Group Ind AS Accounting Manual

ABC

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# **1.5.** **Statement of Cash Flows**

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| **Description:** | **Statement of Cash Flows** |
| **Reference:** | **Ind AS 7/ IAS 7** |
| **Purpose:** | **To ensure proper classification of cash flows from operating, investing and financing activity** |

## **1.5.1. Objective and scope:**

The objective of this accounting manual is to explain the requirements of Ind AS and highlight specific differences between Ind AS and IFRS, wherever applicable. This manual describes the classification and changes in the cash & cash equivalents in accordance with Ind AS.

## **1.5.2. Definitions:**

***Cash*** = Cash on hand & Demand Deposits

***Cash equivalents*** = Short term & highly liquid investments that are readily convertible into cash (3 months or less) (+) insignificant risk of value change

An entity presents its cash flows from **operating, investing and financing** activities in a manner, which is most appropriate to its business.

Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

## **1.5.3. Recognition and measurement:**

### ***Operating activities***

Cash flows from operating activities ***are primarily derived from the principal revenue-producing activities*** of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss.

**Examples:**

* Cash Receipts - from sale of goods, rendering of services, royalty, refund of income taxes (unless specific), etc.
* Cash Payments - to supplier of goods & services, employees, income taxes, etc.

### ***Investing activities***

Cash flows from investing activities generally includes the **cash effects of transactions relating to the acquisition and disposal of any long-term assets or current asset investments** (other than those regarded as cash equivalents).

**Examples:**

* + - Cash Receipts - from sale of long term asset, sale of equity or debt instrument, repayment of advances by other parties (other than debtors).
    - Cash Payments - towards acquisition of long term asset, cash advances made, acquisition of equity or debt instruments.

### ***Financing activities***

Cash flows from financing activities generally comprise of **receipts or payments** in relation to obtaining, servicing and repayment or redemption of **debts and equity sources of finance**.

**Examples:**

* + - Cash Receipts - from issue of shares, debentures, and loans.
    - Cash Payments - to lenders, owners.

### ***Reporting cash flows on a net basis***

Cash flows arising from the following operating, investing or financing activities may be reported on a 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; and

**Examples:** the acceptance and repayment of demand deposits of a bank; 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:** the purchase and sale of investments; other short-term borrowings.

### ***Other Matters-***

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| **Particulars** | **Treatment** |
| ***Foreign currency cash flows*** | Cash flows in foreign currency shall be recorded in functional currency by applying exchange rate, as on date of cash flow, to the foreign currency amount. |
| ***Interest and dividends*** | * Cash flows arising from interest paid should be classified as cash flows from financing activities * Dividends paid should be classified as cash flows from financing activities. * Interest and dividends received should be classified as cash flows from investing activities. |
| ***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. |
| ***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.   * + - Acquisition of an entity through issue of equity shares.     - Conversion of debt to equity. |
| ***Components of cash and cash equivalents*** | Financial statements **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. |
| ***Changes in ownership interests in subsidiaries and other businesses*** | * The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities. * Cash flows arising from changes in ownership interest in a subsidiary that do not result in a loss of control is classified as cash flow from financing activities. |
| ***Ind AS 116-Leases*** | * The parts of the lease payments that represent cash payments for the principal portion of the lease liabilities are presented as cash flows resulting from financing activities. * The parts of the lease payments that represent the interest portion are presented as operating cash flows in accordance with the Group accounting policy regarding the presentation of interest payments * Lease payments, which were not included in the measurement of the lease liabilities (including certain variable payments, short-term leases and leases of low-value assets), are presented as operating cash flows. * The interest element as seen under Finance cost is added under Operating Activity and actual interest paid is subtracted under Financing Activity. Similarly, movement in Lease liability is not considered under operating activity while calculating changes in other financial liabilities but the principal amount of lease liability paid is calculated and subtracted from cash flow from financing activity. |
| ***Treatment of borrowing cost under Para 6E*** | The amount of adjustment made to interest cost should give the same treatment as to other interest expense. |
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### ***Investment in Subsidiaries, Associates and Joint ventures***

In consolidated cash flow statements, adjustments should be made to eliminate those cash flows that are internal to the group. Only those cash receipts and payments that flows to and from the components should be included.

Where the investments in associates and joint ventures that are included in the financial statement using equity method, the cash flow statements should include only the cash flows between the group and those investees, not the cash flows of those entities. Thus, it includes cash flows from sale and purchase between group and the associate or joint ventures, cash flows from investment in and dividend from the associates and joint ventures.

## **1.5.4. Other disclosures**

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

**Examples:** Cash and cash equivalents 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.

Voluntary disclosure of additional information relevant to understand the financial position and liquidity of an entity and commentary by management and includes:

* 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.
* the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see Ind AS 108 Operating Segments).

Following disclosures shall be made, in aggregate, in respect of both, obtaining and losing control of subsidiaries or other businesses during the period:

* + 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 the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses, over which control is obtained or lost, summarized by each major category.

## **1.5.5. GAAP differences between Ind AS and IFRS:**

* + - IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, Ind AS 7 requires it to be classified as a part of financing activity only.
    - In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as item of operating cash flows. Ind AS 7 does not provide such an option and requires these items to be classified as item of financing activity and investing activity, respectively.

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