Chapter Three

Ind AS 7

Statement of Cash Flows

E-book

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Ind AS 7

Statement of Cash Flows

INTRODUCTION

Financial statements are structured representation of the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

A complete set of Financial Statements include –

- Balance Sheet as at the end of the period
- Statement of Profit and Loss and Other Comprehensive Income for the period
- Statement of Changes in Equity for the period
- Statement of Cash Flows for the period
- Notes, comprising material accounting policy information and explanatory notes.

These help users of financial statements to make economic decisions and shows the ability of the management to efficiently handle the resources entrusted to it.

When an entity presents a complete set of financial statements, the statement of cash flows is presented with equal prominence along with the other statements and notes. Cash flow information provides users of financial statements a basis to analyse the ability of the entity to generate cash flows and the needs of the entity to utilise those cash flows. This helps the users in making economic decisions which are affected by the entity's cash inflows and cash outflows.

OBJECTIVE

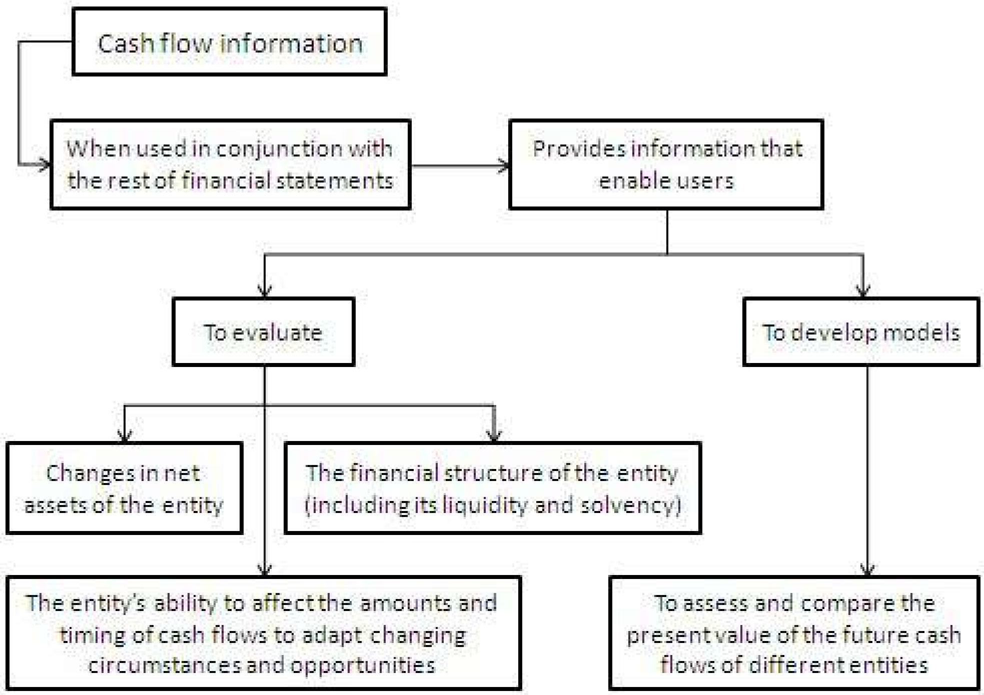
The objective of this Standard is to help entities provide information about the historical changes in cash and cash equivalents by means of a statement of cash flows which classifies cash flows during the period of *operating, investing* and *financing* activities.

SCOPE

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

Cash is important to every entity irrespective of their principal revenue producing activities. They require cash for conducting their operations, for paying their obligations and providing returns to their investors. Therefore, this Standard requires all entities to present a Statement of Cash Flows.

BENEFITS OF CASH FLOW INFORMATION



The users are able to identify the ability of the entity to generate cash and cash equivalents with the help of the information provided in the cash flow statements. Here, the accrual basis of accounting is not followed which eliminates the effects of using different accounting treatments for the same transactions and events. The cash flow statement helps users to summarise the flow of cash in and out of business thereby illustrating the difference between income and receipts and expenses and payments.

Historical cash flow information is used an indicator of the amount, timing and certainty of future cash flows. It also helps in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flows and the impact of changing prices.

EXAMPLE 1

ABC Ltd has presented a complete set of financial statements at the end of the reporting period. P Ltd is a creditor to the entity and at that date, ABC Ltd is supposed to pay an amount of ₹ 2,000 to P Ltd for buying materials on credit. In order to identify the ability of ABC Ltd to pay back the same, P Ltd assesses the statement of cash flows. It compares the income and expenses as per the Statement of Profit and Loss with the cash receipts and payments as per Statement of Cash Flows. This gives a clear picture about the timing and certainty of the future cash flows to be generated by the entity based on which the cash inflows of P Ltd can be predicted. This information helps P Ltd to analyse whether continuation of the relation with ABC Ltd would be profitable or not.

DEFINITIONS

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

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

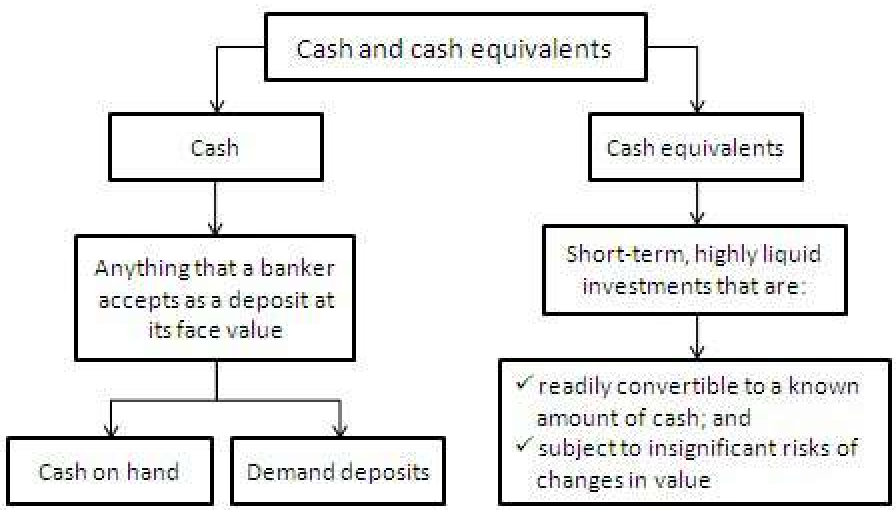
Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash and Cash Equivalents

In order to meet the short term obligations, an entity requires cash. Sometimes cash equivalents are also made to take part in the cash management activities of an entity. These cash equivalents are normally short term investments that have a maturity period of *three months or less* from the date of acquisition. Cash equivalents are primarily held for the purpose of meeting short-term cash commitments rather than for investment. Therefore, the inflows and outflows of cash equivalents are also considered while preparing the statement of cash flows. Whatever may be the case, an entity should disclose the accounting policy it adopts regarding the composition of the cash and cash equivalents.



Investments

When excess liquidity of a business is parked in short term investments of maturity period of three months or less, they are considered as cash investments. But funds that are invested in instruments for investment purpose would not qualify as cash equivalents.

EXAMPLE 2

ABC Ltd has invested its excess funds as follows:

- ₹ 50 in bonds on 1 June, 20x4 with a maturity period of six months;
- ₹ 10 in bonds on 30 June, 20x4 which would mature on 30 of September, 20x4; and
- ₹ 60 in bonds on 15 of July, 20x4 which would mature after 5 years.

In the first case, though the bond is short term in nature, it would not be classified as cash equivalents. As mentioned in this Standard, an entity should consider an investment to be a cash equivalent when the maturity period is three months or less.

In the second case, the bond's maturity period is exactly three months which enables the entity to consider it to be a cash equivalent.

In the third case, the entity has an intension to invest rather than to use it for the purpose of meeting the short term obligations. This is surely not a cash equivalent.

Equity investments in general do not qualify as cash equivalents. They are subject to risk of changes in values that could be significant depending on the fluctuation in their market value as a consequence of changes in the economic conditions or other factors. However, if the substance of the transaction is such that they behave like cash equivalents, then they will be included in the computation of the total cash and cash equivalent of the entity.

EXAMPLE 3

ABC Ltd has acquired redeemable preference shares of P Ltd for an amount of ₹ 100 in the month of January, 20x4 and the shares would be redeemed in full for an amount of ₹ 105 in the month of March. On 30 March, P Ltd redeems the same.

Though the investment is in equity instruments, it has the nature of a short term highly liquid instrument. The entity knows the amount of cash that it would receive at the end of the redemption period and the investments are subject to insignificant risk of changes in value. Therefore, though the investment is an equity instrument, it is a cash equivalent in substance. The investment even matures after a period of three months from the date of acquisition. So, the entity shall include the amount in the computation of cash equivalents for the purpose of preparing Statement of Cash Flows.

Bank Borrowings

Normally, bank borrowings are dealt as financing activities and not considered as a component of cash or cash equivalent. But, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. These bank arrangements have a characteristic where the balance fluctuates from being favourable to overdrawn. In such cases, bank overdrafts are considered to be a part of the entity's cash equivalents.

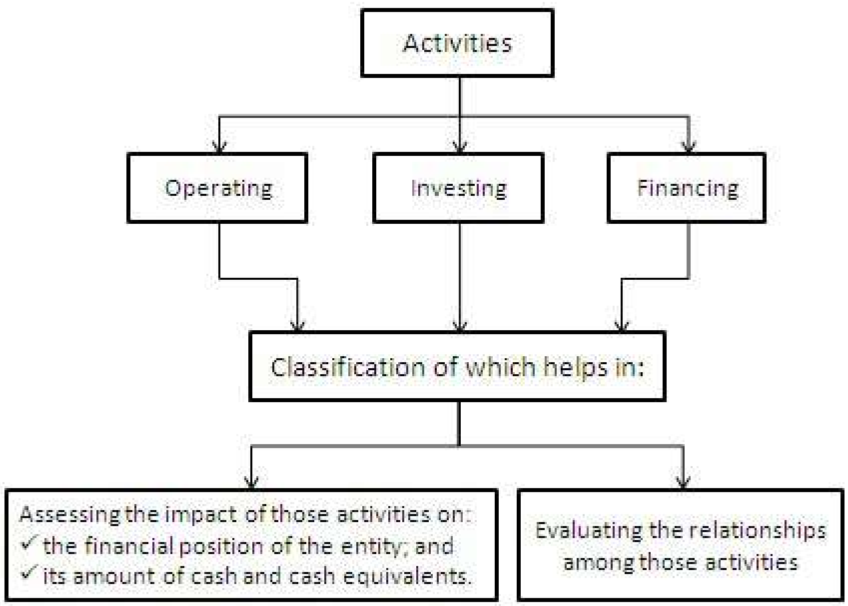
EXAMPLE 4

ABC Ltd conducts seasonal business. Since the cash inflows are restricted to the winter season, the entity has positive balances in the bank. During the rest of the year the bank balance fluctuates from positive to negative balances. In such cases, any shortfall in the bank balance is financed by the bank itself. It is an arrangement agreed upon between by the bank and the entity. This bank balance would be included in the cash and cash equivalents of the entity in the preparation of Statement of Cash Flows.

The cash flow movements between the components of cash and cash equivalents are excluded from the computation of cash flows because these form a part of the cash management of an entity rather than being a part of its operating, investing and financing activities. The cash management includes the investment of excess cash in cash equivalents.

PRESENTATION OF A STATEMENT OF CASH FLOWS

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



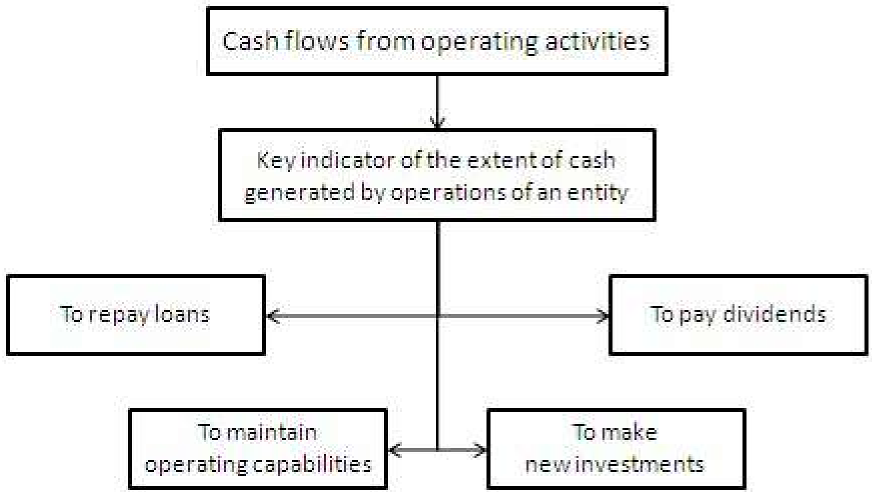
This classification is entity specific, ie, the classification must be done in such a manner that is most appropriate to its business. For example, operating activities of a financial institution may be either investing or financing activities of a non-financial institution but they cannot be classified as operating activities. Sometimes, a single transaction can also be classified differently.

EXAMPLE 5

In case of cash repayment of a loan by a non-financial institution, the transaction includes repayment of the principal amount and repayment of the interest portion. While the former is classified as a financing activity the latter is classified as an operating activity.

OPERATING ACTIVITIES

The cash flows from operating activities are derived from the principal revenue producing activities of the entity. So, they generally result from the transactions and events that determine the profit or loss of an entity.



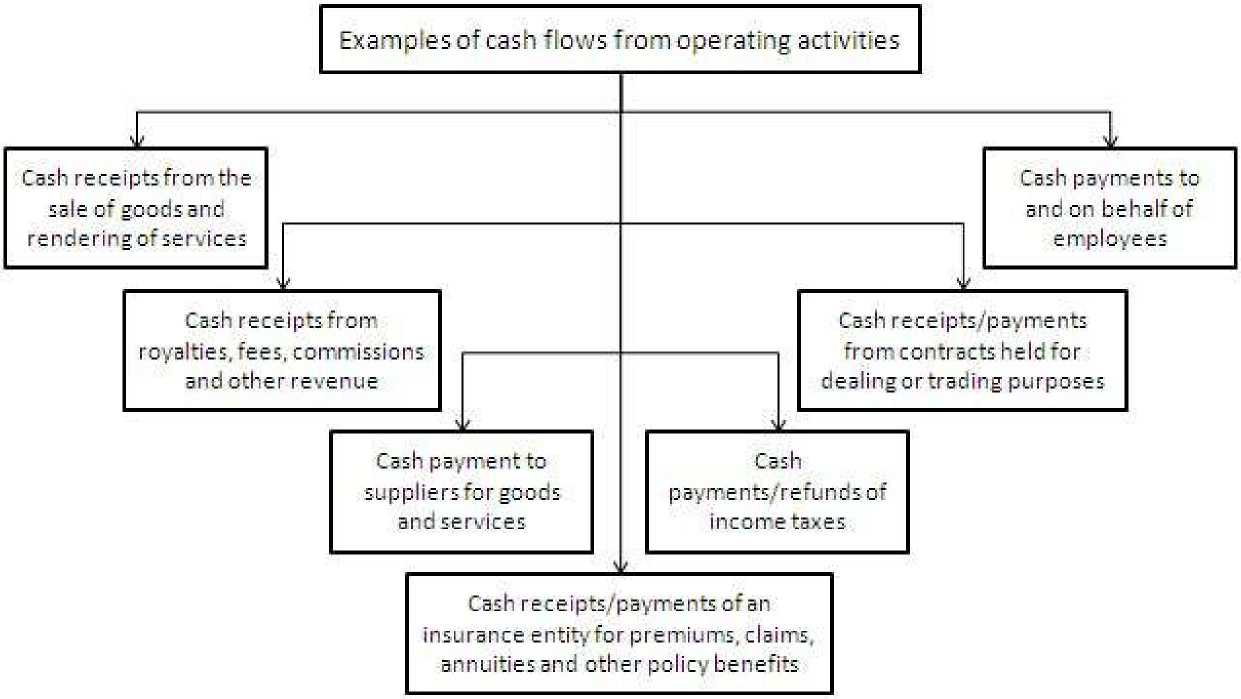
When the users of financial statements analyse the information about specific components of historical operating cash flows along with other information, they are able to forecast the future operating cash flows.

Not all transactions recorded in Statement of Profit and Loss are classified as operating activities. For example, the gain or loss on sale of an item of property, plant and equipment is recorded in Statement of Profit and Loss but it is classified as cash flows from investing activities. On the other hand entities that manufacture or acquire assets held for rental to others and subsequently held for sale, would classify the same as operating activities.

EXAMPLE 6

ABC Ltd deals with plant and machineries which are used in the construction of real estate. For the entity, these plant and machineries are inventories as per Ind AS 2 *Inventories* rather than assets as per Ind AS 16 *Property, Plant and Equipment*. So, the transactions and events related to their purchase, sale or hire are principal revenue generating activities and, therefore, the relating cash flows are classified as cash flows from operating activities. But, the machineries that the entity acquires to manufacture the same are assets to the entity and so any cash flows relating to those assets would be classified as cash flows from investing activities.

Some entities might hold securities and loans for transacting or trading purposes. In such cases, they are similar to inventories acquired specifically for resale. Therefore, the entity classifies the cash flows arising from the purchase and sale of these securities as cash flows from operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities as they relate to the main revenue producing activity of that entity, because, providing loans and accepting repayments of such loans are the primary activities of the business.



INVESTING ACTIVITIES

Cash flows from investing activities are cash flows that represent the extent to which expenses are incurred for the resources intended to generate future income and cash flows. Therefore, a separate disclosure is required for cash flows from investing activities. It has been specifically mentioned in this Standard that only those expenditure that result in the recognition of assets in Balance Sheet are eligible for the classification as cash flows from investing activities.

Some examples of cash flows from investing activities are illustrated below.

- Cash payments made in relation to property, plant and equipment, intangibles and other long term assets. These payments include those in relation to capitalised development costs and self constructed property, plant and equipment;

EXAMPLE 7

ABC Ltd constructs an office building in a new location. Since the asset is not meant to be sold after the construction, it is a self constructed asset for the entity. All cash payments made in relation to the construction of the office building would be classified as cash flows from investing activities.

EXAMPLE 8

ABC Ltd purchases a plot of land and spends a lump sum amount for bringing it to the desired condition. As per Ind AS 16 *Property, Plant and Equipment* this cost is capitalised and the related cash flows would be classified as cash flows from investing activities.

- Cash receipts from sale of property, plant and equipment, intangibles and other long term assets;

EXAMPLE 9

ABC Ltd sells a plot of land whose carrying amount stood at ₹ 50 and makes a profit of ₹ 40. The gain is recognised in Statement of Profit and Loss. This is not a principal revenue generating transaction. Therefore, for the purpose of preparation of Statement of Cash Flows, the entire amount of sale would be treated as cash flows from investing activities.

- Cash payments made, to acquire equity or debt instruments of other entities and interest in joint ventures;

EXAMPLE 10

ABC Ltd purchases a bond that reaches its maturity date within three months from the date of acquisition. Though the nature of the transaction is that of an investment, the substance of the transaction is that of a cash equivalent. So, the cash flows from the transaction will be treated as cash equivalent.

EXAMPLE 11

ABC Ltd purchases equity instruments of other entities for the purpose of trading. This transaction is not an investing activity; rather it resembles nature of inventories and, therefore, the cash flows relating to the purchase and sale would be dealt as cash flows from operating activities.

- Cash receipts from sales of equity or debt instruments of other entities and interest in joint ventures (other than receipts for those instruments that are considered as cash equivalents and those held for dealing or trading purposes);
- Cash advances and loans made to other parties (other than loans and advances made by a financial institution);
- Cash receipts from the repayment of advances and loans made to other parties (other than loans and advances made of a financial institution);
- Cash payments for future 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; and
- Cash receipts for future 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.

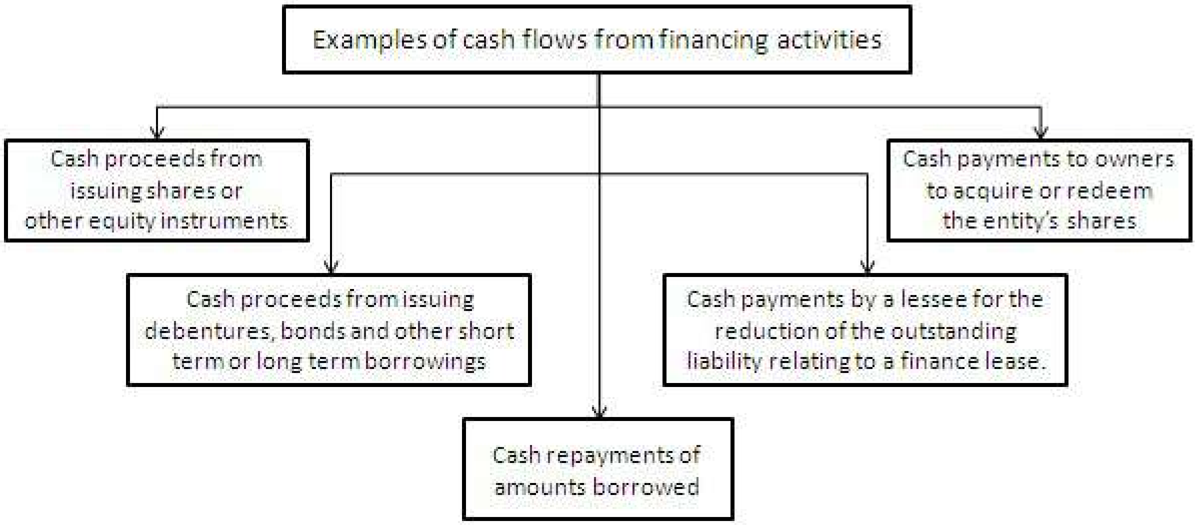
When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as those of the position being hedged.

EXAMPLE 12

ABC Ltd is an airline company that uses jet fuel. The prices of jet fuel are highly volatile which proves to be a challenging factor to the entities that are in the airline industry. So, in order to stay in business, the entity enters into future contracts to hedge their exposure to the price of jet fuel. The cash flows in relation to it are classified as cash flows from investing activities.

FINANCING ACTIVITIES

In order to enable users of financial statements to predict claims on future cash flows by providers of capital to the entity, the cash flows from financing activities need to be disclosed separately.



EXAMPLE 13

ABC Ltd has entered into finance lease with P Ltd to lease plant and machinery. As per Ind AS 116 *Leases*, a finance lease has the similar effect as that of a loan. The lease payments throughout the lease term include payment of two components; principal and the interest. The payment of the principal amount is classified as cash flows from financing activities whereas the interest payment has to be classified as cash flows from operating activities.

REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

An entity shall report cash flows from operating activities using either of the following two methods:

- The *direct method*, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- The *indirect method*, whereby profit or loss is adjusted for the effects of transactions of-
  - a non-cash nature;
  - any deferrals of past or future cash receipts;
  - any accruals of past or future cash payments; and
  - items of income or expense associated with investing or financing cash flows.

Reporting of cash flows from operating activities

Direct Method

Cash receipts from customers	xxx
Cash paid to suppliers	xxx
Cash paid to employees	xxx
Cash paid for other operating expenses	xxx
Interest paid	xxx
Income taxes paid	xxx
Net cash from operating activities	xxxx

Indirect Method

Profit before interest and taxes		xxx
Add : Non cash items		xxx
Increase in receivables		xxx
Decrease in inventories		xxx
Increase in trade payables		xxx
Interest expense Less: Interest accrued but not paid	xx xx	xxx
Interest paid		xxx
Income taxes paid		xxx
Net cash from operating activities		xxxx

This Standard specifically recommends the use of the direct method of reporting cash flows from operating activities since it can provide useful information to help the users estimate the future cash flows unlike the indirect method of reporting.

DIRECT METHOD

Under the direct method, information about the major classes of gross cash receipts and gross cash payments may be obtained either:

- from the accounting records of the entity; or
- by adjusting sales, cost of sales (interest or similar income and interest expense and similar charges for a financial institution) and other items in Statement of Profit and Loss for -
  - changes during the period in inventories and operating receivables and payables;
  - other non-cash items; and
  - other items for which the cash effects are investing or financing cash flows.

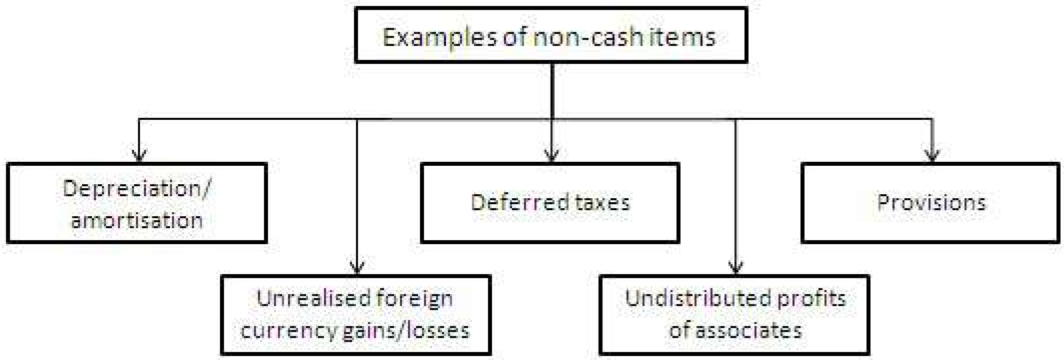
INDIRECT METHOD

Under the indirect method, the net cash flows from operating activities can be determined by either of the following two ways:

- By adjusting profit or loss for the effects of-
  - changes during the period in inventories and operating receivables and payables;
  - non-cash items; and
  - all other items for which the cash effects are investing or financing cash flows.

- ➢ The net cash flows may be presented by showing the revenues and expenses as they are disclosed in Statement of Profit and Loss and the changes during the period in inventories and operating receivables and payables.

Non-cash items as mentioned in both of the above two methods refer to those items that are included in the computation of an entity's net income on an accrual basis but do not affect the inflows or outflows of cash.



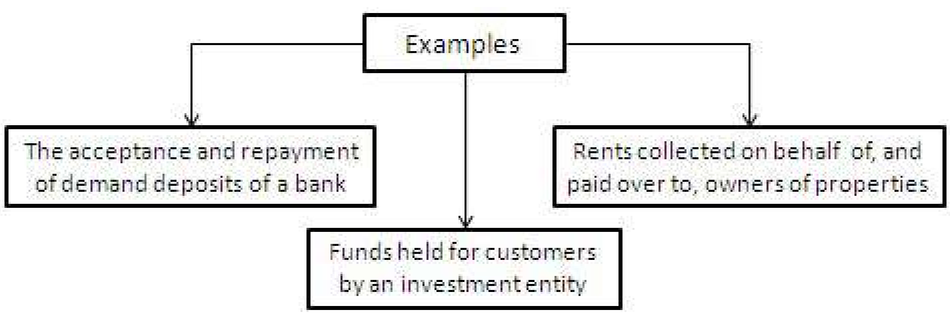
REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

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

REPORTING CASH FLOWS ON A NET BASIS

Cash flows arising from operating, investing or financing activities that may be reported on a net basis are as follows:

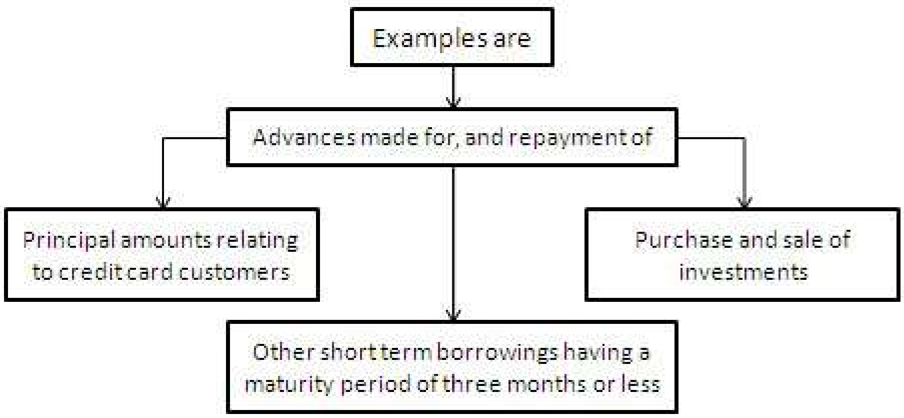
- ➢ Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and



EXAMPLE 14

ABC Ltd operates as an immigration agent. It collects cash from its clients and pays to the service providers like the high commission of the respective countries, airline companies, the job providers and the accommodation providers of those countries. Its main income is commission from the clients as well as the several service providers. While preparing Statement of Cash Flows, the entity should report the cash receipts and payments on a net basis. This would help in representing the substance of the transaction that is the commission received by the entity.

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



EXAMPLE 15

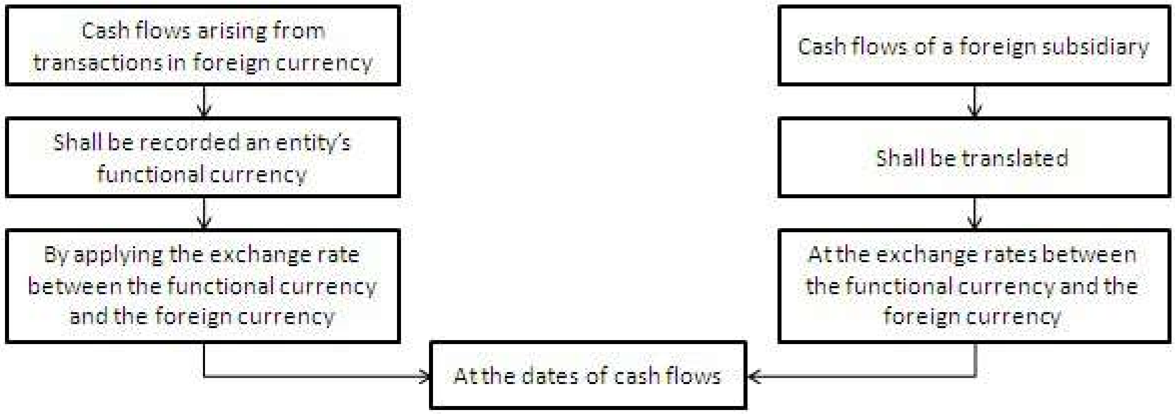
ABC Ltd has investments in debt and equity of different companies. The users are interested in the total amount of investment rather than the purchases and sales separately. So, the reporting of net amount of purchase and sale of the investments would enhance the representation of the cash flows in Statement of Cash Flows.

In the case of a financial institution, the activities that may be reported on a net basis are as follows:

- Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- The placement of deposits with and withdrawal of deposits from other financial institutions; and
- Cash advances and loans made to customers and the repayment of those advances and loans.

FOREIGN CURRENCY CASH FLOWS

An entity may carry on foreign activities by either transacting in foreign currencies or by conducting foreign operations. In either case, an entity has to use the exchange rates as at the dates of the cash flows for the preparation of Statement of Cash Flows.



EXAMPLE 16

ABC Ltd purchases specialised machinery for ₹ 1,200 from P Ltd for the manufacture of paper. The functional currency of P Ltd is GBP and the functional currency of ABC Ltd is INR. The date of purchase is 28 January, 20x4 and the reporting date is 31 March, 20x4. The exchange rates between the entity's functional currency and the foreign currency as on 28 January and 31 March, 20x4 were 1.16063 and 1.12385 respectively.

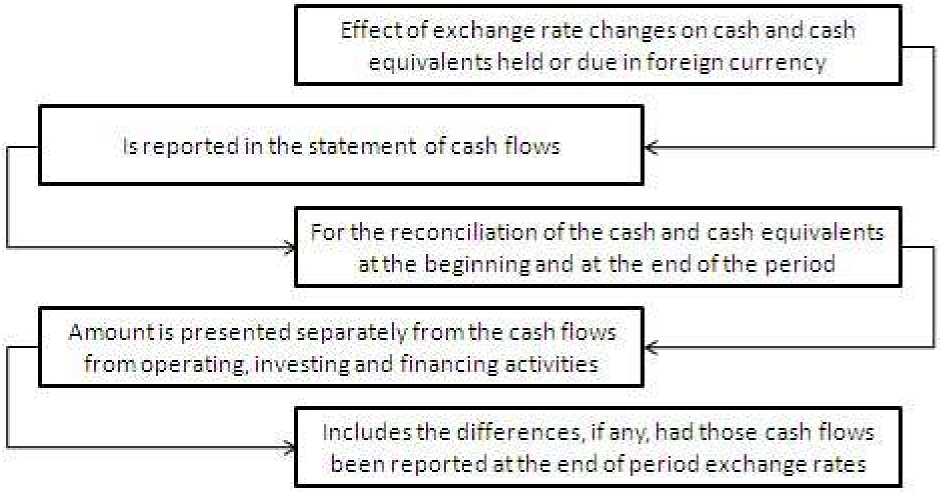
For the purpose of preparation of the statement of cash flows, the entity needs to apply the exchange rate as at the date of cash flow rather than the date of reporting. So the cash outflow as a result of the purchase of the machinery would be classified as a cash flow from investing activities and recorded at ₹ 1,392.75 (₹ 1,200 X 1.16063).

Cash flows denominated in a foreign currency are reported in a manner that is consistent with Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*. An entity may use an exchange rate that approximates the actual rate as per that Standard. An entity may use a weighted average exchange rate for its need to translate the cash flows of a foreign subsidiary.

EXAMPLE 17

ABC Ltd has a foreign subsidiary D Ltd. While translating the cash flows of D Ltd, the entity may use the weighted average exchange rate for the period instead of using the exchange rate as on the dates of the cash flows. Transactions of D Ltd would be huge and it is also time consuming to translate the cash flows at the dates of each of the transactions. Using the weighted average exchange rate would avoid unnecessary number crunching and result in an approximation of the actual rate. This treatment would be at par with Ind AS 21 *The Effects of Changes in Foreign Exchange Rates.*

However, an entity is not permitted to use the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary. Any effect of exchange rate changes on cash and cash equivalents are to be dealt as follows:



INTERESTS AND DIVIDENDS

Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as operating, investing or financing activities.

Interest payments made during a period are either charged as an expense in Statement of Profit and Loss or capitalised as per Ind AS 23 *Borrowing Costs.* Whatever the treatment the entity follows, the cash flows in its relation are to be disclosed in Statement of Cash Flows.

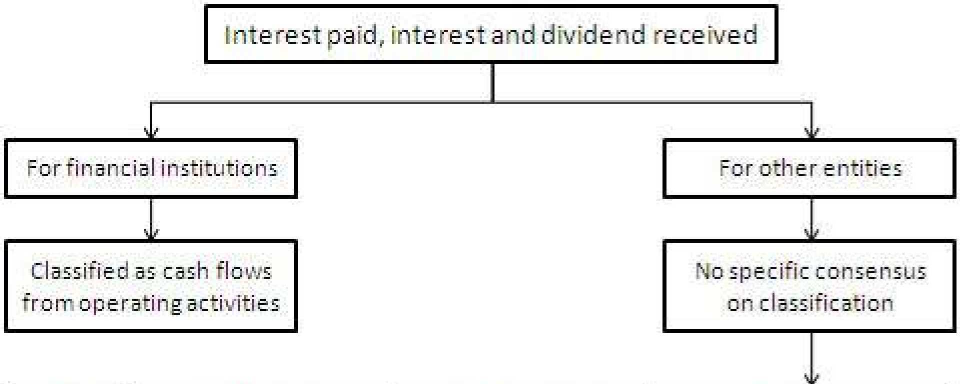
EXAMPLE 18

ABC Ltd borrows an amount of ₹ 1,000 out of which it utilises ₹ 700 for the construction of a new office building and the balance ₹ 300 is used for general purposes. The interest rate is at 5% per annum.

The entity uses ₹ 700 for a specific purpose and so, the interest on the amount of ₹ 35 will be added to the cost of the building assuming that the building is a qualifying asset as per Ind AS 23 *Borrowing Costs*. The interest amount of ₹ 15 on the remaining ₹ 300 will be charged as an expense in Statement of Profit and Loss.

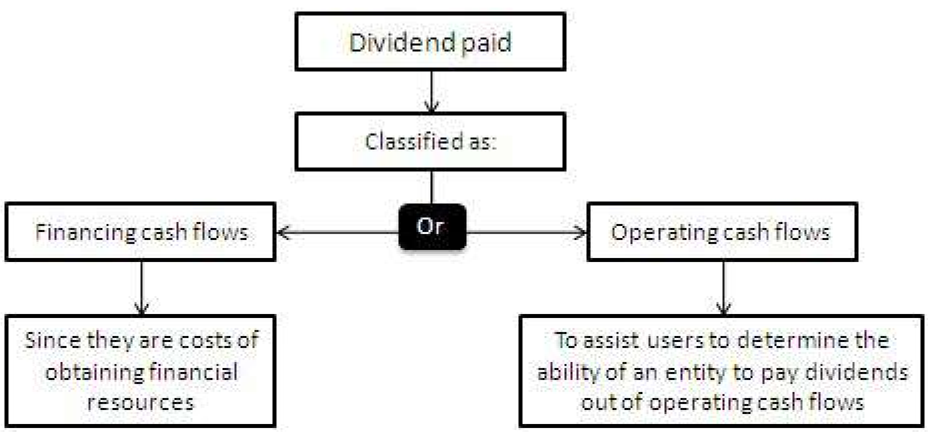
However, the cash flows of total interest paid of ₹ 50 (35 + 15) will be disclosed in Statement of Cash Flows.

The following chart gives guidance to the classification of cash flows from interest paid, interest received and dividend received.



Option	Particulars	Classification	Reason
A	Interest paid, interest and dividend received	Operating cash flow	They participate in determining profit and loss
B	• Interest paid	Financing cash flow	They are cost of obtaining financial resources
	• Interest and dividend received	Investing cash flow	They are return on investments

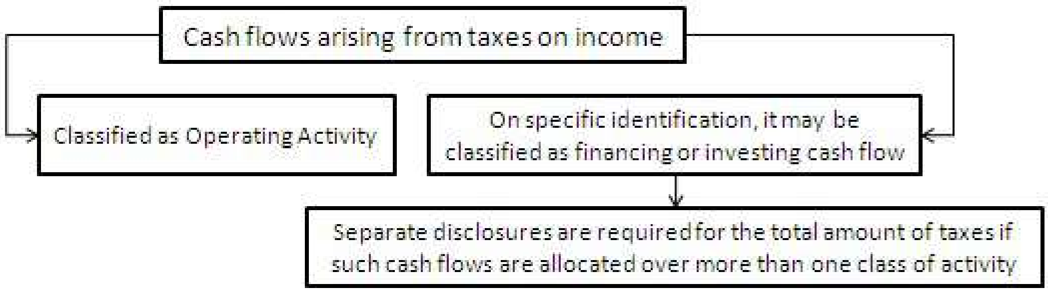
Dividends are payments made by an entity to its shareholders. Shareholders are providers of capital to an entity. Therefore, as per the requirements of the users of financial statements, an entity should classify dividend payment as either financing or operating cash flows.



TAXES ON INCOME

The transactions whose cash flows are classified as operating, investing and financing activities give rise to taxes on income. It is possible to identify the tax expense related to the investing and financing activities. However, identification of the related tax cash flows are often impracticable since they may arise on a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as operating cash flows of the underlying transaction.

However, if it is practicable to identify the same, the tax cash flows may be classified as investing or financing cash flows.



In any case, cash flows arising from taxes on income shall be disclosed separately.

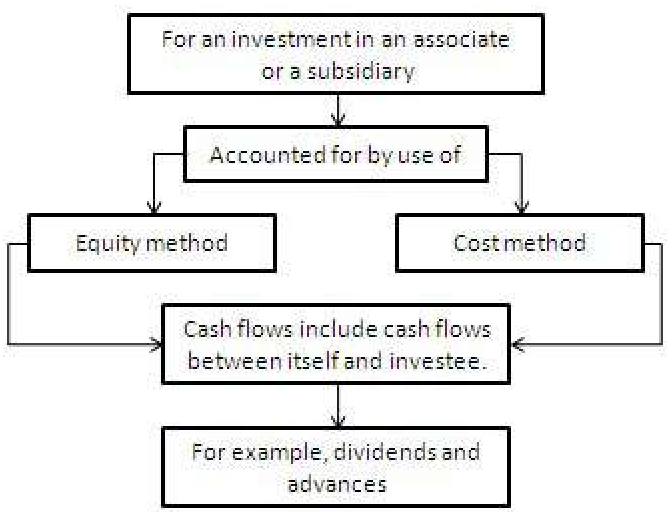
EXAMPLE 19

ABC Ltd could identify the tax cash flows with investing and financing activities. The tax cash flows relating to operating activities, investing activities and financing activities are ₹ 600, ₹ 250 and ₹ 300 respectively.

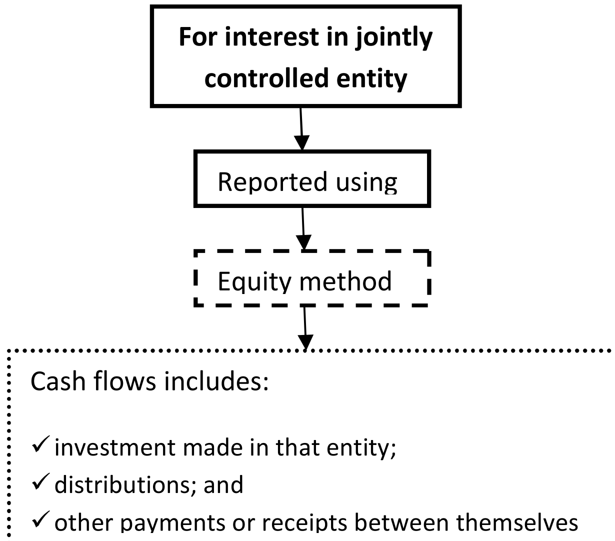
For the preparation of Statement of Cash Flows, they are classified as above but the total amount of tax cash flows of ₹ 1,150 (600 + 250 + 300) are to be disclosed in the notes to financial statements.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In the case of investment in an associate or a subsidiary, the statement of cash flows would include the cash flows arising out of the transactions between the entity and its associate or subsidiary.



An entity which has an interest in a jointly controlled entity as defined by Ind AS 28 *Investments in Associates and Joint Ventures* has to include the relating cash flows in the statement of cash flows based on the equity method of reporting. The following chart illustrates the cash flows based on the method chosen for reporting.

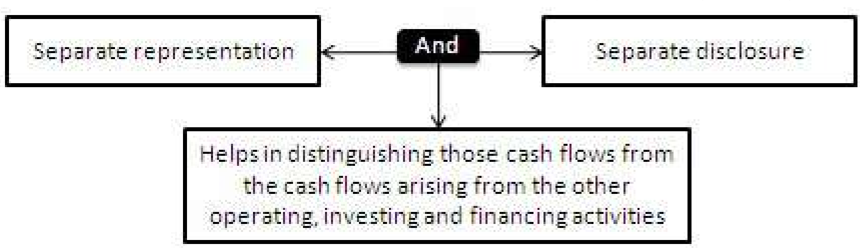


CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES AND OTHER BUSINESSES

The aggregate cash flows arising from obtaining or losing control in subsidiaries or other businesses shall be presented separately and classified as investing activities.

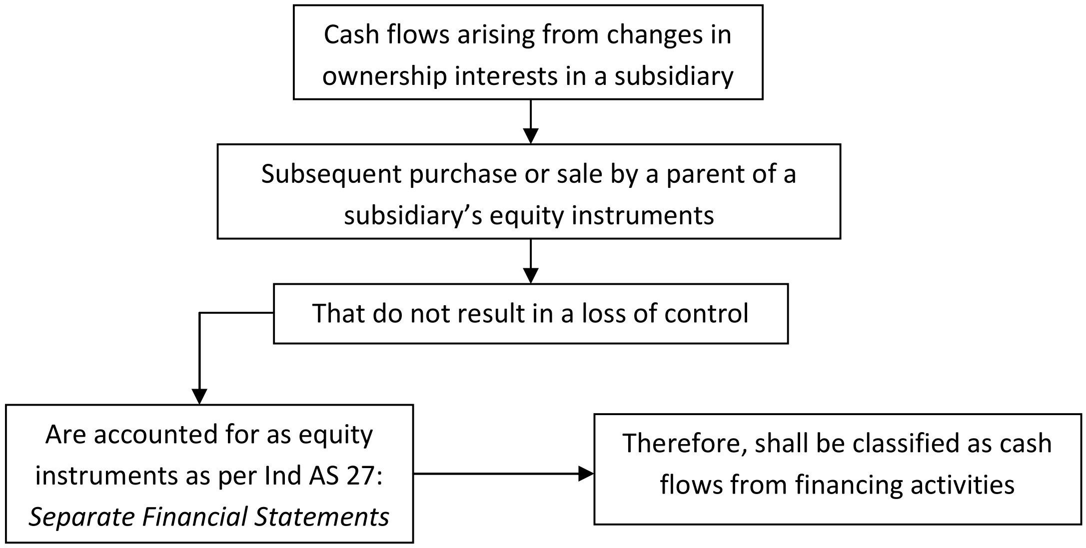
Along with separate presentation, separate disclosures are required in aggregate during the period of the following:

- The total consideration paid or received;
- The portion of the consideration consisting of cash and cash equivalents;
- The amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
- The amount of 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.



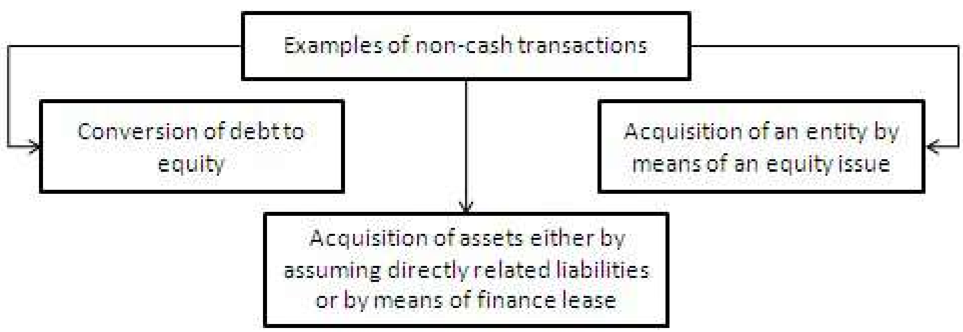
The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows, net of cash and cash equivalents acquired or disposed of as a part of such transactions, events or changes in circumstances.

In case of any changes in ownership interests in subsidiary that do not result in loss of control, the treatment in the statement of cash flows should be as follows.



NON-CASH TRANSACTIONS

Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from the statement of cash flows. The reason for such treatment is that these transactions do not have a direct impact on the cash flows of the entity. Such transactions shall be disclosed elsewhere in the financial statements in a way that would provide information relevant enough for the users of financial statements to get clear picture regarding these investing and financing activities.



EXAMPLE 20

ABC Ltd acquires a building on lease from X Ltd. As per the lease agreement, ABC Ltd is the lessee and X Ltd is the lessor. In the books of ABC Ltd, the entry would be as follows:

Right-of-use asset

    Lease liability

There is no involvement of cash and cash equivalents. So, for the purpose of preparation of Statement of Cash Flows, this transaction is excluded.

EXAMPLE 21

ABC Ltd acquires S Ltd by payment of cash of an amount of ₹ 2,000 and issuing equity shares worth ₹ 5,000. The issue of equity shares does not involve the movements of cash or cash equivalents whereas the payment of cash does. So, in Statement of Cash Flows, the transaction would be included but to the extent of ₹ 2,000 only classified as cash flows from investing activities.

EXAMPLE 22

ABC Ltd had issued 1,000 5% debentures in 20x3 to be converted to equity after 2 years. In the year, the entity redeems the same by the issue of equity shares of the same value. This transaction does not involve any cash and cash equivalents. Therefore, this transaction is excluded from Statement of Cash Flows in 20x5.

EXAMPLE 23

Sample notes to financial statements – Non-cash transactions during the period

During the period, ABC Ltd dealt the following transactions that are non-cash investing and financing activities which were not considered in the preparation of Statement of Cash Flows as they do not involve direct inflows and outflows of cash.

✓ The entity acquired a building on finance lease worth ₹ 50,000;
✓ S Ltd was acquired for a part consideration of equity shares of the entity; and
✓ 1,000, 5% debentures were converted to equity.

COMPONENTS OF CASH AND CASH EQUIVALENTS

The users of financial statements are interested in every detail that an entity is able to provide in support of the amounts disclosed in its financial statements. An entity in respect of cash and cash equivalents may have to give the following details:

- The components of cash and cash equivalents;
- The reconciliation of the amounts in the statement of cash flows with the equivalent items reported in the Balance Sheet; and
- The accounting policy adopted in determining the components of cash and cash equivalents in compliance with Ind AS 1 *Presentation of Financial Statements*.

Any change in the accounting policy adopted for the determination of the components of cash and cash equivalents shall be reported as per Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

EXAMPLE 24

ABC Ltd has made a change in the classification of financial instruments previously considered to be a part of an entity's investment portfolio. This is a change in the accounting policy adopted for the components of cash and cash equivalents. The effect of this change is to be reported as per Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

EXAMPLE 25

Sample notes to financial statements – Accounting policy with respect to the components of cash and cash equivalents.

Cash and cash equivalents comprise cash on hand and demand deposits, net of outstanding bank overdrafts, together with other short-term, highly liquid investments that are convertible to known amount of cash and which are subject to an insignificant risk of changes in value. Normally, for this purpose short term deposits with an original maturity of three months or less are taken into consideration.

EXAMPLE 26

Sample note to financial statements – Reconciliation of the amounts of cash and cash equivalents reported in the statement of cash flows with the related items in the balance sheet.

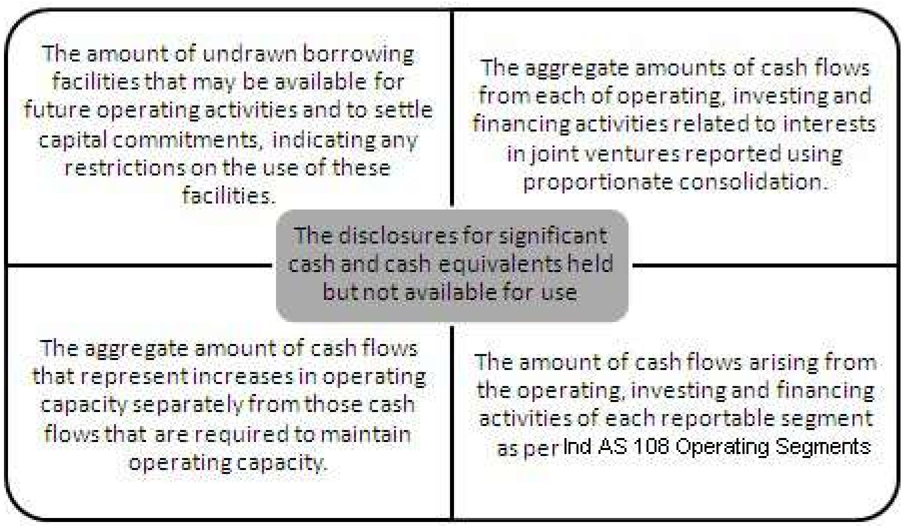
Particulars	**31 Mar., 20x5** **(₹ 000)**	**31 Mar., 20x4** **(₹ 000)**	**1 Apr., 20x3** **(₹ 000)**
Cash on hand	-	-	-
Bank balances	-	-	-
Bank overdraft	(-)	(-)	(-)
Cash and bank balances attributable to a discontinued operation	-	-	-
Cash and bank balances included in a disposal group	-	-	-
	-	-	-

OTHER DISCLOSURES

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 rate controls or other legal restrictions apply when the balances are not available for general use by the parent entity or other subsidiaries.

Additional disclosures may be relevant to the users of financial statements for which 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. A commentary by the management is encouraged.



The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

EXAMPLE 27

Balance Sheet as at 31 March

Year	20x5	20x4
Assets		
Non-current assets		
Land and building	600	750
Plant and machinery	800	1,500
Investment in foreign operation	1,260	2,210
Investment property	150	280
Financial assets	600	550
Deferred tax asset	120	37
Current assets		
Inventories	3,249	2,510
Trade receivables	710	825
Other current assets	219	117
Cash and cash equivalents	6,192	4,219
Current tax asset	300	–
Total Assets	**14,200**	**12,998**
Equity		
Share capital	8,400	7,000
Retained earnings	2,559	1,147
Other components of equity	450	627
Non-current liabilities		
Deferred tax liabilities	305	455
Current liabilities		
10% Redeemable preference shares	–	983
5% Convertible bonds	–	937
Deferred revenue	1,000	–
Trade payables	348	207
Current tax liability	1,138	1,642
Total Equity and Liabilities	14,200	12,998

Statement of Changes in Equity for the year ended 31 March 20x5

Particulars			Other Components of Equity						
			Revaluation surplus						
	Share capital	Retained earnings	Foreign operation	Land and building	Exchange difference	Financial assets	Share based payment	Convertible bonds	Total
Opening balance	7,000	1,147	270	105	156	40	23	33	627
5% Convertible bonds	1,000								
Share based payment	400								
Created through –									
P/L		1,208					97		97
OCI			90		96	20			206
Transferred to –									
P/L					(126)				(126)
RE		354	(180)	(21)			(120)	(33)	(354)
Dividends		(150)							
Closing balance	8,400	2,559	180	84	126	60	–	–	450

Statement of Comprehensive Income for the year ended 31 March 20x5

Revenue		6,000
Cost of sales		(3,000)
Gross profit		3,000
Other income		70
Administrative expenses		(220)
Distribution expenses		(115)
Other expenses		(1,177)
Accounting profit		1,558
Tax expense –		
Current tax expense	1,138	
Deferred tax expense	8	
Current tax income	(300)	
Deferred tax income	(119)	
Deferred tax liability	(287)	
Deferred tax asset	36	(476)
Profit for the Period *(before reclassification adjustment)*		1,082
Exchange difference reclassified		126
Profit for the Period *(after reclassification adjustment)*		1,208
Other Comprehensive Income		
Items not to be reclassified		
Revaluation surplus on foreign operation	150	
Deferred tax liability @ 40%	(60)	90
Unrealised gain from financial assets	25	
Deferred tax liability @ 20%	(5)	20
Item may be reclassified		
Exchange difference on foreign operation	160	
Deferred tax liability @ 40%	(64)	96
Exchange difference reclassified		(126)
Total Comprehensive Income		1,288

Statement of Cash Flows for the year ended 31 March 20x5

Cash Flows from Operating Activities		
Accounting profit		1,558
Other income –		
Dividends received	50	
Fair value increase of investment property	20	(70)
		1,488
Adjustments –		
Other expenses :		
Share based payment	97	
Interest and amortisation of convertible bonds	113	
Interest and amortisation of preference shares	117	
Depreciation on land and building	150	
Depreciation and impairment on plant and machinery	700	1,177
		2,665
Deferred revenue		1,000
		3,665
Increase in inventories		(739)
Decrease in trade receivables		115
Increase in other current assets		(102)
Increase in trade payables		141
Cash generated from operations		3,080
Current tax paid		(1,642)
Net Cash Flows from Operating Activities (A)		1,438
Cash Flows from Investing Activities		
Dividends received		50
Sale of foreign operation		1,260
Sale of investment property		150
Purchase of financial assets		(25)
Net Cash Flows from Investing Activities (B)		1,435
Cash Flows from Financing Activities		
Proceeds from share based payment		400
Redemption of 10% preference shares		(1,000)
Dividends paid		(150)
Interest on 10% preference shares		(100)
Interest on 5% convertible bonds		(50)
Net Cash Flows from Financing Activities (C)		(900)
Net increase in cash and cash equivalents (A + B + C)		1,973
Cash and cash equivalents at 1 April, 20x4		4,219
Cash and cash equivalents at 31 March 20x5		6,192

(1) Deferred Tax Liability

Particulars	Foreign operation	Land and building	Exchange difference	Financial assets	Investment property	Redeemable preference shares	Convertible bonds	Total
Opening balance	180	45	104	10	92	5	19	455
Created through —								
P/L					8			8
OCI	60		64	5				129
Reversed through —								
P/L	(120)	(9)	(84)		(50)	(5)	(19)	(287)
Closing balance	**120**	**36**	**84**	**15**	**50**	**–**	**–**	**305**

(2) Deferred Tax Asset

Particulars	Plant and machinery	Share based payment	Total
Opening balance	30	7	37
Created	90	29	119
Reversed		(36)	(36)
Closing balance	**120**	**–**	**120**

(3) Current Tax

Revenue		6,000
Cost of sales		(3,000)
Deferred revenue		1,000
Administrative expenses		(220)
Distribution expenses		(115)
Share based payment		(120)
Depreciation on – land and building		(150)
plant and machinery		(400)
Interest on convertible bonds		(50)
Depreciation written back on investment propery		100
Total		3,045
Tax @ 30% on 3,045		914
Tax @ 40% on sale of –		
foreign operation	204	
investment property	20	224
Current tax expense		**1,138**