)
Cash flow from Operating Activities	10,000
Cash flow used in Investing Activities	(2,000)
Cash flow used in Financing Activities	<u>(4,000)</u>
Net Cash Generated during the year	4,000
Add: Cash and Cash Equivalents at the beginning of the year	<u>13,000</u>
Cash and Cash Equivalents at the end of the year (which will also tally with the cash and cash equivalents given in the balance sheet)	<u>17,000</u>

Thus, one can see that at the beginning of the year, the **opening balance** of cash and cash equivalent was ₹ 13,000. During the year, the business **generated (inflow)** cash from its main operations ₹ 10,000. Thus, the entity had ₹ 23,000 at its disposal. Out of it, the entity has **used (outflow)** ₹ 2,000 for additional investments and ₹ 4,000 for financing activities. Therefore, at the end of the year, the entity is left with the balance of ₹ 17,000.



### 3.3 OBJECTIVE

Ind AS 7, has specified the following objectives of Statement of Cash Flows:

#### 3.3.1 To provide information about historical changes in cash and cash equivalents

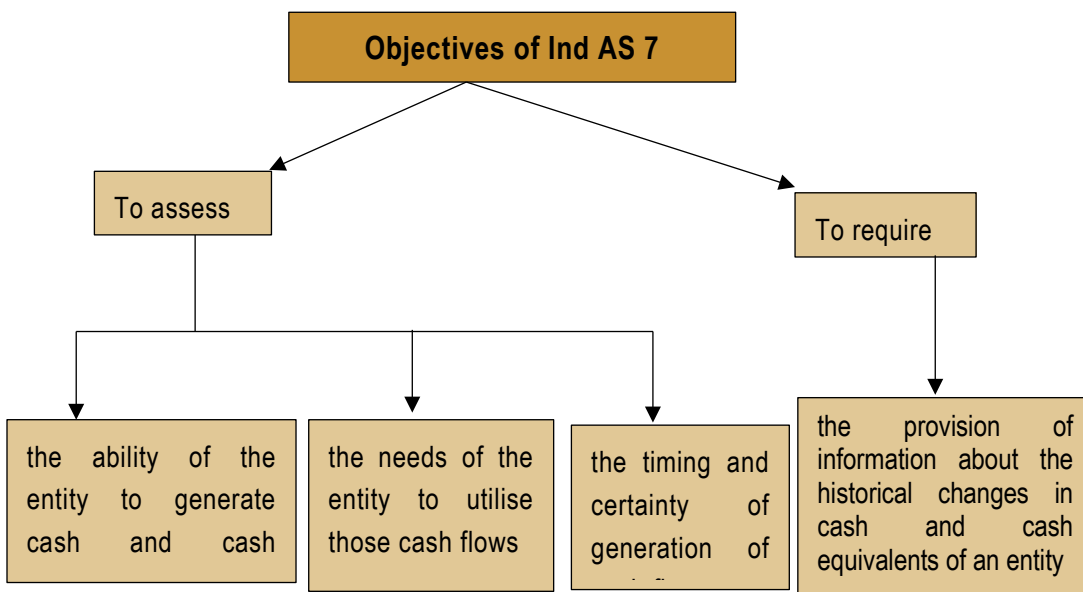
Cash flow statement aims at providing the information about how the cash has been generated during the year and for what purposes has it been utilised. The information will be provided for current year and immediate previous year.

#### 3.3.2 To assess the ability to generate cash and cash equivalents

Cash flow statement is intended to provide the stakeholders about the efficiency of the company in generating cash and cash equivalents. Some companies may look profitable as per profit and loss account but whether they have enough cash for payment of their debts and creditors has to be assessed by using cash flow statement. It is useful in examining the relationship between profitability and net cash flow and the impact of changing prices.

#### 3.3.3 To understand the timing and certainty of their generation

The historical analysis of statement of cash flow can set a trend regarding the years in which company could generate fair amount of cash flows and the probability of generating it.





## 3.4 BENEFITS OF CASH FLOW INFORMATION

### 3.4.1 Provides information enabling evaluation of changes in net assets and financial structure (Liquidity and solvency)

Cash flow statement reconciles the opening balances of cash and cash equivalents with the closing balances of cash and cash equivalents, giving the reasons for the changes happened during the year. Thus, it provides a clear picture of cash inflows and out flows that have taken place during the reporting period.

### 3.4.2 Assesses the ability to manage the cash

The stakeholders get an idea about what is the source of generation of cash and how it is used for. The information gives a fair idea about the efficiency and ability of the company to generate cash.

For example, suppose there is negative cash flow from operations. It denotes that company is unable to generate cash from its main business activity, which is not a favourable situation.

Cash flow statements can also throw light on whether company could generate sufficient cash or not.

For example, company wants to expand its production capacity. The cash flow statement can indicate whether company could generate the required cash from their operations, or whether company has generated the funds from share capital or whether company has taken a loan for the same.

### 3.4.3 Assess and compare the present value of future cash flows

The past trends of cash flows will help the company to predict about future cash flows. Such information is useful while evaluating the projects on capital budgeting or valuation of shares. Thus, it forms the base for future projects and can be discounted using discounting techniques.

### 3.4.4 Compares the efficiency of different entities

Accounting profits of various entities may have different assumptions, policies and definitions. However, cash flows will be calculated by using the same technique and finally all differing assumptions across the companies will melt down and entity will reach to a common comparable base of cash and cash equivalents.



### 3.5 SCOPE

An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

The Standard requires all entities to present a statement of cash flows.

Every organisation, whether it is small or big in size, whether it's a manufacturing organisation or trading concern or service organisation, needs cash for running its business. The cash is also needed for future investments. Cash would be needed for payment of dividends, repayment of loans as well. Thus, any organisation is required to generate the cash and utilises cash continuously.

Banks and Financial institutions are also not an exception to the same. Even if they deal with financial products, accept deposits and give loans day in and day out, they need to generate the cash profit for their own organisation. They need to make investments in terms of new branches, set ups etc. Thus, statement of cash flow is equally important for Banking and Financial Institutions as well.



### 3.6 DEFINITIONS

The following terms are used in this Standard with the meanings specified:

1. **Cash** comprises cash on hand and demand deposits.
2. **Cash equivalents** are 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.
3. **Cash flows** are inflows and outflows of cash and cash equivalents.
4. **Operating activities** are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
5. **Investing activities** are the acquisition and disposal of long-term assets and other investment not included in cash equivalents.
6. **Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.



## 3.7 CASH AND CASH EQUIVALENTS

Cash Equivalent means investments which can be realised easily in cash in a short period from the date of investing the same.

1. **Purpose:** Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.
2. **Known amount of cash:** This means that the cash amount that will be received on redemption should be known at the time of the initial investment. It is not sufficient that the instrument itself is readily convertible into cash and has a determinable market value. Instead, it means that, at the time of the initial investment, the entity is satisfied that the risk of changes in value is insignificant and that therefore the amount of cash to be received on redemption is known.
3. **Liquidity and Risk:** For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.
4. **Equity investments** are excluded from cash equivalents unless they are, in substance, cash equivalents.
5. **Bank borrowings** are generally considered to be financing activities. However, the bank overdrafts may be an integral part of an entity's cash management in which case they will be included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn. .
6. **Cash Management:** Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

### Illustration 1

*Company has provided the following information regarding the various assets held by company on 31<sup>st</sup> March 20X1. Find out, which of the following items will be part of cash and cash equivalents for the purpose of preparation of cash flow statement as per the guidance provided in Ind AS 7:*



Sr.No.	Name of the Security	Additional Information
1.	Fixed deposit with SBI	12%, 3 years maturity on 1 <sup>st</sup> January 20X4
2.	Fixed deposit with HDFC	10%, original term was for 2 years, but due for maturity on 30 <sup>th</sup> June 20X1
3.	Redeemable Preference shares in ABC Ltd	Acquired on 31 <sup>st</sup> January 20X1 and the redemption is due on 30 <sup>th</sup> April 20X1
4.	Cash balances at various banks	All branches of all banks in India
5.	Cash balances at various banks	All international branches of Indian banks
6.	Cash balances at various banks	Branches of foreign banks outside India
7.	Bank overdraft of SBI Fort branch	Temporary overdraft, which is payable on demand
8.	Treasury Bills	90 days maturity

### Solution

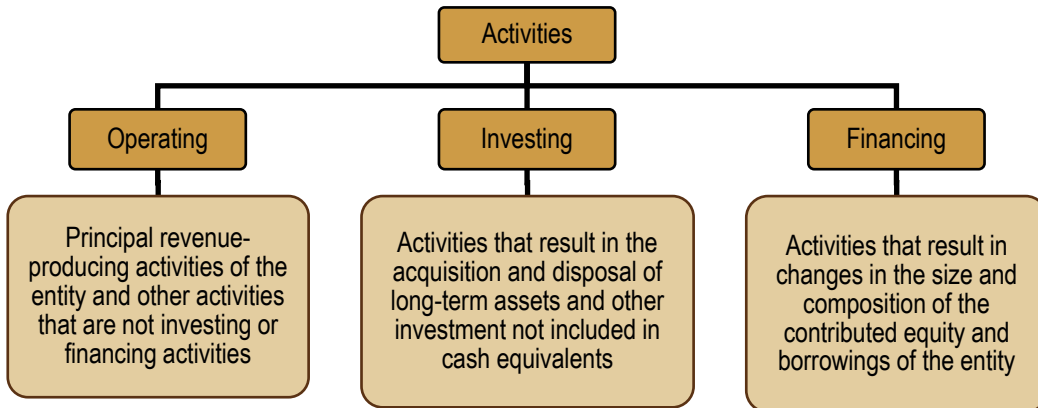
Sr. No.	Name of the Security	Decision
1.	Fixed deposit with SBI	Not to be considered – long term
2.	Fixed deposit with HDFC	Exclude as original maturity is not less than 90 days from the date of acquisition
3.	Redeemable Preference shares in ABC Ltd.	Include as due within 90 days from the date of acquisition
4.	Cash balances at various banks	Include
5.	Cash balances at various banks	Include
6.	Cash balances at various banks	Include
7.	Bank overdraft of SBI Fort branch	Include (Assumed as integral part of an entity's cash management)
8.	Treasury Bills	Include

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## 3.8 PRESENTATION OF STATEMENT OF CASH FLOWS

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.



### 3.8.1 Operating Activities

- Cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity ie from operations of the business. Therefore, they are, in general, the result of the transactions and events that enter into the determination of profit or loss.

Examples of cash flows from operating activities are:

Operating Cash Inflows	Operating Cash Outflows
Cash receipts from the sale of goods and the rendering of services	Cash payments to suppliers for goods and services
Cash receipts from royalties, fee, commission and other revenue	Cash payments to and on behalf of employees
Cash receipts and payments from contracts held for dealing or trading purposes	Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities

#### Illustration 2

From the following transactions, identify which transactions will be qualified for the calculation of operating cash flows, if company is into the business of trading of mobile phones.

Sr. No.	Nature of Transaction
1	Receipt from sale of mobile phones

2	<i>Purchases of mobile phones from various companies</i>
3	<i>Employees expenses paid</i>
4	<i>Advertisement expenses paid</i>
5	<i>Credit sales of mobile</i>
6	<i>Miscellaneous charges received from customers for repairs of mobiles</i>
7	<i>Loss due to decrease in market value of the closing stock of old mobile phones</i>
8	<i>Payment to suppliers of mobile phones</i>
9	<i>Depreciation on furniture of sales showrooms</i>
10	<i>Interest paid on cash credit facility of the bank</i>
11	<i>Profit on sale of old computers and printers, in exchange of new laptop and printer</i>
12	<i>Advance received from customers</i>
13	<i>Sales tax and excise duty paid</i>

### Solution

Sr. No.	Nature of Transaction	Included / Excluded with reason
1	Receipt from sale of mobile phones	Include – main revenue generating activity
2	Purchases of mobile phones from various companies	Include – expenses related to main operations of business
3	Employees expenses paid	Include – expenses related to main operations of business
4	Advertisement expenses paid	Include – expenses related to main operations of business
5	Credit sales of mobile	Do not include – Credit transaction will not be included in cash flow (receipts from customers will be included)
6	Misc. charges received from customers for repairs of mobiles	Include – supplementary revenue generating activity
7	Loss due to decrease in market value of the closing stock of old mobile phones	Do not include - Non cash transaction
8	Payment to suppliers of mobile phones	Include – cash outflow related to main operations of business
9	Depreciation on furniture of sales showrooms	Do not include – non cash item

10	Interest paid on cash credit facility of the bank	Do not include – cost of finance
11	Profit on sale of old computers and printers, in exchange of new laptop and printer	Do not include – non cash item
12	Advance received from customers	Include – Related to operations of business
13	Sales tax and excise duty paid	Include – related to operations of business

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- The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows or not. If the cash flow from operations is positive, it will be treated as positive indicator whereas negative cash flow from operations will denote that company's ability to generate the revenue from its main operations is very weak. The companies in the initial stage of their business or the companies which are facing economic problems will generally have the negative cash flow from operations.
- Cash flow from operations are used to maintain the operating capability of the entity, pay dividends and make new investment without recourse to external sources of financing. Therefore, it is necessary to assess how much cash is generated by the business from operations? Are they sufficient to take care of their future investment plans? Can loans be repaid in time without default from such cash flows? Is there sufficient amount for payment of preference dividend? Is anything left for equity shareholders after making all these payments? Answers to all these questions will depend on whether the entity has generated enough cash or not.

### 3.8.1.1 Certain Specific Issues

1. **Profit/ Loss on Sale of Assets** : Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities.
2. **Properties built for let out** : Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

### 3.8.2 Investing Activities

Investment means sacrifice of current resource in a view to get more returns in future. All entities need some amount of investment for their future survival.

Ind AS 7 states that investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities.

Examples of cash flows arising from investing activities are:

Cash Inflow from Investing Activities	Cash Outflow from Investing Activities
receipts from sales of property, plant and equipment, intangibles and other long-term assets	payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment
receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes)	payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution)	advances and loans made to other parties (other than advances and loans made by a financial institution)
receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities	payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

#### Illustration 3

*From the following transactions taken from a private sector bank operating in India, identify which transactions will be classified as operating and which would be classified as Investing activity.*

<b>S. No.</b>	<b>Nature of transaction paid</b>
1	<i>Interest received on loans</i>
2	<i>Interest paid on Deposits</i>
3	<i>Deposits accepted</i>
4	<i>Loans given to customers</i>
5	<i>Loans repaid by the customers</i>
6	<i>Deposits repaid</i>
7	<i>Commission received</i>
8	<i>Lease rentals paid for various branches</i>
9	<i>Service tax paid</i>
10	<i>Furniture purchased for new branches</i>
11	<i>Implementation of upgraded banking software</i>
12	<i>Purchase of shares in 100% subsidiary for opening a branch in Abu Dhabi</i>
13	<i>New cars purchased from Honda dealer, in exchange of old cars and remaining amount paid in cash</i>
14	<i>Provident fund paid for the employees</i>
15	<i>Issued employee stock options</i>

### Solution

<b>Sr. No.</b>	<b>Nature of transaction paid</b>	<b>Operating / Investing / Not to be considered</b>
1	Interest received on loans	Operating – Main revenue generating activity
2	Interest paid on Deposits	Operating – Main expenses of operations
3	Deposits accepted	Operating – in case of financial institutes
4	Loans given to customers	Operating – in case of financial institutes
5	Loans repaid by the customers	Operating – in case of financial institutes
6	Deposits repaid	Operating – in case of financial institutes
7	Commission received	Operating – Main revenue generating activity
8	Lease rentals paid for various branches	Operating – Main expenses of operations

9	Service tax paid	Operating – Main expenses of operations
10	Furniture for new branches	Investing – Assets purchased
11	Implementation of upgraded banking software	Investing – Purchased for long term purpose
12	Purchase of shares in 100% subsidiary for opening a branch in Abu Dhabi	Investing – strategic investment
13	New cars purchased from Honda dealer, in exchange of old cars and cash payment	Investing-for cash payment
14	Provident fund paid for the employees	Operating
15	Issued employee stock options	Not to be considered. No cash flow

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### 3.8.3 Financing Activities

During the life time of the entity, it needs money for long term investments as well as for working capital purpose. Company can raise the capital by way of equity or loans. Thus, the cash flows related to raising of funds and redemption of funds will be covered under Cash flows from financing activities. The cost of capital is also generally covered under the Financing Activity.

Ind AS 7 states that the cash flows from Financing activity are useful in predicting claims on future cash flows by providers of capital to the entity.

Cash Inflows from Financing Activity	Cash Outflows from Financing Activity
Cash proceeds from issuing shares or other equity instruments;	Cash payments to owners to acquire or redeem the entity's shares;
Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other	Cash repayments of amounts borrowed; and
Short-term or long-term borrowings;	Cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

**Illustration 4**

From the following transactions taken from a parent company having multiple businesses and multiple segments, identify which transactions will be classified as Operating, Investing and Financing:

<b>Sr. No.</b>	<b>Nature of transaction</b>
1	Issued preference shares
2	Purchased the shares of 100% subsidiary company
3	Dividend received from shares of subsidiaries
4	Dividend received from other companies
5	Bonus shares issued
6	Purchased license for manufacturing of special drugs
7	Royalty received from the goods patented by the company
8	Rent received from the let out building (letting out is not main business)
9	Interest received from loans and advances given
10	Dividend paid
11	Interest paid on security deposits
12	Purchased goodwill
13	Acquired the assets of a company by issue of equity shares (not parting any cash)
14	Interim dividends paid
15	Dissolved the 100% subsidiary and received the amount in final settlement

**Solution**

<b>Sr. No.</b>	<b>Nature of transaction</b>	<b>Operating / Investing / Financing / Not to be considered</b>
1	Issued preference shares	Financing
2	Purchased the shares of 100% subsidiary company	Investing
3	Dividend received from shares of subsidiaries	Investing
4	Dividend received from other companies	Investing
5	Bonus shares issued	No cash flow



6	Purchased license for manufacturing of special drugs	Investing
7	Royalty received from the goods patented by the company	Operating
8	Rent received from the let out building (letting out is not main business)	Investing
9	Interest received from loans and advances given	Investing
10	Dividend paid	Financing
11	Interest paid on security deposits	Financing
12	Purchased goodwill	Investing
13	Acquired the assets of a company by issue of equity shares (not parting any cash)	Not to be considered
14	Interim dividends paid	Financing
15	Dissolved the 100% subsidiary and received the amount in final settlement	Investing

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**Illustration 5**

*An entity has entered into a factoring arrangement and received money from the factor. Examine the said transaction and state how should it be presented in the statement of cash flows?*

**Solution**

Under factoring arrangement, it needs to be assessed whether the arrangement is recourse or non-recourse.

**Recourse factoring:**

The cash received is classified as a financing cash inflow as the entity continues to recognize the receivables and the amount received from the factor is indeed a liability, The substance of the arrangement is financing, as the entity retains substantially all of the risk and rewards of the factored receivables.

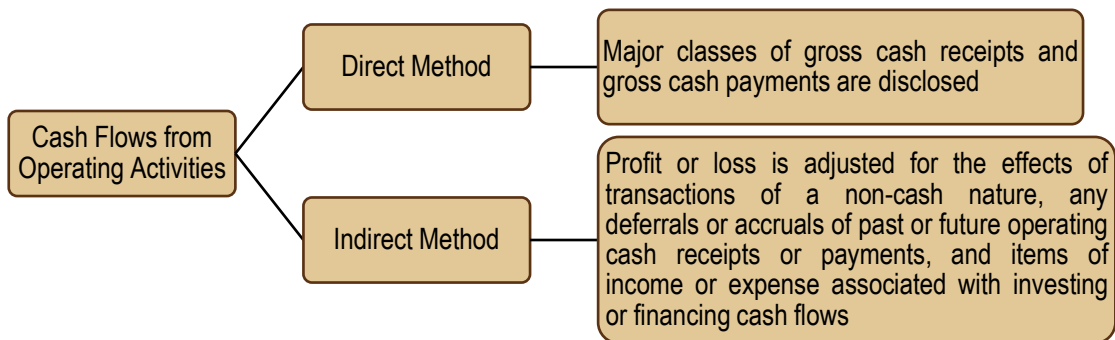
When the cash is collected by the factor, the liability and the receivables are de-recognized. It is acceptable for this to be disclosed as a non-cash transaction, because the settlement of the liability and the factored receivables does not result in cash flows. The net impact of these transactions on the cash flow statement is to present a cash inflow from financing, but there is no operating cash flow from the original sale to the entity's customers.

**Non-recourse factoring:**

Where an entity de-recognises the factored receivables and receives cash from the factor, the cash receipt is classified as an operating cash inflow. This is because the entity has received cash in exchange for receivables that arose from its operating activities.

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## 3.9 REPORTING CASH FLOWS FROM OPERATING ACTIVITIES



- An entity shall report cash flows from operating activities using either:
  - (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
  - (b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
- Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
  - (a) from the accounting records of the entity; or

- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of profit and loss for:
- (i) changes during the period in inventories and operating receivables and payables;
  - (ii) other non-cash items; and
  - (iii) other items for which the cash effects are investing or financing cash flows.

**Analysis**

Direct method starts with cash revenue / income / receipts of the company. All the cash expenses will be deducted from such cash revenue. The cash profit will be adjusted for the cash flows arising from investing and financing activities. Non-cash expenses / losses / gains will not be considered. The payments to suppliers and receipts from customers are also taken into consideration. The resultant figure would be cash flow from operating activity. The exercise would be similar to converting the income and expenditure account (accrual system) into receipt and payment (cash system), with certain adjustments. Thus, if we consider the vertical operating statement, direct method will have (TOP down) approach of presentation.

- Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:
  - (a) changes during the period in inventories and operating receivables and payables;
  - (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
  - (c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

**Analysis**

Indirect method is reverse of direct method. It starts with the accounting profit after tax as given in profit and loss accounts. Thereafter, the profit will be adjusted for non-cash items, losses and gains on investing and financing activities, interest and dividends, collection and

payments to debtors / creditors etc. Accordingly, the cash from operating activity will derived. Thus indirect method will have (Bottom up) approach.

**Note:** Under both the methods the amount of cash flow from Operating activities need to be necessarily same. It's only the approach for presentation which differs.

### Illustration 6

Find out the cash from operations by direct method and indirect method from the following information:

#### Operating statement of ABC Ltd. for the year ended 31.3.20X2

Particulars	₹
Sales	5,00,000.00
Less: Cost of goods sold	3,50,000.00
Administration & Selling Overheads	55,000.00
Depreciation	7,000.00
Interest Paid	3,000.00
Loss on sale of asset	<u>2,000.00</u>
Profit before tax	83,000.00
Tax	<u>(30,000.00)</u>
<b>Profit After tax</b>	<b><u>53,000.00</u></b>

#### Balance Sheet as on 31<sup>st</sup> March

	20X2	20X1
<b>Assets</b>		
<i>Non-current Assets</i>		
Property, Plant and Equipment	75,000.00	65,000.00
Investment	12,000.00	10,000.00
<b>Current Assets</b>		
Inventories	12,000.00	13,000.00
Trade receivables	10,000.00	7,000.00
Cash and cash equivalents	<u>6,000.00</u>	<u>5,000.00</u>
<b>Total</b>	<b><u>1,15,000.00</u></b>	<b><u>1,00,000.00</u></b>

<b>Equity and Liabilities</b>		
Shareholders' Funds	60,000.00	50,000.00
Non-current Liabilities	33,000.00	35,000.00
<b>Current Liabilities</b>		
Trade Payables	12,000.00	8,000.00
Payables for Expenses	<u>10,000.00</u>	<u>7,000.00</u>
<b>Total</b>	<b><u>1,15,000.00</u></b>	<b><u>1,00,000.00</u></b>

### Solution

#### 1. Cash flow from Operations by Direct Method

Particulars	₹	See Note
Cash Sales	4,97,000.00	1
Less: Cash Purchases	3,45,000.00	2
Overheads	52,000.00	3
Interest	-	Financing
Depreciation	-	Non cash item
Loss on sale of asset	<u>-</u>	Investing item
<b>Cash profit</b>	<b>100,000.00</b>	
Less: Tax	<u>(30,000.00)</u>	
<b>Cash profit after tax</b>	<b><u>70,000.00</u></b>	

#### Note No 1 - Cash Receipts from Sales and Trade receivables

Particulars	₹
Sales	5,00,000.00
Add : Opening Trade receivables	7,000.00
Less : Closing Trade receivables	<u>(10,000.00)</u>
<b>Cash Receipts</b>	<b><u>4,97,000.00</u></b>

#### Note No 2 :- Payment to Trade Payables for Purchases

Particulars	₹
Cost of goods sold	3,50,000.00
Closing inventories	12,000.00

Less: Opening inventories	(13,000.00)
Purchases	3,49,000.00
Add: Opening Trade Payables	8,000.00
Less: Closing Trade Payables	(12,000.00)
<b>Payment to creditors</b>	<b><u>3,45,000.00</u></b>
<b>Particulars</b>	<b>₹</b>
Overheads	55,000.00
Add: Opening payables	7,000.00
Less: Closing payables	(10,000.00)
<b>Payment for Overheads</b>	<b><u>52,000.00</u></b>

## 2. Cash flow from Operations by Indirect Method

<b>Indirect Method</b>	<b>₹</b>
Profit After Tax	53,000.00
Add back/(Less): Depreciation	7,000.00
Loss on sale of asset	2,000.00
Interest paid	3,000.00
Decrease in Inventory	1,000.00
Increase in Trade Receivables	(3,000.00)
Increase in Trade Payables	4,000.00
Increase in Payables for expenses	<u>3,000.00</u>
<b>Net cash generated from operating activities</b>	<b><u>70,000.00</u></b>

**Note:** Cash flow derived from operations ₹ 70,000 is same in both Direct Method and Indirect Method.

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## 3.10 REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

An entity is required to report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows are permitted to be reported on a net basis.



## 3.11 REPORTING CASH FLOWS ON A NET BASIS

If nothing is specifically mentioned, then as per Ind AS 7, the cash flows will be presented on Gross Basis. Gross basis means the receipts would be shown separately and the payments will be shown separately.

### Example 1

If in the year 20X1-20X2, some land is purchased for ₹ 2.5 crores and another land is sold for ₹ 3.5 crores then while presenting the information, entity shall show separately outflow of ₹ 2.5 crores and inflow of ₹ 3.5 crores.

The above base has following exceptions

1. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity;

**Examples** of cash receipts and payments referred to in paragraph 22(a) are:

- the acceptance and repayment of demand deposits of a bank;
- funds held for customers by an investment entity; and
- rents collected on behalf of, and paid over to, the owners of properties.

(b) Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

**Examples** of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:

- principal amounts relating to credit card customers;
- the purchase and sale of investments; and
- other short-term borrowings, for example, those which have a maturity period of three months or less.

2. Cash flows arising from each of the following activities of a financial institution maybe reported on a net basis:

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) cash advances and loans made to customers and the repayment of those advances and loans.



## 3.12 FOREIGN CURRENCY CASH FLOWS

- Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.
- The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency **at the dates of the cash flows**.

### Example 2

Suppose the money is received on account of exports on 15<sup>th</sup> January 20X1 in US\$. The company prepares the accounts in rupees. In such case the exchange rate between USD and Rupee as on 15<sup>th</sup> January 20X1 need to be applied for conversion.

- Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

### 3.12.1 Treatment of foreign exchange differences arising from unsettled transactions relating to operating activities

Under indirect method of preparation of statement of cash flows, the exchange differences that arise on translation at the balance sheet date, for monetary items that form part of operating activities, will require no adjustment in the reconciliation of profit to net cash flow from operating activities.

### Example 3

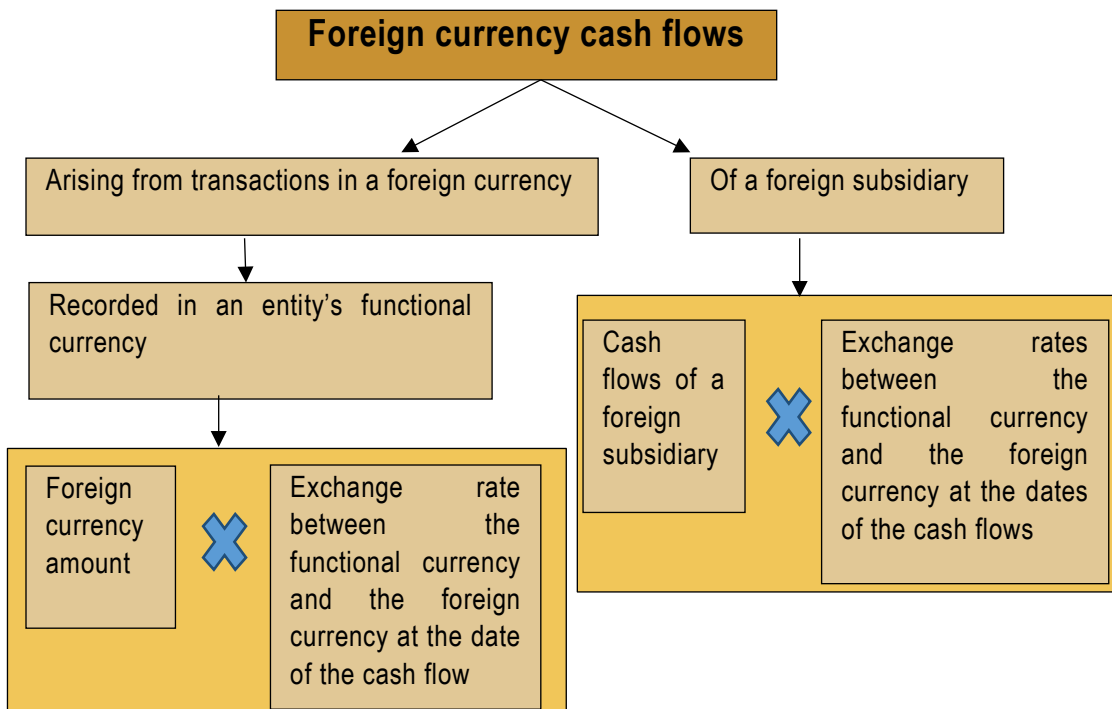
Entity A (Indian Company) purchased goods for resale from France during January for EUR 10,000 (Exchange rate: 1 EUR = ₹ 70) on a credit period of 4 months. It accounted for the purchase of



inventory at ₹ 7,00,000 (10,000 x 70). On 31<sup>st</sup> March, the exchange rate has changed to 1 EUR = ₹ 65. This would mean an unrealised gain due to exchange fluctuation of ₹ 50,000 (since the payables will be recorded at ₹ 6,50,000 (at closing exchange rate).

Assuming that the inventory is unsold at that date, the movement is reported as under:

Profit	₹ 50,000
Less: Increase in Inventory	₹ (7,00,000)
Add: Increase in Payables	₹ <u>6,50,000</u>
Net Cash flows from operating activities	₹ <u>0</u>



**Note:**

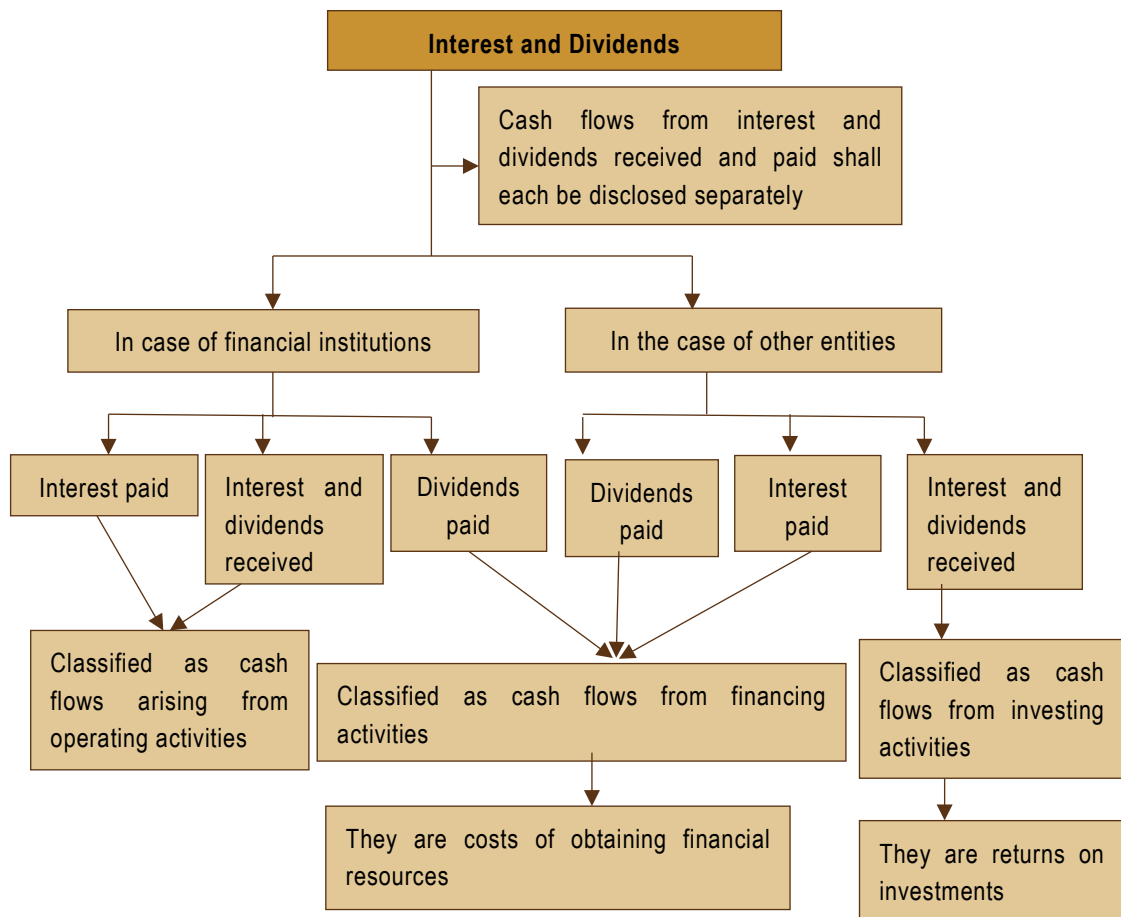
1. Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21.
2. A weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary
3. Ind AS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary



### 3.13 INTEREST AND DIVIDENDS

Cash flows from interest and dividends received and paid shall each be disclosed separately.

	Financing company	Other company
Interest paid	Cash flows arising from operating activities	Cash flows from financing activities
Interest and dividends received	Cash flows arising from operating activities	Cash flows from investing activities
Dividends paid	Cash flows from financing activities	Cash flows from financing activities



**Illustration 7**

A firm invests in a five-year bond of another company with a face value of ₹ 10,00,000 by paying ₹ 5,00,000. The effective rate is 15%. The firm recognises proportionate interest income in its income statement throughout the period of bond.

Based on the above information answer the following question:

- a) How the interest income will be treated in cash flow statement during the period of bond?
- b) On maturity, whether the receipt of ₹ 10,00,000 should be split between interest income and receipts from investment activity.

**Solution**

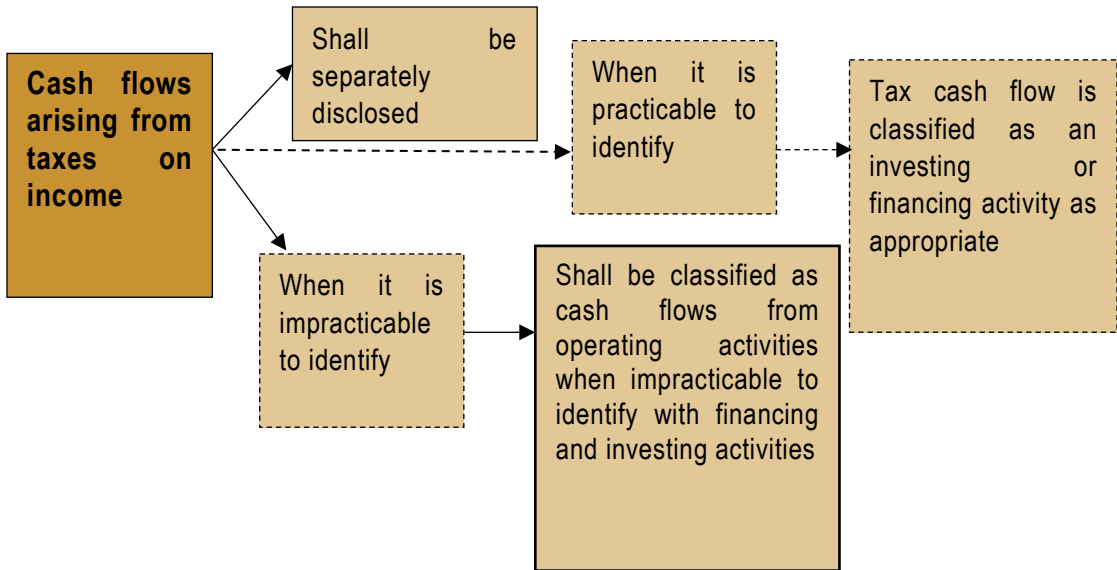
Interest income will be treated as income over the period of bond in the income statement. However, there will be no cash flow in these years because no cash has been received. On maturity, receipt of ₹ 10,00,000 will be classified as investment activity with a bifurcation of interest income & money received on redemption of bond.

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**3.14 TAXES ON INCOME**

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate.



**Note:** When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

### Illustration 8

*X Limited has paid an advance tax amounting to ₹ 5,30,000 during the current year. Out of the above paid tax, ₹ 30,000 is paid for tax on long term capital gains.*

*Under which activity the above said tax be classified in the cash flow statements of X Limited?*

### Solution

Cash flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. In the case of X Limited, the tax amount of ₹ 30,000 is specifically related with investing activities. ₹ 5,00,000 to be shown under operating activities. ₹ 30,000 to be shown under investing activities.

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### 3.15 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

<b>Investments in subsidiaries, associates and joint ventures</b>	When accounted for by use of the equity or cost method	an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.
	When reporting its interest in an associate or a joint venture using the equity method	Includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.



### 3.16 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES AND OTHER BUSINESSES

#### 3.16.1 Classification of Cash Flows as Investing Activity

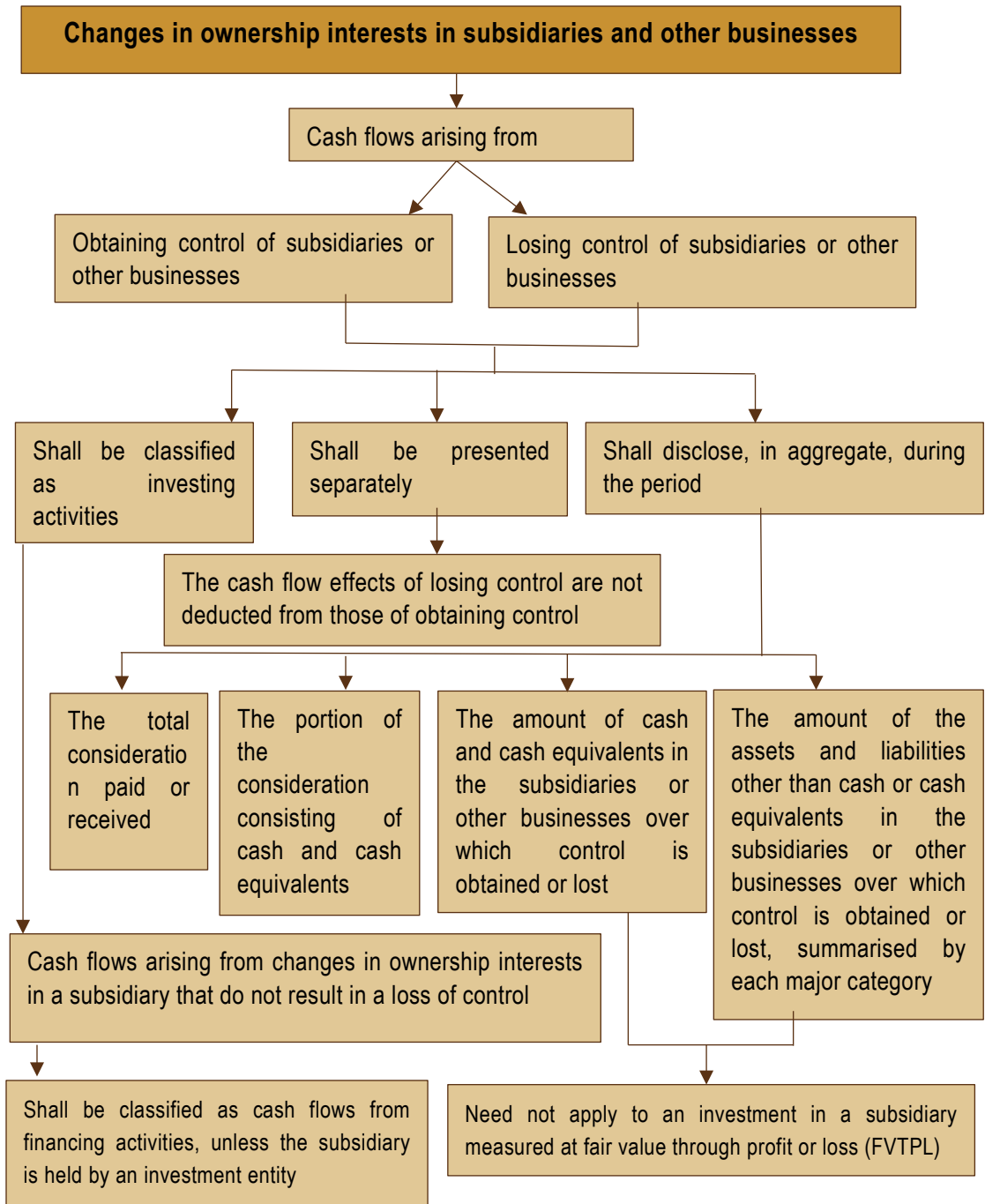
- The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.
- An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:
  - (a) the total consideration paid or received;

- (b) the portion of the consideration consisting of cash and cash equivalents;
  - (c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
  - (d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.
- The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.
  - The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

### **3.16.2 Classification of Cash Flows as Financing Activity**

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- Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss.
- Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see Ind AS 110), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners.





## 3.17 NON-CASH TRANSACTIONS

- Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows.
- Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.
- Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. Such non-cash items will not form part of the cash flow statement.

Examples of non-cash transactions are:

- (a) the acquisition of assets either by assuming directly related liabilities or by means of a lease;
- (b) the acquisition of an entity by means of an equity issue; and
- (c) the conversion of debt to equity

### Illustration 9

*X Limited acquires fixed asset of ₹ 10,00,000 from Y Limited by accepting the liabilities of ₹ 8,00,000 of Y Limited and balance amount it paid in cash. How X Limited will treat all those items in its cash flow statements?*

### Solution

Investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from a statement of cash flows. X Limited should classify cash payment of ₹ 2,00,000 under investing activities. The non-cash transactions –liabilities and asset should be disclosed in the notes to the financial statements.

\*\*\*\*\*

### 3.17.1 Changes in liabilities arising from financing activities

- An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- To the extent necessary to satisfy the above requirement, an entity shall disclose the following changes in liabilities arising from financing activities:



- (a) changes from financing cash flows;
  - (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
  - (c) the effect of changes in foreign exchange rates;
  - (d) changes in fair values; and
  - (e) other changes.
- Liabilities arising from financing activities are 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.
  - In addition, the disclosure requirement also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.
  - One way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified.
  - If an entity provides the disclosure required in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.



### 3.18 COMPONENTS OF CASH AND CASH EQUIVALENTS

- An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.
- Company will provide a policy which it adopts in determining the composition of cash and cash equivalents (As per Ind AS 1).

It has been clarified, that there should not be a difference in the amount of cash and cash equivalent as per Ind AS 1 and as per Ind AS 7. However, as per Ind AS 7 “where bank overdrafts which are repayable on demand form an integral part of an entity’s cash management, **bank overdrafts are included as a component of cash and cash equivalents.** A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.” Although Ind AS 7 permits bank overdrafts to

be included as cash and cash equivalent, for the purpose of presentation in the balance sheet, it would not be appropriate to include bank overdraft in the line item cash and cash equivalents unless the netting off conditions as given in paragraph 42 of Ind AS 32, Financial Instruments: Presentation are complied with.

Bank overdraft, in the balance sheet, will be included within financial liabilities. Just because the bank overdraft is included in cash and cash equivalents for the purpose of Ind AS 7, does not mean that the same should be netted off against the cash and cash equivalent balance in the balance sheet. Instead Ind AS 7 requires a disclosure of the components of cash and cash equivalent and a reconciliation of amounts presented in the cash flow statements.

Another element on account of which there could be difference between the cash and cash equivalents presented in the balance sheet and the statement of cash flows is unrealised gains or losses arising from changes in foreign currency exchange rates, which are not considered to be cash flows. The following illustration would explain the issue:

#### Illustration 10

*An entity has bank balance in foreign currency aggregating to USD 100 (equivalent to ₹ 4,500) at the beginning of the year. Presuming no other transaction taking place, the entity reported a profit before tax of ₹ 100 on account of exchange gain on the bank balance in foreign currency at the end of the year. What would be the closing cash and cash equivalents as per the balance sheet?*

#### Solution

For the purpose of statement of cash flows, the entity shall present the following:

	Amount (₹)
Profit before tax	100
Less: Unrealised exchange gain	<u>(100)</u>
Cash flow from operating activities	Nil
Cash flow from investing activities	Nil
Cash flow from financing activities	<u>Nil</u>
Net increase in cash and cash equivalents during the year	Nil
Add: Opening balance of cash and cash equivalents	<u>4,500</u>
Cash and cash equivalents as at the year-end	<u>4,500</u>

**Reconciliation of cash and cash equivalents**

Cash and cash equivalents as per statement of cash flows	4,500
Add: Unrealised gain on cash and cash equivalents	<u>100</u>
Cash and cash equivalents as per the balance sheet	<u>4,600</u>

If any changes in the policies take place, that will be dealt with as per the provisions of Ind AS 8.

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**3.19 OTHER DISCLOSURES**

An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

Additional information may be relevant to users in understanding the financial position and liquidity of an entity. It may include:

1. The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.
2. The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity it will help the stakeholders to know whether entity is paying proper attention for maintenance also;
3. The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see Ind AS 108, *Operating Segments*). This will provide the idea about the company as a whole as well as the various parts of the company and their efficiencies.

Investing and financing transactions that do not require the use of cash or cash equivalents

shall be excluded from a statement of cash flows  
disclosed elsewhere in the financial statements

Components of cash and cash equivalents	disclose the components of cash and cash equivalents
	shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet
	discloses the policy which entity adopts in determining the composition of cash and cash equivalents.
Other disclosures	disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held and are not available for use by the group
	<b>Note:</b> The requirements shall be equally applicable to the entities in case of separate financial statements also.

**Illustration 11**

Following is the balance sheet of Kuber Limited for the year ended 31 March, 20X2 (₹ in lacs)

	20X2	20X1
<b>ASSETS</b>		
<i>Non-current assets</i>		
<i>Property, plant and equipment</i>	13,000	12,500
<i>Intangible assets</i>	50	30
<i>Other financial assets</i>	145	170
<i>Deferred Tax Asset (net)</i>	855	750
<i>Other non-current assets</i>	<u>800</u>	<u>770</u>
<i>Total non-current assets</i>	<u>14,850</u>	<u>14,220</u>
<i>Current assets</i>		
<i>Financial assets</i>		
<i>Investments</i>	2,300	2,500
<i>Cash and cash equivalents</i>	220	460
<i>Other current assets</i>	<u>195</u>	<u>85</u>
<i>Total current assets</i>	<u>2,715</u>	<u>3,045</u>
<i>Total assets</i>	<u>17,565</u>	<u>17,265</u>

<b>EQUITY AND LIABILITIES</b>		
<i>Equity</i>		
<i>Equity share capital</i>	300	300
<i>Other equity</i>	<u>12,000</u>	<u>8,000</u>
<i>Total equity</i>	<u>12,300</u>	<u>8,300</u>
<i>Liabilities</i>		
<i>Non-current liabilities</i>		
<i>Financial liabilities</i>		
<i>Long-term borrowings</i>	2,000	5,000
<i>Other non-current liabilities</i>	<u>2,740</u>	<u>3,615</u>
<i>Total non-current liabilities</i>	<u>4,740</u>	<u>8,615</u>
<i>Current liabilities</i>		
<i>Financial liabilities</i>		
<i>Trade payables</i>	150	90
<i>Bank overdraft</i>	75	60
<i>Other current liabilities</i>	<u>300</u>	<u>200</u>
<i>Total current liabilities</i>	<u>525</u>	<u>350</u>
<i>Total liabilities</i>	<u>5,265</u>	<u>8,965</u>
<i>Total equity and liabilities</i>	<u>17,565</u>	<u>17,265</u>

**Additional Information:**

- (1) Profit after tax for the year ended March 31, 20X2 - ₹ 4,450 lacs
- (2) Interim dividend paid during the year - ₹ 450 lacs
- (3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under
  - (a) Property, Plant and Equipment - ₹ 500 lacs
  - (b) Intangible Assets - ₹ 20 lacs
- (4) During the year ended March 31, 20X2 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on March 31, 20X2 is ₹ 60 lacs.
- (5) Income taxes paid during the year ₹ 105 lacs

- (6) Other non-current / current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method.

### Solution

#### Statement of Cash Flows

		₹ in lacs
<i>Cash flows from Operating Activities</i>		
Net Profit after Tax	4,450	
Add: Tax Paid	<u>105</u>	
	4,555	
Add: Depreciation & Amortisation (500 + 20)	520	
Less: Gain on Sale of Machine (70-60)	(10)	
Less: Increase in Deferred Tax Asset (855-750)	<u>(105)</u>	
	4,960	
<b>Change in operating assets and liabilities</b>		
Add: Decrease in financial asset (170 - 145)	25	
Less: Increase in other non-current asset (800 - 770)	(30)	
Less: Increase in other current asset (195 - 85)	(110)	
Less: Decrease in other non-current liabilities (3,615 – 2,740)	(875)	
Add: Increase in other current liabilities (300 - 200)	100	
Add: Increase in trade payables (150-90)	<u>60</u>	
	4,130	
Less: Income Tax	<u>(105)</u>	
<b>Cash generated from Operating Activities</b>		<b>4,025</b>
<i>Cash flows from Investing Activities</i>		
Sale of Machinery	70	
Purchase of Machinery [13,000-(12,500 – 500-60)]	(1,060)	
Purchase of Intangible Asset [50-(30-20)]	(40)	
Sale of Financial asset - Investment (2,500 – 2,300)	<u>200</u>	

<b>Cash outflow from Investing Activities</b>		<b>(830)</b>
<i>Cash flows from Financing Activities</i>		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	<u>(3,000)</u>	
<b>Cash outflow from Financing Activities</b>		<b><u>(3,450)</u></b>
<b>Net Cash outflow from all the activities</b>		<b>(255)</b>
<b>Opening cash and cash equivalents (460 – 60)</b>		<b><u>400</u></b>
<b>Closing cash and cash equivalents (220 – 75)</b>		<b><u>145</u></b>

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**Illustration 12**

The relevant extracts of consolidated financial statements of A Ltd. are provided below:

**Consolidated Statement of Cash Flows**

	<b>For the year ended (₹ in Lac)</b>	
	<b>31<sup>st</sup> March 20X2</b>	<b>31<sup>st</sup> March 20X1</b>
<b>Assets</b>		
<b>Non-Current Assets</b>		
<i>Property, Plant and Equipment</i>	4,750	4,650
<i>Investment in Associate</i>	800	-
<i>Financial Assets</i>	2,150	1,800
<b>Current Assets</b>		
<i>Inventories</i>	1,550	1,900
<i>Trade Receivables</i>	1,250	1,800
<i>Cash and Cash Equivalents</i>	4,650	3,550
<b>Liabilities</b>		
<b>Current Liabilities</b>		
<i>Trade Payables</i>	1,550	3,610

**Extracts from Consolidated Statement of Profit and Loss for the year ended 31st March 20X2**

<b>Particulars</b>	<b>Amount (₹ in Lac)</b>
Revenue	12,380

Cost of Goods Sold	(9,860)
Gross Profit	2,520
Other Income	300
Operating Expenses	(450)
Other expenses	(540)
Interest expenses	(110)
Share of Profit of Associate	<u>120</u>
Profit before Tax	<u>1,840</u>

The below information is relevant for A Ltd Group.

1. A Ltd had spent ₹ 30 Lac on renovation of a building. A Ltd charged the entire renovation cost to profit and loss account.
2. On 1<sup>st</sup> April 20X1, A Ltd acquired 100% shares in S Ltd, for cash of ₹ 300 Lac. Fair value of the assets acquired and liabilities assumed under the acquisition are as under:

Property, Plant and Equipment	140 Lac
Inventories	60 Lac
Trade Receivables	30 Lac
Cash and Cash Equivalents	<u>20 Lac</u>
Total Assets	250 Lac
Less: Trade Payables	<u>(50 Lac)</u>
Net Assets on acquisition	<u>200 Lac</u>

3. A Ltd.'s property, plant and equipment comprise the following:

Carrying amount on 1 <sup>st</sup> April 20X1	4,650 Lac
Addition (at cost) including assets in S Ltd.	800 Lac
Revaluation Surplus	80 Lac
Disposal (Sale) of Assets	(490 Lac)
Depreciation for the year	(290 Lac)
Carrying Amount on 31 <sup>st</sup> March 20X2	4,750 Lac

A Ltd constructed a machine that is a qualifying asset and incurred construction costs of ₹ 40 Lac that has been charged to other expenses. Of the interest cost of ₹ 110 Lac charged to profit or loss statement, ₹ 10 Lac includes interest cost on specific borrowings that need to be capitalized.



Property, plant and equipment was sold at 630 Lac. Gain on disposal is adjusted against operating expenses.

4. A Ltd. purchased 30% interest in an Associate (G Ltd) for cash on 1<sup>st</sup> April 20X1. The associate reported profit after tax of ₹ 400 Lac and paid a dividend of ₹ 100 Lac for the year.
5. Impairment test was conducted on 31<sup>st</sup> March 20X2. The following were impaired as under:

Goodwill impairment loss: ₹ 265 Lac

Intangible Assets impairment loss ₹ 900 Lac

The goodwill impairment relates to 100% subsidiaries.

Assume that interest cost is all paid in cash.

You are required to determine cash generated from operations for group reporting purposes for the year ended 31<sup>st</sup> March 20X2.

### Solution

#### Extracts of Statement of Cash Flows for the year ended 31<sup>st</sup> March 20X2

Cash Flows from Operating Activities		Amount in ₹ Lacs
Profit before tax (W.N.1)		1,920
Less: Profit on Sale of PPE (630 - 490)		(140)
Add back: Depreciation		290
Impairment of Goodwill		265
Impairment of Intangible Assets		900
Less: Share of Profits of Associate (400 x 30%)		(120)
Add: Interest expense	[110 - 10]	100
<b>Working Capital Changes (W.N.2):</b>		
Add: Decrease in Trade Receivables		580
Add: Decrease in Inventories		410
Less: Decrease in Trade Payables		<u>(2,110)</u>
<b>Cash generated from operations</b>		<b><u>2,095</u></b>

**Working Notes:****1. Profit before tax**

Amount in ₹ Lacs

Reported profit as per Profit or Loss Statement	1,840
<i>Add back:</i> Renovation costs charged as expense	30
Construction costs charged as expense	40
Borrowing costs to be capitalized	<u>10</u>
Revised Profit before tax	<u>1,920</u>

**2. Changes in Trade Receivables**

Amount in ₹ Lacs

Opening Balance	1,800
<i>Add:</i> Receivables of S Ltd.	<u>30</u>
	1,830
<i>Less:</i> Closing Balance	<u>(1,250)</u>
	<u>580</u>

**3. Changes in Inventories**

Amount in ₹ Lacs

Opening Balance	1,900
<i>Add:</i> Inventories of S Ltd.	<u>60</u>
	1,960
<i>Less:</i> Closing Balance	<u>(1,550)</u>
	<u>410</u>

**4. Changes in Trade Payables**

Amount in ₹ Lacs

Opening Balance	3,610
<i>Add:</i> Trade Payables of S Ltd.	<u>50</u>
	3,660
<i>Less:</i> Closing Balance	<u>(1,550)</u>
	<u>2,110</u>



## 3.20 EXTRACTS OF FINANCIAL STATEMENTS OF LISTED ENTITY

Following is the extract from the financial statements of the listed entity 'ITC Limited' for the financial year 2021-2022 with respect to 'Cash Flow Statement'.

### Cash Flow Statement for the year ended 31st March, 2022

	For the year ended 31st March, 2022 (₹ in Crores)	For the year ended 31st March, 2021 (₹ in Crores)
<b>A. Cash Flow from Operating Activities</b>		
PROFIT BEFORE TAX	19829.53	17164.19
ADJUSTMENTS FOR:		
Depreciation and amortization expense	1652.15	1561.83
Share based payments to employees	32.51	27.15
Finance costs	41.95	47.47
Interest Income	(1004.59)	(1224.82)
Dividend Income	(857.46)	(723.94)
(Gain)/Loss on sale of property, plant and equipment, lease termination - Net	(59.05)	55.04
Doubtful and bad debts	10.64	25.98
Doubtful and bad advances, loans and deposits	1.15	33.04
Net (gain)/loss arising on financial instruments mandatorily measured at fair value through profit or loss	(524.19)	(1107.53)
Foreign currency translations and transactions - Net	11.07	(13.00)
	(695.82)	(1318.78)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	19133.71	15845.41
ADJUSTMENTS FOR:		
Trade receivables, advances and other assets	(235.39)	(99.11)
Inventories	(526.90)	(1350.89)
Trade payables, other liabilities and provisions	946.39	1055.07
	184.10	(394.93)
CASH GENERATED FROM OPERATIONS	19317.81	15450.48
Income tax paid	(4510.02)	(3956.62)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>14807.79</b>	<b>11493.86</b>

<b>B. Cash Flow from Investing Activities</b>		
Purchase of property, plant and equipment, Intangibles, ROU asset etc.	(1812.03)	(1582.09)
Sale of property, plant and equipment	137.22	2.66
Purchase of current investments	(60325.53)	(51625.18)
Sale/redemption of current investments	63554.78	56785.92
Payment towards business combination/contingent purchase consideration	(71.25)	(2189.22)
Investment in subsidiaries	(427.24)	(361.57)
Investment in associate	(1.87)	(1.87)
Purchase of non-current investments	(4777.02)	(1488.71)
Redemption proceeds of non-current investments	2731.24	1712.05
Dividend Income	857.46	723.94
Interest received	962.97	1199.36
Investment in bank deposits (original maturity more than 3 months)	(3525.01)	(3706.02)
Redemption/maturity of bank deposits (original maturity more than 3 months)	3617.42	6259.37
Investment in deposit with housing finance company	(3011.37)	(78.38)
Redemption/maturity of deposit with housing finance companies	578.82	844.43
Loans given	(12.51)	(2.12)
Loans realised	6.86	5.32
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(1517.06)</b>	<b>6497.89</b>

## Cash Flow Statement for the year ended 31st March, 2022

	For the year ended 31st March, 2022 (₹ in Crores)	For the year ended 31st March, 2021 (₹ in Crores)
<b>C. Cash Flow from Financing Activities</b>		
Proceeds from issue of share capital	291.82	290.65
Repayment of non-current borrowings	(0.35)	(2.26)
Payment of lease liabilities	(54.42)	(49.67)
Interest paid	(42.14)	(43.47)
Net increase in statutory restricted accounts balances	15.13	41.17
Dividend paid	(13547.07)	(18629.29)
Dividend distribution tax refund received	-	13.98
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(13337.03)</b>	<b>(18378.89)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(46.30)</b>	<b>(387.14)</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>231.28</b>	<b>561.35</b>
<b>CASH AND CASH EQUIVALENTS ACQUIRED ON BUSINESS COMBINATION [See Note 3 below]</b>	<b>-</b>	<b>57.07</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>184.98</b>	<b>231.28</b>

### Notes:

- The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in Ind AS - 7 "Statement of Cash Flows"
- CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents as above	184.98	231.28
Unrealised gain/(loss) on foreign currency cash and cash equivalents	(0.01)	...
Cash and cash equivalents (Note 11)	<u>184.97</u>	<u>231.28</u>
- Cash and Cash Equivalents include ₹ Nil (2021 - ₹ 57.07 Crores) on acquisition of erstwhile Sunrise Foods Private Limited and its two wholly owned subsidiaries.
- Net Cash Flow from Operating Activities includes an amount of ₹ 340.96 Crores (2021- ₹ 368.18 Crores) spent towards Corporate Social Responsibility.

(Source: Annual Report 2021-2022 - 'ITC Limited')





### 3.21 SIGNIFICANT DIFFERENCES IN IND AS 7 VIS-À-VIS AS 3

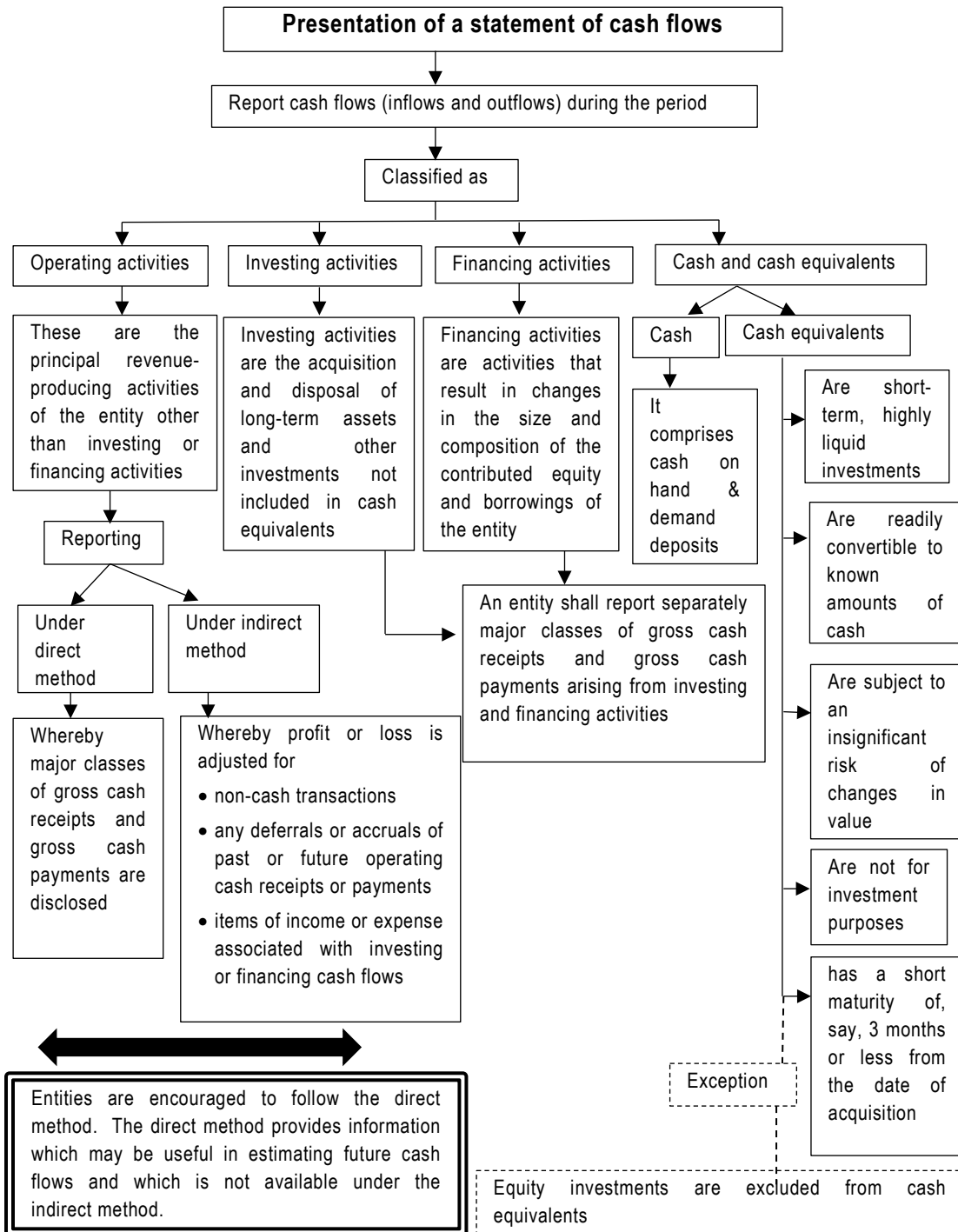
S.No.	Particulars	Ind AS 7	AS 3
1.	<i>Bank Overdraft Repayable on Demand</i>	Ind AS 7 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents (Refer Para 8 of Ind AS 7)	AS 3 is silent on this aspect.
2.	<i>Treatment of Cash Payments in Specific Cases</i>	Ind AS 7 provides the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business as cash flows from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activity is also provided. (Refer Para 14 of Ind AS 7)	AS 3 does not contain such requirements.
3.	<i>Examples of cash flows arising from financing activities</i>	Ind AS 7 includes following examples of cash flows arising from financing activities (paragraph 17 of Ind AS 7): (a) cash payments to owners to acquire or redeem the entity's shares; (b) cash proceeds from mortgages; (c) cash payments by a lessee for the reduction of the outstanding liability relating to a lease.	These examples are not mentioned in AS 3
4.	<i>Adjustment of the Profit or Loss for the Effects of Undistributed Profits of</i>	Ind AS 7 specifically requires adjustment of the profit or loss for the effects of 'undistributed profits of associates and non-controlling interests' while determining the net	AS 3 does not contain such requirements.

	<i>Associates and Non-controlling Interests</i>	cash flow from operating activities using the indirect method. (Refer Para 20(b) of Ind AS 7)	
5.	<i>Cash Flows associated with Extraordinary Activities</i>	Ind AS 7 does not contain this requirement.	AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from operating, investing and financing activities
6.	<i>Disclosure of the Amount of Cash and Cash Equivalents in Specific Situations</i>	Ind AS 7 requires an entity (except an investment entity) to disclose the amount of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost (Refer Para 40(c) and (d) of Ind AS 7). It also requires to report the aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses in the statement of cash flows, net of cash and cash equivalents acquired or disposed of as a part of such transactions, events or changes in circumstances (Refer Para 42 of Ind AS 7).	AS 3 does not contain such requirements.
7.	<i>Cash Flows arising from Changes in Ownership Interests in a Subsidiary</i>	Ind AS 7 requires to classify cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control as cash flows from financing activities (Refer Para 42A and 42B of Ind AS 7).	AS 3 does not contain such a requirement.

8.	<i>Investment in an associate, joint venture or a subsidiary</i>	<p>Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary (refer paragraph 37 of Ind AS 7).</p> <p>It also specifically deals with the reporting of interest in an associate or a joint venture using equity method (refer paragraph 38 of Ind AS 7).</p>	AS 3 does not contain such requirements.
9.	<i>Cash flows arising from transaction in a foreign currency</i>	<p>With regard to cash flows arising from transaction in a foreign currency, Ind AS 7 requires it to be recorded in an entity's functional currency.</p> <p>Ind AS 7 also deals with translation of cash flows of a foreign subsidiary (refer paragraphs 25 to 27 of Ind AS 7)</p>	<p>AS 3 requires it to be recorded in an entity's 'reporting currency'.</p> <p>AS 3 does not deal with it.</p>
10.	<i>Disclosure of changes in liabilities</i>	Ind AS 7 requires disclosure of changes in liabilities arising from financing activities, both changes i.e. changes arising from cash flows and non-cash changes.	AS 3 does not contain such requirement.
11.	<i>Disclosures</i>	Ind AS 7 requires more disclosures, i.e. additional information that may be relevant to understanding the financial position and liquidity of an entity (Refer Paragraph 50 of the Ind AS 7)	In comparison to Ind AS 7, AS 3 does not have that many disclosure requirements.



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## TEST YOUR KNOWLEDGE

### Questions

1. Use the following data of ABC Ltd. to construct a statement of cash flows using the direct and indirect methods: (Amount in ₹)

	20X2	20X1
Cash	4,000	14,000
Accounts Receivable	25,000	32,500
Prepaid Insurance	5,000	7,000
Inventory	37,000	34,000
Property, Plant and Equipment	3,16,000	2,70,000
Accumulated Depreciation	<u>(45,000)</u>	<u>(30,000)</u>
Total Assets	<u>3,42,000</u>	<u>3,27,500</u>
Accounts Payable	18,000	16,000
Wages Payable	4,000	7,000
Debentures	1,73,000	1,60,000
Equity Shares	88,000	84,000
Retained Earnings	<u>59,000</u>	<u>60,500</u>
Total Liabilities & Equity	<u>3,42,000</u>	<u>3,27,500</u>

	<b>20X2</b>
Sales	2,00,000
Cost of Goods Sold	(1,23,000)
Depreciation	(15,000)
Insurance Expense	(11,000)
Wages	<u>(50,000)</u>
Net Profit	<u>1,000</u>

During the financial year 20X2 company ABC Ltd. declared and paid dividend of ₹ 2,500.

During 20X2, ABC Ltd. paid ₹ 46,000 in cash to acquire new fixed assets. The accounts payable was used only for inventory. No debt was retired during 20X2.

2. From the following summary cash account of XYZ Ltd, prepare cash flow statement for the year ended March 31, 20X1 in accordance with Ind AS 7 using direct method.

**Summary of Bank Account for the year ended March 31, 20X1**

	₹ '000		₹ '000
Balance on 1.4.20X0	50	Payment to creditors	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from customers	2,800	Overhead Expenses	200
Sale of Fixed Assets	100	Payroll	100
		Tax Payment	250
		Dividend	50
		Repayment of Bank loan	300
		Balance on 31.3.20X1	<u>150</u>
	<u>3,250</u>		<u>3,250</u>

3. Z Ltd. has no foreign currency cash flow for the year 20X1. It holds some deposit in a bank in the USA. The balances as on 31.12.20X1 and 31.12.20X2 were US\$ 100,000 and US\$ 102,000 respectively. The exchange rate on December 31, 20X1 was US\$1 = ₹ 45. The same on 31.12.20X2 was US\$1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.20X2. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on December 31, 20X1. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.20X2. How these transactions should be presented in cash flow for the year ended 31.12.20X2 as per Ind AS 7?

4. Company A acquires 70% of the equity stake in Company B on July 20, 20X1. The consideration paid for this transaction is as below:

- (a) Cash consideration of ₹ 15,00,000  
 (b) 200,000 equity shares having face of ₹ 10 and fair value of ₹ 15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of ₹ 2,50,000 in its books of account.

On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of ₹ 8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per Ind AS 7.

5. Entity A acquired a subsidiary, Entity B, during the year. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.

#### Consolidated Statement of Profit and Loss

	Amount (₹)
Revenue	3,80,000
Cost of sales	<u>(2,20,000)</u>
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	<u>(4,000)</u>
<b>Profit before taxation</b>	<b>70,000</b>
Taxation	<u>(15,000)</u>
<b>Profit after taxation</b>	<b><u>55,000</u></b>

#### Consolidated balance sheet

	20X2	20X1
<b>Assets</b>	<b>Amount</b>	<b>Amount</b>
	(₹)	(₹)
Cash and cash equivalents	8,000	5,000

Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	<u>18,000</u>	<u>—</u>
<b>Total assets</b>	<b><u>2,70,000</u></b>	<b><u>1,70,000</u></b>
<b>Liabilities</b>		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	<u>1,00,000</u>	<u>64,000</u>
<b>Total liabilities</b>	<b><u>1,80,000</u></b>	<b><u>1,35,000</u></b>
<b>Shareholders' equity</b>	<b><u>90,000</u></b>	<b><u>35,000</u></b>
<b>Total liabilities and shareholders'</b>	<b>2,70,000</b>	<b>1,70,000</b>

**Other information**

All of the shares of entity B were acquired for ₹ 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (₹)
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	<u>18,000</u>
<b>Cash consideration paid</b>	<b><u>74,000</u></b>

Prepare the Consolidated Statement of Cash Flows for the year 20X2, as per Ind AS 7.

## Answers

### 1. A. DIRECT METHOD

<b>Cash flows from operating activities</b>		<b>20X2</b>
Cash received from customers	2,07,500	
Cash paid for inventory	(1,24,000)	
Cash paid for insurance	(9,000)	
Cash paid for wages	<u>(53,000)</u>	
<i>Net cash flow from operating activities</i>		21,500
<b>Cash flows from investing activities</b>		
Purchase of Property, Plant and Equipment		(46,000)
<b>Cash flows from financing activities</b>		
Dividend paid	(2,500)	
Proceeds from issuance of debentures	13,000	
Proceeds from issue of equity	<u>4,000</u>	
<i>Net cash flows from financing activities</i>		<u>14,500</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(10,000)</b>
<b>Opening Cash Balance</b>		<b><u>14,000</u></b>
<b>Closing Cash Balance</b>		<b><u>4,000</u></b>

### B. INDIRECT METHOD

<b>Cash flows from operating activities</b>		<b>20X2</b>
Net Profit	1,000	
Adjustments for Depreciation	<u>15,000</u>	
	16,000	
Decrease in accounts receivable	7,500	
Decrease in prepaid insurance	2,000	
Increase in inventory	(3,000)	
Increase in accounts payable	2,000	
Decrease in wages payable	<u>(3,000)</u>	
<i>Net cash flow from operating activities</i>		21,500

<b>Cash flows from investing activities</b>		
Purchase of fixed assets		(46,000)
<b>Cash flows from financing activities</b>		
Dividend paid	(2,500)	
Proceeds from issue of debentures	13,000	
Proceeds from issue of equity	<u>4,000</u>	
<i>Net cash flows from financing activities</i>		<u>14,500</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(10,000)</b>
<b>Opening Cash Balance</b>		<u>14,000</u>
<b>Closing Cash Balance</b>		<u>4,000</u>

**Working Notes:****Fixed Assets Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,70,000	By Balance c/d	3,16,000
To Cash (Purchase of Fixed Assets)	<u>46,000</u>		
	<u>3,16,000</u>		<u>3,16,000</u>

**Inventory Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	34,000	By Cost of goods sold	1,23,000
To Creditors account (credit purchase)	2,000	By Balance c/d	37,000
To Purchase (Bal. Figure)	<u>1,24,000</u>		
	<u>1,60,000</u>		<u>1,60,000</u>

**Accounts Payable Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	18,000	By Balance b/d	16,000
		By Inventory Account (credit purchase) (Bal.Fig.)	2,000
	<u>18,000</u>		<u>18,000</u>

## Equity Share Capital Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	88,000	By Balance b/d	84,000
		By Bank account (Proceeds from equity share issued)	4,000
	<u>88,000</u>		<u>88,000</u>

2.

XYZ Ltd.

## Cash Flow Statement for the year ended March 31, 20X1 (Using the Direct Method)

Cash flows from operating activities	₹ '000	₹ '000
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	<u>(200)</u>	
Cash generated from operations	500	
Income tax paid	<u>(250)</u>	
Net cash from operating activities		250
<b>Cash flow from investing activities</b>		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	<u>100</u>	
Net cash used in investing activities		(100)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	<u>(50)</u>	
Net cash used in financing activities		<u>(50)</u>
<b>Net increase in cash</b>		<b>100</b>
<b>Cash at the beginning of the period</b>		<b><u>50</u></b>
<b>Cash at end of the period</b>		<b><u>150</u></b>



3. The profit and loss account was credited by ₹ 1,00,000 (US \$ 2,000 × ₹ 50) towards interest income. It was credited by the exchange difference of US\$ 1,00,000 × (₹ 50 - ₹ 45) that is, ₹ 50,000. In preparing the cash flow statement, ₹ 5,00,000, the exchange difference, should be deducted from the 'net profit before taxes'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference ₹ 5,00,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

4. As per para 39 of Ind AS 7, the aggregate cash flows arising from obtaining control of subsidiary shall be presented separately and classified as investing activities.

As per para 42 of Ind AS 7, the aggregate amount of the cash paid or received as consideration for obtaining subsidiaries is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

Further, investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

As per para 42A of Ind AS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss. Such transactions are accounted for as equity transactions and accordingly, the resulting cash flows are classified in the same way as other transactions with owners.

Considering the above, for the financial year ended 31<sup>st</sup> March, 20X2 total consideration of ₹ 15,00,000 less ₹ 250,000 will be shown under investing activities as "Acquisition of the subsidiary (net of cash acquired)".

There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non-cash consideration.

Further, in the statement of cash flows for the year ended 31<sup>st</sup> March, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

5. This information will be incorporated into the Consolidated Statement of Cash Flows as follows:

**Statement of Cash Flows for the year ended 20X2 (extract)**

	Amount (₹)	Amount (₹)
<b>Cash flows from operating activities</b>		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	
Decrease in inventories (W.N. 1)	9,000	
Decrease in trade receivables (W.N. 2)	4,000	
Decrease in trade payables (W.N. 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	<u>(14,000)</u>	
<i>Net cash generated from operating activities</i>		79,000
<b>Cash flows from investing activities</b>		
Cash paid to acquire subsidiary (74,000 – 2,000)	<u>(72,000)</u>	
<i>Net cash outflow from investing activities</i>		(72,000)
<b>Cash flows from financing activities</b>		
Interest paid	<u>(4,000)</u>	
<i>Net cash outflow from financing activities</i>		<u>(4,000)</u>
<b>Increase in cash and cash equivalents during the year</b>		<b>3,000</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b><u>5,000</u></b>
<b>Cash and cash equivalents at the end of the year</b>		<b><u>8,000</u></b>

**Working Notes:**

1.	<b>Calculation of change in inventory during the year</b>	₹
	Total inventories of the Group at the end of the year	30,000
	Inventories acquired during the year from subsidiary	<u>(4,000)</u>
		26,000

Opening inventories	<u>35,000</u>
Decrease in inventories	<u>9,000</u>

<b>2.</b>	<b>Calculation of change in Trade Receivables during the year</b>	<b>₹</b>
	Total trade receivables of the Group at the end of the year	54,000
	Trade receivables acquired during the year from subsidiary	<u>(8,000)</u>
		46,000
	Opening trade receivables	<u>50,000</u>
	Decrease in trade receivables	<u>4,000</u>
<b>3.</b>	<b>Calculation of change in Trade Payables during the year</b>	<b>₹</b>
	Trade payables at the end of the year	68,000
	Trade payables of the subsidiary assumed during the year	<u>(32,000)</u>
		36,000
	Opening trade payables	<u>60,000</u>
	Decrease in trade payables	<u>24,000</u>

