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IND AS-7

Cash flow statements

#1 Introduction :-

→ It is a statement which provide details about:
How cash is generated
How cash is applied.

→ Cashflows are divided into 3 categories

Cashflow from
operating activity

There are the cashflows from
principal or revenue generating
activities or core business
activities

Cashflow from
Investing activity

There are the cashflows
from purchase & sale
of long term NCA.

eg→ PPE, ITA, Invt.

Cashflow from
financing activity.

There are cashflows
from issue & Redⁿ
of equity & borrowings



Preparation of cash flow statements:

Cash flow from operating activities	xxx
Cash flow from investing activities	xxx
Cash flow from financing activities	xxx
opening cash & cash equivalents	xxx
Closing cash & cash equivalents	<u>xxx</u>

Cash & cash equivalents:

Cash Balance	xxx
Bank Balance	xxx
investments with maturity of $\leq 3m$ from acquisition date.	<u>xxx</u>
	<u>xxx</u>

#2 Cash flow from operating activities:

a) format.

Direct method

Indirect method

Cash sales	xxx
Collection from Dns.	xxx
Royalty received	xxx
fees received	xxx

Net profit or PBT	xxx
(op. bal. of P/L - cl. bal. of P/L)	
Add: Non Cash & Non op. expense.	xxx

Less: Cash purchase (xxx)

Payment to Creditors (xxx)



Cash paid for op. exps. (xxx)

eg → wages, Salary, Admin exp.
Selling exp., Ins.

Income tax paid in cash
for op. activities (xxx)

Exceptional items. xxx
eg → Ins. claim received.

C.F.S. from C.A. xxx

→ Depreciation

→ Amortisation

→ Preliminary exp. w/o off

→ Int. exp.

→ loss on sale of PPE.

→ Transfer to Reserve

→ loss on sale of invt.

→ impairment loss.

→ exchange loss.

→ prov. for tax

Less: Non cash & non

Op. income. (xxx)

→ int. income (gross)

→ Dividend income (gross)

→ profit on sale of
(PPE & invts)

→ Exchange gain

Less: Tax paid. (xxx)

(Net of TDs / I + Refund)

Add: → Decrease in C.A. xxx

increase in C.L. xxx

FR Wid HD (8871296220)



Len: \rightarrow Increase in C.A. (xxx)

Decrease in C.L. (xxx)

Net c.f. from op. activity xxx

b) Some important points regarding c.f. from op. activity

i) if Q.R.S.A.

a) op. bal. of P.F.T. should be paid off.

b) Cl. bal. of P.F.T. should be transf. to P.L.

ii) No adjustment is required for

a) Discount allowed & Discount received.

b) P.F.D.D.

As it gets automatically adjusted in changes in C.A. & C.L.

iii) P. on Redⁿ of P.sh. & P. on redⁿ of Deb. both should be dr. to P.L. & \therefore both are non op. expence \therefore it should be added to N.P. in c.f. from O.A.

iv) J. Entry for Income received

Cash Dr xx 80 \Rightarrow + in Invnt. activities



T.D.S. Dr. xx 20 ⇒ - from Tax paid in O.A.

To Income: xxx 100 ⇒ - from O.A.
 ↓
 gross.
 Under Indirect method.

v) J.E. for Exp. paid.

Exp. Dr 100
 To T.D.S. 20 ⇒ Add. to Tax paid in O.A.
 To Cash. 80

vii) in indirect method we will start from NPBT

NPBT	xxx	NPAT	xxx	Bal. as per P/L	xx
		+ Prov. for tax	xxx	+ Div. paid.	xx
		+ Def. tax	xxx	+ Trsf. to Res.	xx
		<u>NPBT</u>	<u>xxx</u>	- Trsf. from Res. (xx)	
				<u>NPBT</u>	<u>xxx</u>

c) How to choose b/w Direct & Indirect method



if information about Purchase, Sales &



Op. expense is



given

not given

Then we can calculate C.F. from O.A. under both

↳ Direct method

↳ Indirect method

Then we cannot calculate

↳ Collection from debtors.

↳ Payments to Creditors

↳ Exp. paid.

hence we cannot follow Direct method

∴ we apply Indirect method.

d)

Direct

Indirect

→ prepare acc of all items whose bal. are given.

→ Prepare acc of all items whose bal. are given except

→ Prepare C.F.S.

C.A. & C.L.



→ Prepare C.F.S.



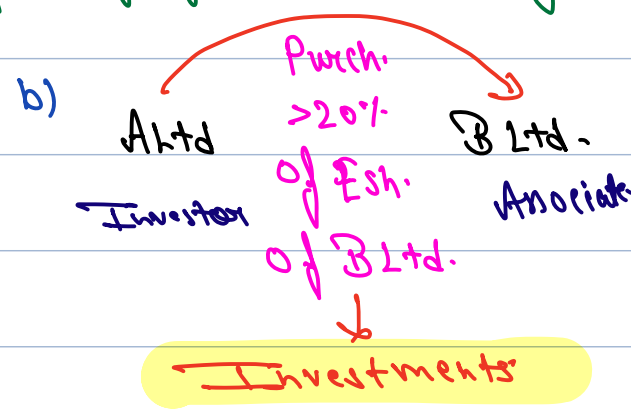
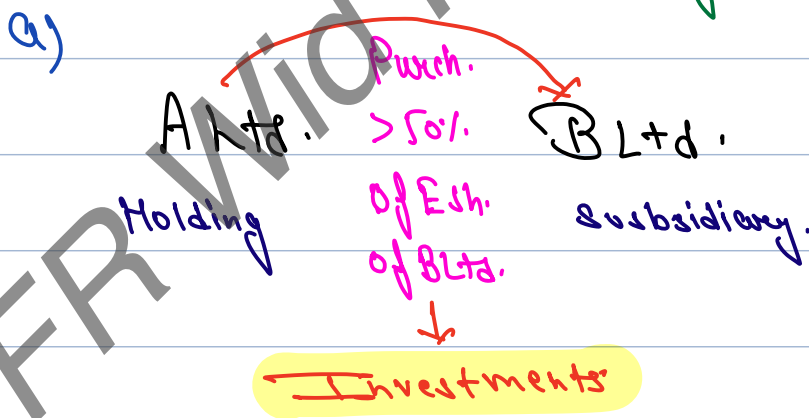
#3 Cash flow from Investing Activity.

a) Cash received on sale of PPE	xxx
Cash received on sale of investments.	xxx
Int. & dividend income received.	xxx (Net)
Inv. claim received on PPE.	xxx

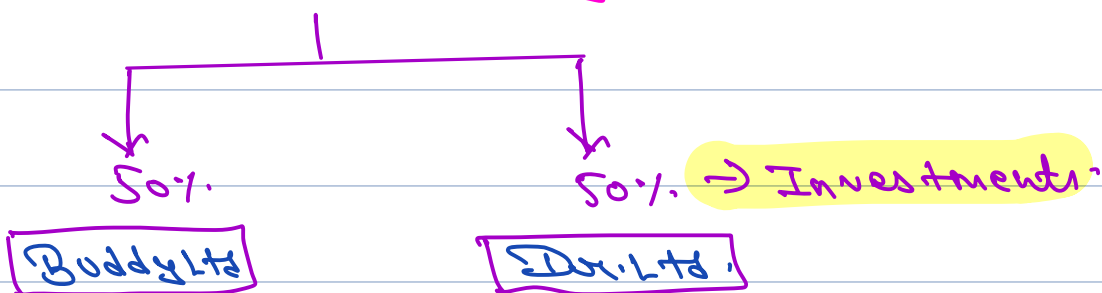
less:

Cash paid on purchase of invt / PPE	(xxx)
Cost of R. & D.	(xxx)
	<u>xxx</u>

b) Some important points regarding c.f. from inv. activity



c) HD Ltd. → Joint venture.





d) if Buddy Ltd. gave loan to MD Ltd.

Investing activity

Financing activity

e) Int. received ₹ 80 after TDS of ₹ 20

CIB Dr 80 ⇒ Add. to I.A.

TDS Dr 20 ⇒ - from tax paid in O.A.

To Int. Inv - in O.A. (if indirect method).

f) Pre acquisition Dividend received

CIB Dr ⇒ + to i.A.

To investment ⇒ - from cost of invt.

g) transactions related to Investments.

Purchase (less)

(Add) Sale.

→ Purchase of I.P.

→ Payment made towards development cost as discussed in Intangible assets.

→ Payments towards C.W.I.P.

→ Payments to acquire int. in g.v.

→ Payment made for acq. of Inv. for obtaining control over S.

→ Cash Adv. & loans made

→ Sale proceeds of I.P.

→ Redⁿ of Investments

→ Sale proceeds from sale of Int. invt.

→ Sale proceeds from sale of Inv in S.

Which leads to loss of control

→ Cash received from rep. of LSA

→ Cash received from sale of Derivative

(unless contract held for Trading)

→ Purchase of Derivative contract.
(Unless classified as O.T./F.A.)

Financing activities)



A Financing activities: i- Cashflow relating to raising of funds & Repayment of funds.

Proceeds from	Issue of sh / Deb	xxx
"	" loans, Bonds, mortgage	xxx
Short term or long term	Borrowings.	xxx
Issue of Equity in future		xxx
Proceeds from sale of stake in s w/o		xxx

any loss of control
len:

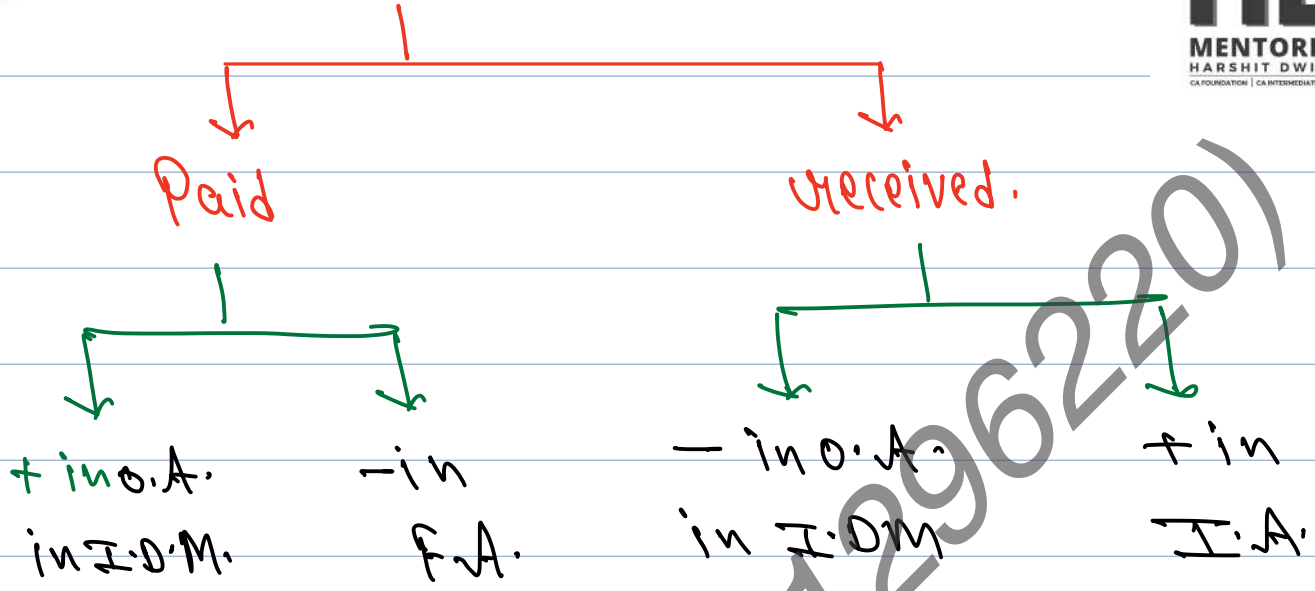
Payment for Redemption of shares	(xxx)
Repayment of loans	(xxx)
Buy back of securities	(xxx)
Payment for Derivative contract for	(xxx)
Buyback of equity in future	
Payment for purchase of stake in s.	(xxx)
Payment to lender / Rep. of Borrowing	(xxx)
Int / Div. on Equity / PL	(xxx)
	<u>xxx</u>

5

Some special Issues.



a) Int. & Div.



b) Non Cash transactions are excluded from C.F.S.

eg → issue of Bonus shares.
Purchase of Car in exch. of PPE/Equity

c) Prep. of Consolidated Cash flow.

i) In C.F. from O.A. (Indirect method)

Add: Share of loss of Ass. Co. or

Less: Share of profit of Ass. Co.

ii) In C.F. from investing activity.

Less: Cash paid to acquire subsidiary



Cash consideration — Cash bal. of
Paid S. Co.

HD
MENTORING
HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

LEM: Cash paid for inv. in Ans. Co.

iii) if subsidiary is acquired during the year then assets and liabilities acquired should be added to op. bal. of A.S.L. in C.B.S. for calⁿ of Cash flows.

d) Foreign Currency Cash flows

i) Cfs in FC are converted in functional currency using exchange rates on date of Transaction

ii) Exch. g/lon. arising on Bank bal. held in f.c. should be added or deducted from op. bal. of C.S.C.F. to reconcile the cl. bal. of C.S.C.F.

e) in case of bank / F.I.

following cash flows will be part of op. activity.



- loan given to customer
- loan repaid by customer
- Deposit accepted or repaid
- Int. recd. / paid.
- Dividend → recd → O.A.
 ↓ Paid → F.A.

→ HO Tip:
if income statement and B/S both are given then.

Prepare.

- a) Ledger of all items whose adjustments are given.
- b) A/c of items of C.A. & C.L.
- c) Cashbook.
- d) Trading & P/L a/c.
- e) P.F.T.
- f) R.S.S

Dividend is paid out of R.S.S.



to prep. CFS

to prep. CFS.



g) CFS from BIS. (HD Tip)

given in Q. \Rightarrow a) BIS of CY & PY.

b) Adjustments.

Prepare CFS (using indirect method)

Some Imp points

a) N.P. = cl. bal. of P/L - op. bal. of P/L.

\rightarrow if bal. of P/L is not given use R.S.S.

b) Prepare ledger acc of only those items whose related adjustments are given

\downarrow Prov. for tax.

\rightarrow Bal of each w.N. will be

\hookrightarrow P/L \rightarrow O.A.

\hookrightarrow C/B \rightarrow I.A/FA.

c) Those items whose ledger are not

prep. \rightarrow observe them carefully & decide reason for diff. & post it accordingly.

d) Never prep. ledger acc of any item of C.A. & C.L.

Question# 1

ILL 1 ICAI SM

Company has provided the following information regarding the various assets held by company on 31st March 2021. 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:

	Name of the security	Additional information	
1.	Fixed Deposit with SBI	12%, 3 years maturity on 1st Jan 2024	✓
2.	Fixed Deposit with HDFC	10% original Term was <u>2 years</u> , but due for maturity on <u>30th June, 2021</u>	✓
3.	Redeemable Preference Share in ABC LTD	Acquired on <u>31st January 2021</u> and the redemption is due on <u>30th April, 2021</u>	✓ (3m)
4.	Cash balances in various banks	All branches of Indian banks	✓
5.	Cash balances in various banks	All international branches of Indian banks	✓
6.	Cash balances in various banks	Branches of foreign banks outside India	✓
7.	Bank Overdraft of SBI fort branch	Temporary overdraft payable on Demand (Integral part)	✓
8.	Treasury bills	90 days maturity	✓

Question# 2

ILL 2 ICAI SM

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

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

Question# 3

ILL 3 ICAI SM

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

	Nature of Transaction	
1.	Interest received on loans	Op.
2.	Interest paid on Deposits	Op.
3.	Deposits accepted	Op.
4.	Loans given to customers	Op.
5.	Loans repaid by the customers	Op.
6.	Deposits repaid	Op.
7.	Commission received	Op.
8.	Lease rentals paid for various branches	Op.
9.	Service tax paid	Op.
10.	Furniture purchased for new branches	H.A.
11.	Implementation of upgraded banking software	H.A.
12.	Purchase of shares in 100% subsidiary for opening a branch in Abu Dhabi	H.A.
13.	New cars purchased from Honda dealer, in exchange of old cars and remaining amount paid in cash	I.A.
14.	Provident fund paid for the employees	Op.
15.	Issued employee stock options	X

Question# 4

ILL 4 ICAI SM

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:

	Nature of Transaction	
1.	Issued preference shares	F
2.	Purchased the shares of 100% subsidiary company	I
3.	Dividend received from shares of subsidiaries	I
4.	Dividend received from other companies	I
5.	Bonus shares issued	F
6.	Purchased license for manufacturing of special drugs	I
7.	Royalty received from the goods patented by the company	O
8.	Rent received from the let out building (letting out is not main business)	I
9.	Interest received from loans and advances given	F
10.	Dividend paid	F
11.	Interest paid on security deposits	F

12.	Purchased goodwill	H
13.	Acquired the assets of a company by issue of equity shares (not parting any cash)	X
14.	Interim dividends paid	F
15.	Dissolved the 100% subsidiary and received the amount in final settlement	H

Question# 5

ILL 7 ICAI SM

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? X
- B. On maturity, whether the receipt of ₹ 10,00,000 should be split between interest income and receipts from investment activity → I.A. → Int. inco. → Rest of bond.

Question# 6

ILL 8 ICAI SM

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?

₹ 5L → O.A. ₹ 30K → I.A.

Question# 7

ILL 9 ICAI SM

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?

₹ 2L → Bif → I.A.

Question# 8

ILL 10 ICAI SM

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?

Soln:

PBT	100
- Exch. diff. (gain)	(100)
C.F.F.O.A.	0
C.F.F.I.A.	0
CF FFA	0



N. C. S.C.E during year 0

+ op. C.S.C.E

4500

El. C.S.C.E at yrend.

4500



Reconciliation:

C.S.C.E as per S.O.C.F. 4500

+ unrealised gain

100

C.S.C.E as per BIS

4600

Question# 9

TYK Q.3 ICAI SM

Z Ltd. has no foreign currency cash flow for the year 2021. It holds some deposit in a bank in the USA. The balances as on 31.12.2021 and 31.12.2022 were US\$ 100,000 and US\$ 102,000 respectively. The exchange rate on December 31, 2021 was US\$1 = ₹ 45. The same on 31.12.2022 was US\$1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.2022. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on December 31, 2021. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.2022. **How these transactions should be presented in cash flow for the year ended 31.12.2022 as per Ind AS.**

Solⁿ:

$$PII \text{ Credited} = \$ 2000 \times ₹ 50 = ₹ 10,00,000$$

$$\begin{aligned} \text{Exch. diff} &= \$ 10000 \times (₹ 50 - ₹ 45) \\ &= ₹ 50000 \end{aligned}$$

while prep. CFS:

NPBT.

X X X X X

- E.diff.

(500000)

X X X X

As per IND AS

i) Cfs in FLC are converted in functional

Currency using exchange rates on date of Transaction.



ii) for reconciliation op. bal. of c.s.c.R. with cl. c.s.c.R. the E.D. should be added to op. c.s.c.R.

Solve all ICAI
Q. from S.M.

Vol-3 Q.1,3 (most imp.)

Chapter - 29 Ethical duty of CA
Chapter - 30 Alling s technology.



Refer HD Vol-2
textbook