



Date: 31 October 2020

# **VIRTUAL COACHING CLASSES ORGANISED BY BOS, ICAI**

## **FINAL LEVEL PAPER 1: FINANCIAL REPORTING**

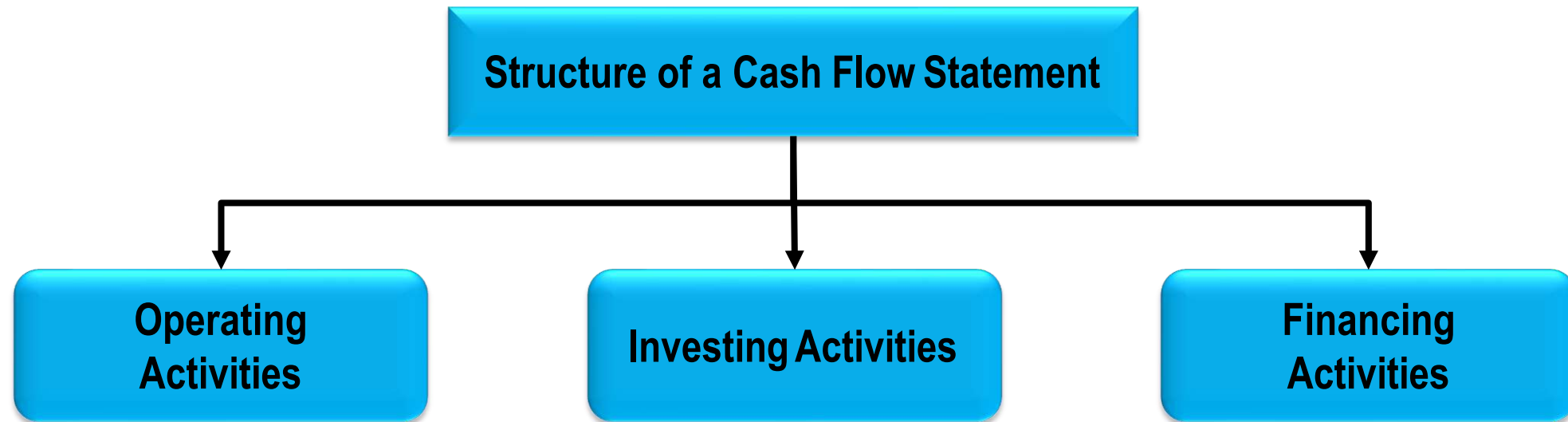
### **IND AS 7 - STATEMENT OF CASH FLOWS**

**Faculty: CA. Achal Jain**



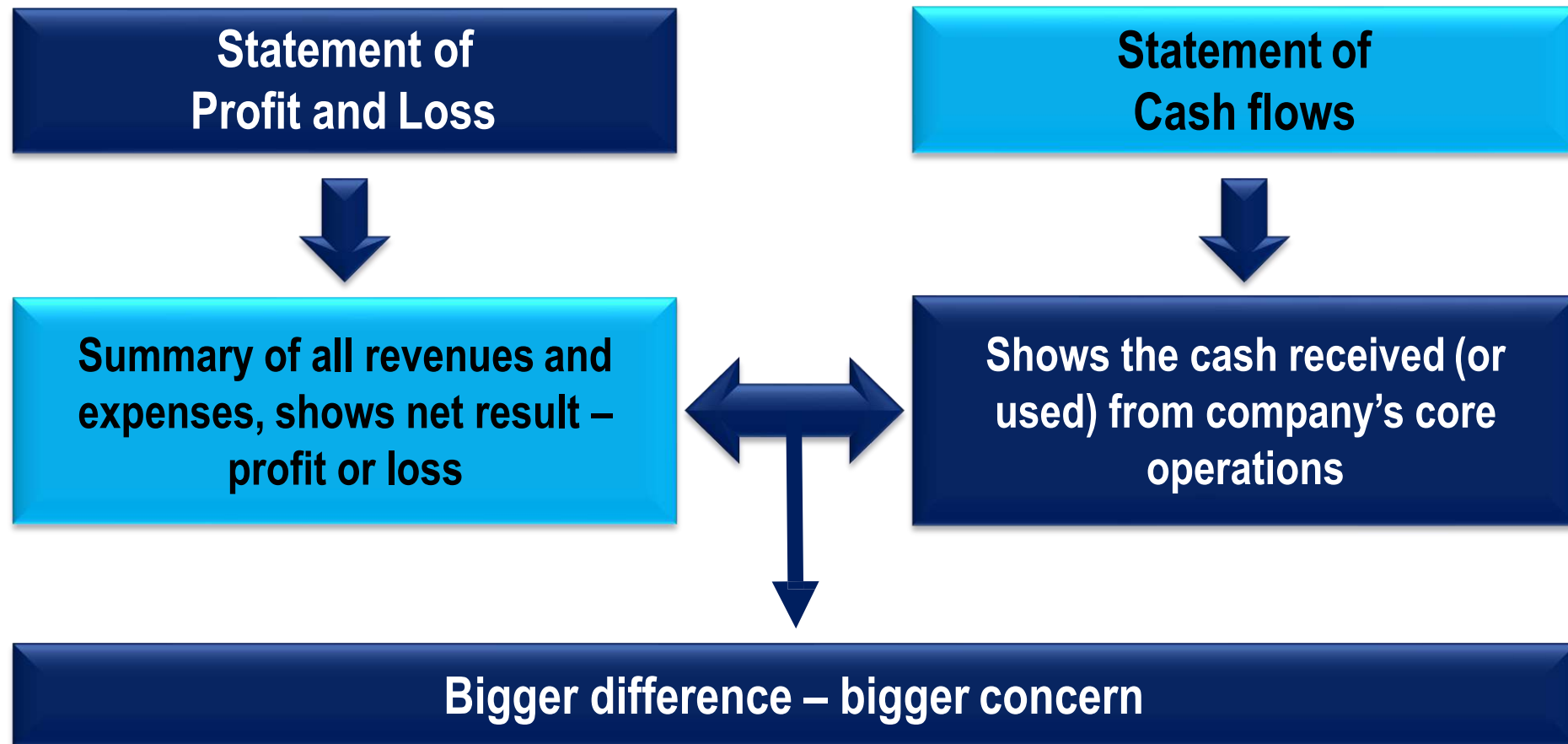
# Meaning of Statement of Cash Flows

**A statement, which provides the details about how the cash is generated and how it is applied during the period**





# Why Cash Flow Statement is required?





# Why Cash Flow Statement is required?

| Particulars                        | 20X9    | 20X8    | 20X7    |
|------------------------------------|---------|---------|---------|
| Revenue from operations            | 4,000   | 1,600   | 1,000   |
| Net profit after tax for the year  | 780     | 230     | 120     |
| Net cash from operating activities | (3,200) | (1,800) | (1,100) |

**Revenue from operations increases significantly YoY**

**But entity has negative cash flows from operating activities**

**Clear red flag !!!  
Revenue and income is reported but little cash comes in**

**Entity may be surviving through cash flows from financing or investing activities**



# Objective

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**To provide information about historical changes in cash and cash equivalents**

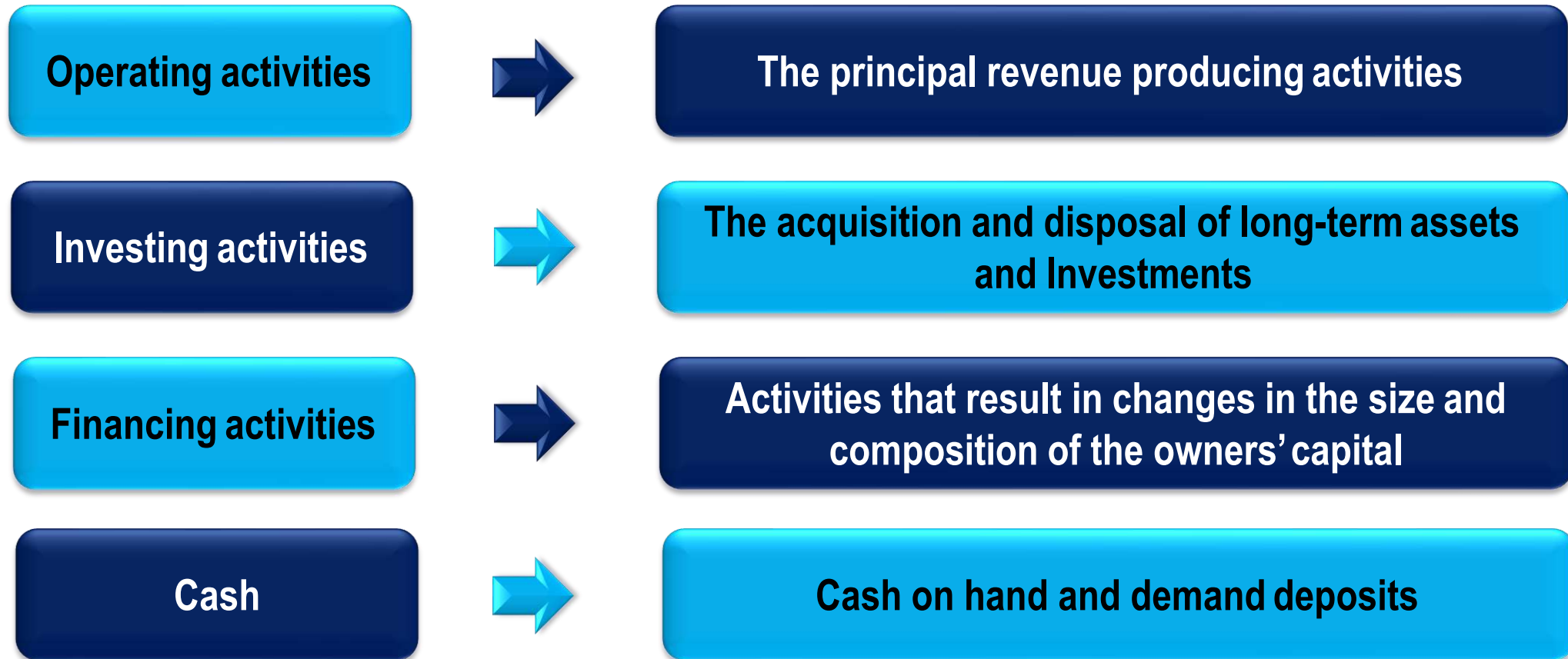
**To assess the ability to generate cash and cash equivalents**

**To understand the timing and certainty of generation of CCE**



# Key Definitions

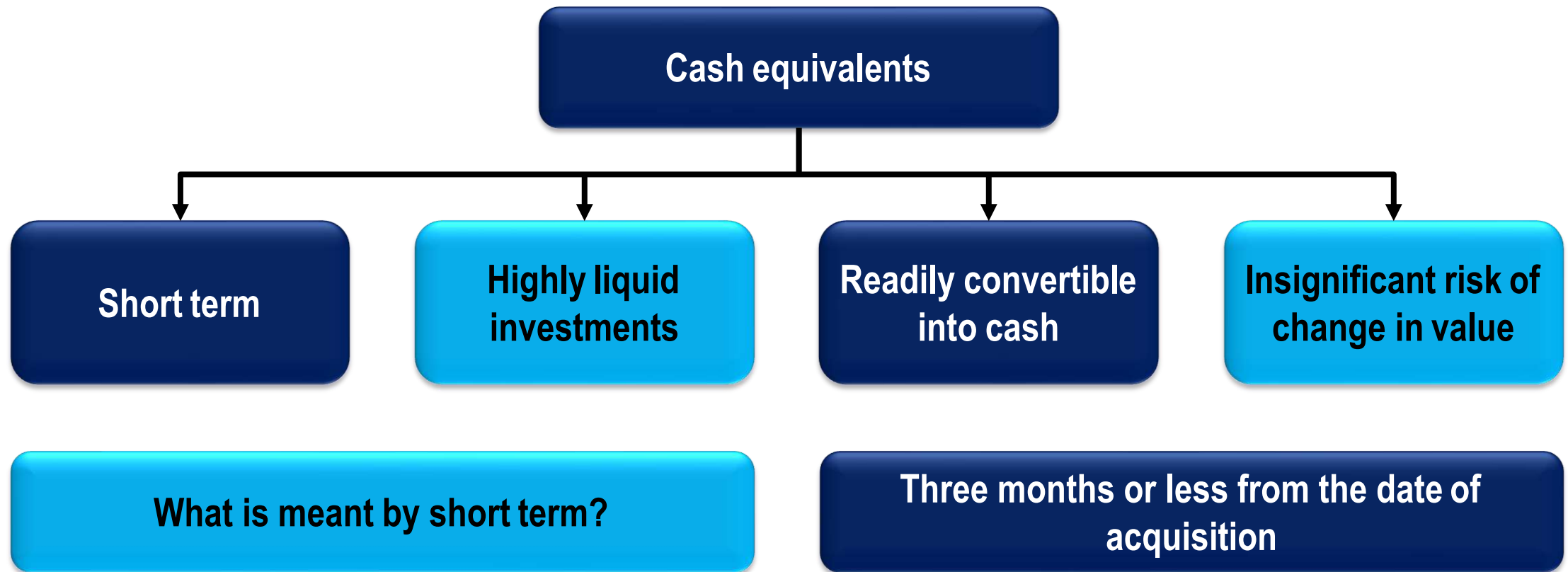
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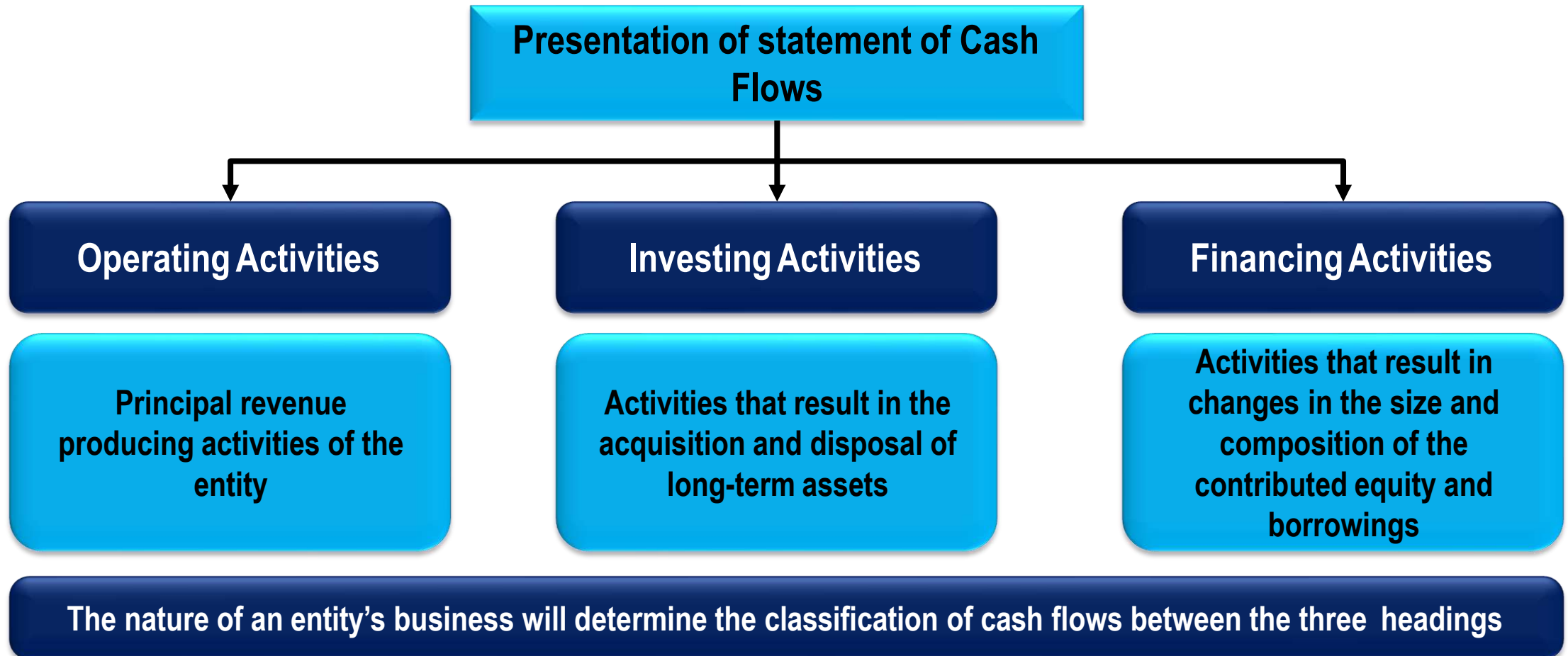
# Cash equivalents

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# Presentation of statement of Cash Flows





# Operating Activities

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## Cash Inflow

**Sale of goods/ services**

**Royalties, fee, commission  
and other revenue**

**Other items of income not  
classified as from investing  
or financing activities**

## Cash Outflow

**Purchase of materials for  
manufacture or for resale**

**Other manufacturing  
overheads**

**Employee benefit expense**

**Payments to Government for  
taxes**

**Other items not classified as investing or financing activities**



# Investing Activities

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## Cash Inflow

**Sale of property, plant, and equipment**

**Insurance proceeds received for the damage  
PPE that is owned or under capital leases**

**Collections or sales of loans and sales of  
equity Instruments of other entities**

## Cash Outflow

**Acquisition of equity instruments of other  
entities**

**Purchase of property, plant, and equipment  
and other productive assets**

**Leasehold improvements made by a lessee**



# Financing Activities

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## Cash Inflow

Issuance of equity instruments

Issuance of bonds

Other short- or long-term borrowing

## Cash Outflow

Dividends or other distributions to owners

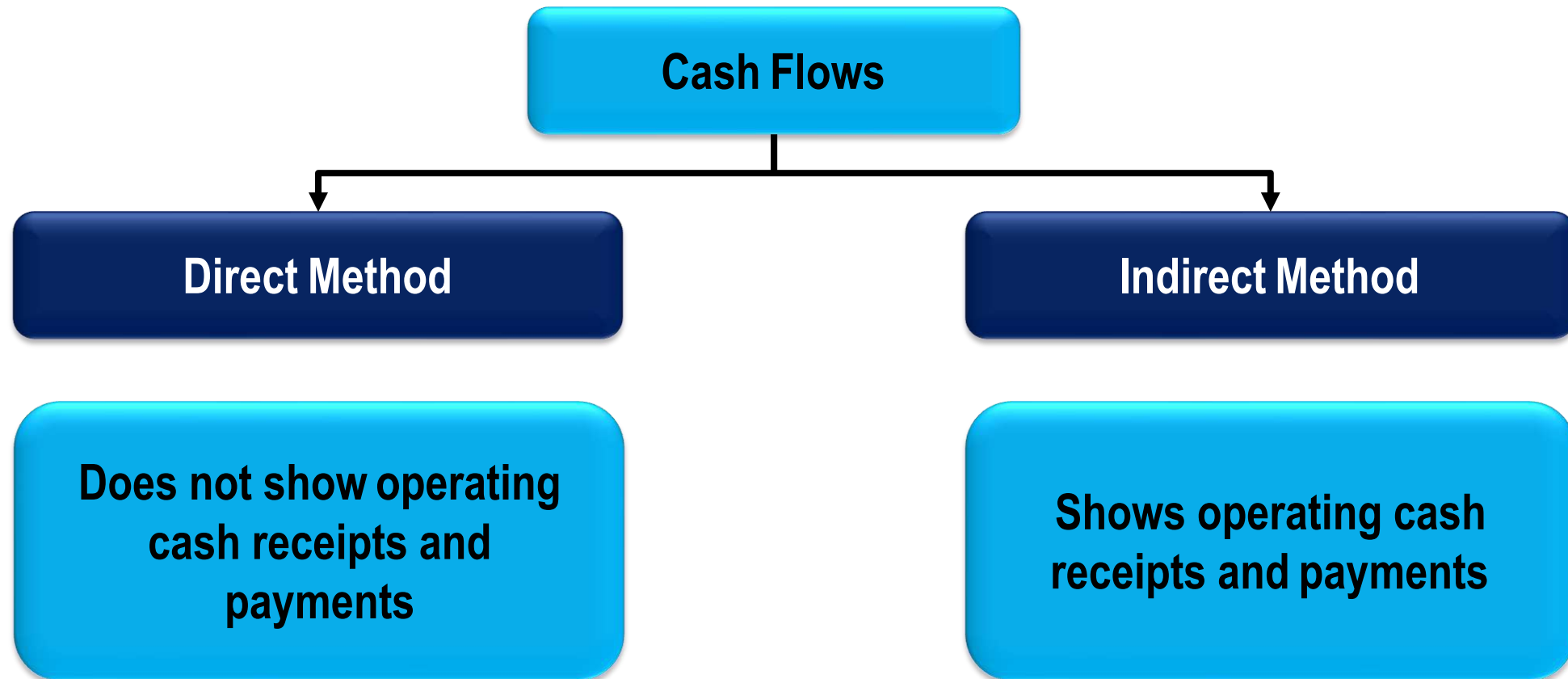
Repayments of amounts borrowed and Debt  
issuance cost

Other principal payments to creditors who  
have extended long-term credit



# Presentation of a Cash Flow Statement

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# Direct Method

## Focus on Cash Transactions in the Income Statement

|       | Particulars                                 |         | Amount     |
|-------|---------------------------------------------|---------|------------|
| + / - | Income of Cash Nature                       |         | XXX        |
| + / - | Expenses of Cash Nature                     |         | XXX        |
| + / - | Changes in Working Capital                  |         | XXX        |
| =     | <b>Cash flows from Operating Activities</b> | (A)     | <b>XXX</b> |
| + / - | <b>Cash flows from Investing Activities</b> | (B)     | <b>XXX</b> |
| + / - | <b>Cash flows from Financing Activities</b> | (C)     | <b>XXX</b> |
| =     | <b>Changes in Cash and Cash Equivalents</b> | (A+B+C) | <b>XXX</b> |



# Indirect Method

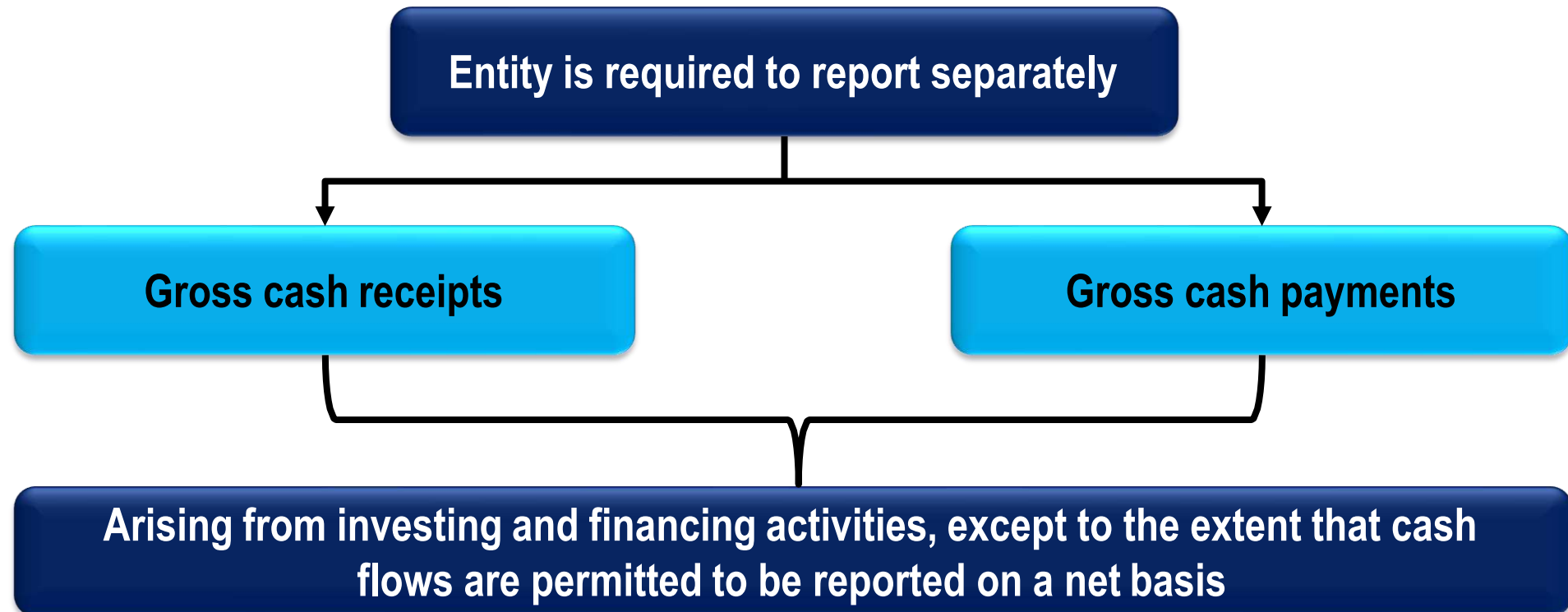
## Focus on Non-cash Transactions in the Income Statement

|       | Particulars                                 |                | Amount     |
|-------|---------------------------------------------|----------------|------------|
|       | Net Income                                  |                | XXX        |
| (-)   | Income of Non-Cash Nature                   |                | XXX        |
| +     | Expenses of Non-Cash Nature                 |                | XXX        |
| + / - | Changes in Working Capital                  |                | XXX        |
| =     | <b>Cash flows from Operating Activities</b> | (A)            | <b>XXX</b> |
| + / - | <b>Cash flows from Investing Activities</b> | (B)            | <b>XXX</b> |
| + / - | <b>Cash flows from Financing Activities</b> | (C)            | <b>XXX</b> |
| =     | <b>Changes in Cash and Cash Equivalents</b> | <b>(A+B+C)</b> | <b>XXX</b> |

**Adjusts net income for various income/ expenses that do not involve a cash flow, and movement in current assets and liabilities**



# Reporting Cash Flows from Investing and Financing activities





# Reporting Cash Flows on Net Basis

**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

- ☐ Acceptance and repayment of demand deposits of a bank
- ☐ Funds held for customers by an investment entity
- ☐ Rents collected on behalf of, and paid over to, the owners of properties

**Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short**

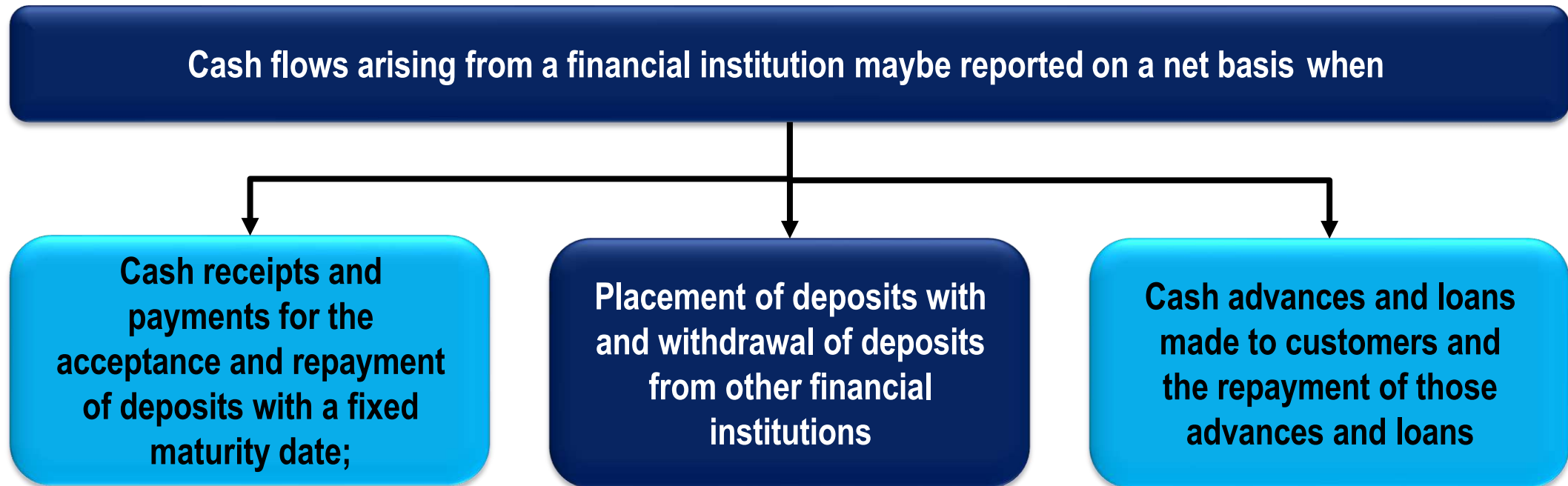


## Examples

- ☐ Repayment of principal amounts relating to credit card customers
- ☐ Purchase and sale of investments
- ☐ Other short-term borrowings



# Reporting Cash Flows on Net Basis





# Reporting Foreign Currency Transactions / Foreign Operations

**Entities with foreign currency transactions / foreign operations**

**Translate cash flows to currency used for financial statements**

**Use exchange rate at the time of the cash flows**

**Weighted average rate over the period, if the rate has substantially remained the same**

**Report impact of exchange rate changes on cash balances as reconciling item of the change in cash and cash equivalents during the period**



# Interests and Dividends

|                                        | <b>Entities in the financial services sector</b>    | <b>Other entities</b>                       |
|----------------------------------------|-----------------------------------------------------|---------------------------------------------|
| <b>Interest paid</b>                   | <b>Cash flows arising from operating activities</b> | <b>Cash flows from financing activities</b> |
| <b>Interest and dividends received</b> | <b>Cash flows arising from operating activities</b> | <b>Cash flows from investing activities</b> |
| <b>Dividends paid</b>                  | <b>Cash flows from financing activities</b>         | <b>Cash flows from financing activities</b> |



# Taxes on Income

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**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**



# Non-Cash Financing and Investing Activities

**What are these?**

**Investing/ financing activities not resulting in cash receipts/ payments during the period**

**Implications**

**Not reported in the statement of cash flows**

**Disclosure to be made either in narrative format or summarized in a schedule**

**Examples**

- ◆ Converting debt to equity
- ◆ Acquiring assets by assuming directly related liabilities
- ◆ Exchanging non-cash assets or liabilities for other non-cash assets or liabilities



# Major Differences

| Particulars                                                  | Ind AS 7                                                                                                                                                                                                                                                                                                              | AS 3                                |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| Bank Overdraft Repayable on Demand                           | Includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents                                                                                                                                                                                                                         | AS 3 is silent on this aspect       |
| New Examples of Cash Flows arising from Financing Activities | Ind AS 7 includes the following new examples of cash flows arising from financing activities:<br>(a) cash payments to owners to acquire or redeem the entity's shares<br>(b) cash proceeds from mortgages<br>(c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease | AS 3 does not contain such examples |



# Major Differences

| Particulars                                                                                        | Ind AS 7                                                 | AS 3                                                                                     |
|----------------------------------------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------------------|
| Adjustment of for the Effects of Undistributed Profits of Associates and Non-controlling Interests | Specifically requires adjustment                         | AS 3 does not contain such requirements                                                  |
| Cash Flows associated with Extraordinary Activities                                                | Ind AS 7 does not contain this requirement.              | Requires cash flows associated with extraordinary activities to be separately classified |
| Cash Flows arising from Changes in Ownership Interests in a Subsidiary                             | To be classified as cash flows from financing activities | AS 3 does not contain such requirement                                                   |



# Major Differences

| Particulars                                                           | Ind AS 7                                                                                                                             | AS 3                                        |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Investment in Subsidiaries, Associates and Joint Ventures (Investees) | Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary | AS 3 does not contain such requirements     |
| Use of Different Terminology                                          | Ind AS 7 uses the term 'functional currency' instead of 'reporting currency' (as used in AS 3)                                       | AS 3 does not deal with functional currency |
| Disclosures                                                           | Ind AS 7 requires more extensive disclosures                                                                                         | Disclosure requirement in AS 3 are less     |



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**THANK YOU**