

# CHAPTER 27

## STATEMENT OF CASH FLOWS (IND AS 7)

### QUESTIONS FROM ICAI STUDY MATERIAL

**Q1:** Company has provided the following information regarding the various assets held by company on 31st March 2017. 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 provide 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

**Ans:**

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

**Q2:** 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	Included / Excluded with reason
1	Receipt from sale of mobile phones	Include – main revenue generating activity
2	Purchases of mobile Phone 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

**Q3:** 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.

Sr. No.	Nature of transaction paid	Operating / Investing / Not to be considered
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 for the paid employees	Operating
15	Issued employee stock options	Not to be considered. No cash flow

**Q4:** 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:

Sr. No.	Nature of transaction	Operating / Investing / Financing /Not to be considered
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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**Q5:** 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?

**Ans:** 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.

**Q6:** Find out the cash from operations by direct method and indirect method from the following information:

Operating statement of ABC Co for the year ended 31.3.2017

Particulars	₹
Sales	500,000.00
Less: Cost of goods sold	350,000.00
Administration & Selling Overheads	55,000.00
Depreciation	7,000.00
Interest Paid	3,000.00
Loss on sale of asset	2,000.00
Profit before tax	83,000.00
Tax	(30,000.00 )
Profit After tax	53,000.00

Balance Sheet as on 31st March

	2017	2016
Equity and Liabilities		
Shareholders' Funds	60,000.00	50,000.00

Non-current Liabilities	25,000.00	30,000.00
Current Liabilities		
Creditors	12,000.00	8,000.00
Creditors for Expenses	10,000.00	7,000.00
Provisions	8,000.00	5,000.00
Total	115,000.00	100,000.00
Assets		
Fixed Assets	75,000.00	65,000.00
Investment	12,000.00	10,000.00
Current Assets		
Inventories	12,000.00	13,000.00
Debtors	10,000.00	7,000.00
Cash	6,000.00	5,000.00
Total	115,000.00	100,000.00

[MTP SEP 2025]

Ans: Cash flow from Operations by Direct Method

Particulars	₹	See Note
Cash Sales	497,000.00	1
Less: Cash Purchases	345,000.00	2
Overheads	52,000.00	3
Interest – Financing	-	
Depreciation - Non cash item	-	
Loss - Non cash item	-	
Cash profit	100,000.00	
Less: Tax	30,000.00	
Cash profit after tax	70,000.00	
<b>Note No 1 - Cash Receipts from Sales and debtors</b>		
Particulars		₹
Sales		500,000.00
Add : Opening Debtors		7,000.00
Less : Closing Debtors		(10,000.00)
Cash Receipts		497,000.00
<b>Note No 2 :- Payment to creditors for Purchases</b>		
Particulars		₹
COGS		350,000.00
Closing stock		12,000.00
Less: Opening stock		(13,000.00)
Purchases		349,000.00
Add: Opening creditors		8,000.00

Less: Closing creditors	(12,000.00)
Payment to creditors	345,000.00
Note No 3 :- Payment to creditors for Expenses	
Particulars	₹
Overheads	55,000.00
Add: Opening	7,000.00
Less: Closing creditors	(10,000.00)
Payment for O/Ds	52,000.00
2. Cash flow from Operations by Indirect Method	
Indirect Method	₹
Profit After Tax	53,000.00
Add/(Less) : Depreciation	7,000.00
Loss on Asset	2,000.00
Interest paid	3,000.00
Decrease in Inventory	1,000.00
Increase in Debtors	(3,000.00)
Increase in Creditors	4,000.00
Increase in Creditors for expenses	3,000.00
Total	70,000.00

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

**Q7:** 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:

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

**Ans:** 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.

**Q8:** 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?

**Ans:** 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.

**Q9:** 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?

**Ans:** 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.

**Q10:** An entity has bank balance in foreign currency aggregating to USD 100 (equivalent to ₹ 4,500). 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. What would be the closing cash and cash equivalents as per the balance sheet?

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

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

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	100
Cash and cash equivalents as per the balance sheet	4,600

**Q11:** Following is the balance sheet of Kuber Limited for the year ended 31st March, 20X2

	(₹ in lacs)	(₹ in lacs)
	20X2	20X1
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30

Other financial assets	145	170
Deferred tax asset (net)	855	750
Other non-current assets	800	770
Total non-current assets	14,850	14,220
Current assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total current assets	2,715	3,045
Total Assets	17,565	17,265
<b>EQUITY AND LIABILITIES</b>		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
Non-current liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank Overdraft	75	60
Other current liabilities	300	200
Total current liabilities	525	350
Total liabilities	5,265	8,965
Total Equity and Liabilities	17,565	17,265

**Additional Information:**

- a) Profit after tax for the year ended 31st March, 20X2 - ₹ 4,450 lacs
- b) Interim Dividend paid during the year - ₹ 450 lacs
- c) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under
- (i) Property, Plant and Equipment - ₹ 500 lacs
- (ii) Intangible Assets - ₹ 20 lacs
- d) During the year ended 31st March, 20X2 two machineries were sold ₹70 lacs. The carrying amount of these machineries as on 31st March, 20X2 is ₹ 60 lacs.
- e) Income taxes paid during the year ₹ 105 lacs.
- f) 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. [RTP Nov 2019; MTP May 25]

Ans: **Statement of Cash Flows**

₹ in lacs

Cash flows from Operating Activities		
Net Profit after Tax	4,450	
Add: Tax Paid	105	
		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)	(105)	
Change in operating assets and liabilities	4,960	
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)	60	
		4,130
Less: Income Tax	(105)	
Cash generated from Operating Activities		4,025

Cash flows from Investing Activities		
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)	200	
Cash outflow from Investing Activities		(830)
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	(3,000)	
Cash outflow from Financing Activities		(3,450)
Net Cash outflow from all the activities		(255)
Opening cash and cash equivalents (460 – 60)		400
Closing cash and cash equivalents (220 – 75)		145

**Q12:** The relevant extracts of consolidated financial statements of A Ltd. are provided below:

**Consolidated Balance Sheet**

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

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

Particulars	Amount (₹ in Lac)
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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.

- A Ltd had spent ₹ 30 Lac on renovation of a building. A Ltd charged the entire renovation cost to profit and loss account.
- On 1st 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	20 Lac
Total Assets	250 Lac
Less: Trade Payables	(50 Lac)
Net Assets on acquisition	200 Lac
- A Ltd.'s property, plant and equipment comprise the following:

Carrying amount on 1st 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 31st 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.

6. A Ltd. purchased 30% interest in an Associate (G Ltd) for cash on 1st April 20X1. The associate reported profit after tax of ₹ 400 Lac and paid a dividend of ₹ 100 Lac for the year.
7. Impairment test was conducted on 31st March 20X2. The following were impaired as under:
- Goodwill impairment loss: ₹ 265 Lac
  - Intangible Assets impairment loss ₹900 Lac
8. The goodwill impairment relates to 100% subsidiaries.
9. 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 31st March 20X2.

**Ans:** Extracts of Statement of Cash Flows for the year ended 31 st 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
Add back: 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
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Add: Receivables of S Ltd.	30
	1,830
Less: Closing Balance	<u>(1,250)</u>
	<u>580</u>

**3. Changes in Inventories** **Amount in ₹ Lacs**

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

**4. Changes in Trade Payables** **Amount in ₹ Lacs**

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

**Q13:** 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
Fixed Assets	3,16,000	2,70,000
Accumulated Depreciation	(45,000)	(30,000)
Total Assets	3,42,000	3,27,500
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	59,000	60,500
Total Liabilities & Equity	3,42,000	3,27,500

**Statement of profit and Loss**

	20X2
Sales	2,00,000

Cost of Goods Sold	(1,23,000)
Depreciation	(15,000)
Insurance Expense	(11,000)
Wages	(50,000)
Net Profit	1,000

During the financial year 20X2 company ABC Ltd. declared and paid dividends 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.

Ans:

### 1. A. DIRECT METHOD

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

### B. INDIRECT METHOD

Cash flows from operating activities		20X2
Net Profit	1,000	
Adjustments for Depreciation	15,000	
	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	(3,000)	
Net cash flow from operating activities		21,500
Cash flows from investing activities		

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

**Working notes:**

<b>Fixed Assets Account</b>			
Particulars	Amount	Particulars	Amount
To balance b/d	2,70,000	By balance c/d	
			3,16,000
To Cash (Purchase of Fixed Assets)	46,000		
	3,16,000		3,16,000
<b>Inventory Account</b>			
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)	1,24,000		
	1,60,000		1,60,000
<b>Accounts Payable Account</b>			
To Balance c/d	18,000	By Balance b/d	16,000
		By Inventory Account (credit purchase) (Bal. Fig.)	2,000
	18,000		18,000

**Q14:** 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	150
	3,250		3,250

Ans: 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	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flow from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid		(50)
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the period		50
Cash at end of the period		150

**Q15:** 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 31st 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). Assume that the inventory is unsold at that date, how the movement is reported in Cash Flow statements.

Ans: The movement is reported in Cash Flow statements as under:

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

**Q16:** Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US\$ 100,000 and US\$ 102,000 respectively. The exchange rate on December 31, 2017 was US\$ 1 = ₹ 45. The same on 31.12.2018 was US \$ 1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on

December 31, 2017. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.2018. How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7? [RTP May 2019]

**Ans:** 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, ₹ 500,000.

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 cash and cash equivalent as per "statement of cash flow" with the cash and cash equivalent as per balance sheet, the exchange difference ₹ 5,00,000, should be added to cash and cash equivalent as per statement of cash flow.

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.

**Q17:** 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. [RTP May 2018]

**Ans:** 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 March 31, 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 March 31, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

**Q18:** 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	20 X 2	20 X 1
Assets	Amount (₹)	Amount (₹)
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><u>2,70,000</u></b>	<b><u>1,70,000</u></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:

<b>Particulars</b>	<b>Amount (₹)</b>
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	18,000
Cash consideration paid	74,000

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

[RTP May 2020; Jan 26; MTP May 2025]

**Ans:** This information will be incorporated into the Consolidated Statement of Cash Flows as follows:

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

	<b>Amount</b>	<b>Amount</b>
	<b>(₹)</b>	<b>(₹)</b>
<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	(4,000)	
<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>		<u><b>5,000</b></u>
<b>Cash and cash equivalents at the end of the year</b>		<u><b>8,000</b></u>

**Working Notes:**

1. Calculation of change in inventory during the year	₹
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>

2. Calculation of change in Trade Receivables during the year	₹
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>

3. Calculation of change in Trade Payables during the year	₹
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>

**Q19:** During the financial year 2019-2020, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:

- Capital gain tax of ₹ 20 crore on sale of office premises at a sale consideration of ₹ 100 crore.
- Income Tax of ₹ 3 crore on Business profits amounting ₹ 30 crore (assume entire business profit as cash profit).
- Dividend Distribution Tax of ₹ 2 crore on payment of dividend amounting ₹ 20 crore to its shareholders.

- d) Income tax Refund of ₹ 1.5 crore (Refund on taxes paid in earlier periods for business profits).

You need to determine the net cash flow from operating activities, investing activities and financing activities of Akola Limited as per relevant Ind AS. [RTP Nov 2020; MTP May 2023]

**Ans:** Para 36 of Ind AS 7 inter alia states that 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. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Accordingly, the transactions are analysed as follows:

Particulars	Amount (in crore)	Activity
Sale Consideration	100	Investing Activity
Capital Gain Tax	(20)	Investing Activity
Business profits	30	Operating Activity
Tax on Business profits	(3)	Operating Activity
Dividend Payment	(20)	Financing Activity
Dividend Distribution Tax	(2)	Financing Activity
Income Tax Refund	<u>1.5</u>	Operating Activity
<b>Total Cash flow</b>	<b><u>86.5</u></b>	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80
Financing Activity	<u>(22)</u>
<b>Total</b>	<b><u>86.5</u></b>

**Q20:** From the following data of Galaxy Ltd., prepare statement of cash flows showing cash generated from Operating Activities using direct method as per Ind AS 7

Balance Sheet	31.3.20X2 (₹)	31.3.20X1 (₹)
Current Assets:		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500
Current Liabilities:		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000
<b>Summary of Statement of Profit and Loss</b>		<b>₹</b>

Sales	85,50,000	
Less: Cost of sales	(56,00,000)	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	<u>1,10,000</u>	<u>1,30,000</u>
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	<u>(18,000)</u>	<u>(16,18,000)</u>
Net Profit before tax and extraordinary income		14,62,000
Income Tax		<u>(95,000)</u>
Net Profit		<u>13,67,000</u>

**Additional information:**

- Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.
- Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

[RTP Nov 2021; MTP Nov 2022]

**Ans:** **Statement Cash Flows from operating activities  
of Galaxy Ltd. for the year ended 31 March 20X2 (Direct Method)**

Particulars	₹	₹
Operating Activities:		
Cash received from Trade receivables (W.N. 3)		85,33,000
Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
Payment for Income Tax (W.N.4)	1,12,000	(72,27,000)
		13,06,000
Adjustment for exceptional items (fire insurance claim)		1,10,000
Net cash generated from operating activities		14,16,000

**Working Notes:****1. Calculation of total purchases**

Cost of Sales = Opening stock + Purchases – Closing Stock

₹ 56,00,000 = ₹ 1,65,000 + Purchases – ₹ 1,20,000

Purchases = ₹ 55,55,000

## 2. Calculation of cash paid to Suppliers

### Trade Payables

	₹		₹
To Bank A/c (balancing figure)	55,75,000	By Balance b/d	2,15,000
To Balance c/d	<u>1,95,000</u>	By Purchases (W.N. 1)	<u>55,55,000</u>
	<u>57,70,000</u>		<u>57,70,000</u>

## 3. Calculation of cash received from Customers

### Trade Receivables

	₹		₹
To Balance b/d	1,88,000	By Bank A/c (b/f)	85,33,000
To Sales	85,50,000	By Balance c/d	2,05,000
	<u>87,38,000</u>		<u>87,38,000</u>

## 4. Calculation of tax paid during the year in cash

### Provision for tax

	₹		₹
To Bank A/c (b/f)	1,12,000	By Balance b/d	65,000
To Balance c/d	48,000	By Profit and Loss A/c	95,000
	<u>1,60,000</u>		<u>1,60,000</u>

**Q21:** What will be the classification for following items in the statement of cash flows of both Banks / Financial institutions and Other Entities?

S. No.	Particulars
1.	Interest received on loans and advances given
2.	Interest paid on deposits and other borrowings
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities
5.	Finance charges paid by lessee under finance lease
6.	Payment towards reduction of outstanding finance lease liability
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets
9.	Penal interest received from customers for late payments
10.	Penal interest paid to suppliers for late payments

- |     |                                       |
|-----|---------------------------------------|
| 11. | Interest paid on delayed tax payments |
| 12. | Interest received on tax refunds      |

[RTP Nov 2022]

**Ans:** The following are the classification of various activities in the Statement of Cash Flows

S. No.	Particulars	Classification for reporting cash flows	
		Banks / financial institutions	Other entities
1.	Interest received on loans and advances given	Operating Activities	Investing activities
2.	Interest paid on deposits and other borrowings	Operating Activities	Financing activities
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities	Investing activities	Investing activities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities	Financing activities	Financing activities
5.	Finance charges paid by lessee under finance lease	Financing activities	Financing activities
6.	Payment towards reduction of outstanding finance lease liability	Financing activities	Financing activities
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis	Financing activities	Financing activities
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets	Investing activities	Investing activities
9.	Penal interest received from customers for late payments	Operating Activities	Operating Activities
10.	Penal interest paid to suppliers for late payments	Operating Activities	Operating Activities
11.	Interest paid on delayed tax payments	Operating Activities	Operating Activities
12.	Interest received on tax refunds	Operating Activities	Operating Activities

### QUESTIONS FROM RTP/MTP/EXAMS

**Q22:** A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of ₹ 2,00,000, but there are no trade receivables or trade payables balances as on 1st April, 2017. During the year 2017-2018, the entity entered into the following foreign currency transactions:

1. A Ltd. purchased goods for resale from Europe for €1,00,000 when the exchange rate was €1 = ₹ 50. This balance is still unpaid at 31st March, 2018 when the exchange rate is

- €1 = ₹ 45. An exchange gain on retranslation of the trade payable of ₹ 5,00,000 is recorded in profit or loss.
2. A Ltd. sold the goods to an American client for \$ 1,50,000 when the exchange rate was \$1 = ₹ 40. This amount was settled when the exchange rate was \$1 = ₹ 42. A further exchange gain regarding the trade receivable is recorded in the statement of profit or loss.
  3. A Ltd. also borrowed €2,00,000 under a long-term loan agreement when the exchange rate was €1 = ₹ 50 and immediately converted it to ₹ 1,00,00,000. The loan was retranslated at 31st March, 2018 @ ₹ 45, with a further exchange gain recorded in the statement of profit or loss.
  4. A Ltd. therefore records a cumulative exchange gain of ₹ 18,00,000 (10,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.
  5. In addition, A Ltd. records a gross profit of ₹ 10,00,000 (₹ 60,00,000 – ₹ 50,00,000) on the sale of the goods.

Ignore taxation.

How cash flows arising from the above transactions would be reported in the statement of cash flows of A Ltd. under indirect method? **[RTP SEP 2025; Exam Sep 2025 (4 Marks)]**

**Ans: Statement of cash flows Particulars**

	Amount (₹)
Cash flows from operating activities	
Profit before taxation (10,00,000 + 18,00,000)	28,00,000
Adjustment for unrealised exchange gains/losses:	
Foreign exchange gain on long term loan [€ 2,00,000 x ₹ (50 – 45)]	(10,00,000)
Decrease in trade payables [1,00,000 x ₹ (50 – 45)]	(5,00,000)
Operating Cash flow before working capital changes	13,00,000
Changes in working capital (Due to increase in trade payables)	50,00,000
Net cash inflow from operating activities	63,00,000
Cash inflow from financing activity [€ 2,00,000 x ₹ 50]	1,00,00,000
Net increase in cash and cash equivalents	1,63,00,000
Cash and cash equivalents at the beginning of the period	2,00,000
Cash and cash equivalents at the end of the period	1,65,00,000

**Q23:** From the following data, identify the nature of activities as per Ind AS 7.

S.no.	Nature of transaction
1	Cash paid to employees
2	Cash paid for development of property costs
3	Borrowings repaid
4	Cash paid to suppliers

5	Loan to Director
6	Bonus shares issued
7	Dividends paid
8	Cash received from trade receivables
9	Proceeds from sale of PPE
10	Depreciation of PPE
11	Advance received from customers
12	Purchased goodwill
13	Payment of promissory notes

Ans:

S. No.	Nature of transaction	Activity as per Ind AS 7
1	Cash paid to employees	Operating activity
2	Cash paid for development costs	Investing activity
3	Borrowings repaid	Financing activity
4	Cash paid to suppliers	Operating activity
5	Loan to Director	Investing activity
6	Bonus shares issued	Non-cash item
7	Dividends paid	Financing activity
8	Cash received from trade receivables	Operating activity
9	Proceeds from sale of PPE	Investing activity
10	Depreciation of PPE	Non-cash item
11	Advance received from customers	Operating activity
12	Purchased goodwill	Investing activity
13	Payment of promissory notes	Financing activity

Chp Nov 26

**Q24:** Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April 2019. During the financial year 2019-2020, Z Ltd. acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India.

Exchange rates between INR and USD during the financial year 2019-2020 were:

Date	USD 1 to INR
1st April 2019	70.00
30th November 2019	71.00 (Date of purchase of computer)

31st March 2020 71.50

Average for 2019-2020 70.50

Please prepare the extract of Cash Flow Statement for the year ended 31 st March 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-2020? [Exam JAN 2021 (5 Marks)]

Ans: In the books of Z Ltd.

**Statement of Cash Flows for the year ended 31st March 2020**

	₹	₹
<b><u>Cash flows from operating activities</u></b>		
Net Profit (Refer Working Note)	10,360	
Adjustments for non-cash items:		
Foreign Exchange Gain	<u>(10,360)</u>	
Net cash outflow from operating activities		0
<b><u>Cash flows from investing activities</u></b>		
Acquisition of Property, Plant and Equipment	<u>(19,880)</u>	
Net cash outflow from Investing activities		(19,880)
<b><u>Cash flows from financing activities</u></b>		0
Net change in cash and cash equivalents		(19,880)
Cash and cash equivalents at the beginning of the year i.e. 1 <sup>st</sup> April 2019		4,90,000
Foreign Exchange difference		10,360
Cash and cash equivalents at the end of the year i.e. 31 <sup>st</sup> March 2020		4,80,480

**Working Note:**

**Computation of Foreign Exchange Gain**

Bank Account USD	Date	USD	Exchange Rate	₹
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	280	71.00	19,880
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot	31.3.2020	6,720	71.50	4,80,480

rate)				
Foreign Exchange Gain credited to Profit and Loss account				
				10,360

Q25: In the year 2020-2021, one land was sold for ₹ 5 crore and another land purchased for ₹ 3 crore by XYZ Limited. Company reported Cash Flow on a Net Basis in Cash Flow Statement i.e. ₹ 2 crore in Investing Activity as Cash receipt from Sale of Land. Advise whether treatment given as above is correct or not as per the provisions of Ind AS 7.

Chp Nov 26

Also, calculate the cash from operations by indirect method from the following information:

### Operating Statement of XYZ Limited for the year ended 31st March, 2021

Particulars	₹
Sales	20,00,000
Less: Cost of goods sold	(14,00,000)
Administration & selling overheads	(2,20,000)
Depreciation	(28,000)
Interest paid	(12,000)
Loss on sale of asset	(8,000)
Profit before tax	3,32,000
Less: Tax	(1,20,000)
Profit after tax	2,12,000

### Balance Sheet as on 31st March

	2021 (₹)	2020 (₹)
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3,00,000	2,60,000
Investment	48,000	40,000
<b>Current assets</b>		
Inventories	48,000	52,000
Trade receivables	40,000	28,000
Cash and cash equivalents	24,000	20,000
<b>Total</b>	<b>4,60,000</b>	<b>4,00,000</b>
<b>Equity and liabilities</b>		
Shareholders' funds	2,40,000	2,00,000
Non-current Liabilities	1,32,000	1,40,000
Current liabilities		
Trade payables	48,000	32,000
Expenses payables	40,000	28,000
<b>Total</b>	<b>4,60,000</b>	<b>4,00,000</b>

[Exam Dec 21 (6 Marks)]

**Ans: (i) Correct treatment of cash flow:**

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.

Accordingly, in the year 2020-2021, while presenting the information, entity will show separately cash outflow from investing activity of ₹ 3 crore for purchase of land and cash inflow from investing activity of ₹ 5 crore from sale of land.

**(ii) Cash flow from Operations by Indirect Method**

	₹
Profit After Tax	2,12,000
Add back / (Less): Depreciation	28,000
Interest paid	12,000
Loss on sale of an asset	8,000
	2,60,000
Adjustments for changes in inventory and operating receivables and payables	
Decrease in inventory	4,000
Increase in trade receivables	(12,000)
Increase in trade payables	16,000
Increase in expenses payables	12,000
Net cash generated from operating activity	2,80,000

**Q26:** One of the subsidiaries of Buildwell Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

**Summarized Statement of Profit and Loss for the year ended 31st March, 20X3**

Particulars	Amount (₹)
Net sales	2,52,00,000
Less: Cash cost of sales	(1,92,00,000)
Depreciation	(6,00,000)
Salaries & wages	(24,00,000)
Operating expenses	(14,00,000)
Provision for taxation	(8,80,000)
Net Operating Profit	7,20,000
Non-recurring income – profit on sale of equipment	1,20,000
	8,40,000
Retained earnings and profit brought forward	15,18,000
	23,58,000

Dividends declared and paid during the year	(7,20,000)
Profit & loss balance as on 31st March, 20X3	16,38,000

### Summarized Balance Sheet

Assets	31st March, 20X2	31st March, 20X3
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
<b>Total Assets</b>	<b>90,78,000</b>	<b>1,03,50,000</b>
<b>Liabilities &amp; Equity</b>		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
<b>Total</b>	<b>90,78,000</b>	<b>1,03,50,000</b>

The original cost of equipment sold during the year 20X2-20X3 was ₹ 7,20,000. Prepare a statement of cashflows the year ended 31st March 20X3. [RTP Nov 2023; MTP Nov 2024]

**Ans. Statement of Cash Flows for the year ended 31st March, 20X3 (Indirect method)**

Particulars	₹	₹
Cash flow from operating activities:		
Net Profit before taxes and extraordinary items (7,20,000 + 8,80,000)	16,00,000	
Add: Depreciation	6,00,000	
Operating profit before working capital changes	22,00,000	
Increase in inventories	(1,80,000)	

Decrease in trade receivables	16,80,000	
Advances	(12,000)	
Decrease in trade payables	(60,000)	
Increase in outstanding expenses	2,40,000	
Cash generated from operations	38,68,000	
Less: Income tax paid (Refer W.N.4)	(8,68,000)	
Net cash from operations		30,00,000
Cash from investing activities:		
Purchase of land	(4,80,000)	
Purchase of building & equipment (Refer W.N.2)	(28,80,000)	
Sale of equipment (Refer W.N.3)	3,60,000	
Net cash used for investment activities		(30,00,000)
Cash flows from financing activities:		
Issue of share capital	8,40,000	
Dividends paid	(7,20,000)	
Net cash from financing activities:		1,20,000
Net increase in cash and cash equivalents		1,20,000
Cash and cash equivalents at the beginning		6,00,000
Cash and cash equivalents at the end		7,20,000

**Working Notes:****1. Building & Equipment Account**

Particulars	₹	Particulars	₹
To Balance b/d	36,00,000	By Sale of assets	7,20,000
To Cash / bank (purchases)(bal. fig)	28,80,000	By Balance c/d	57,60,000
	64,80,000		64,80,000

**2. Building & Equipment Accumulated Depreciation Account**

Particulars	₹	Particulars	₹
To Sale of asset (acc. depreciation)	4,80,000	By Balance b/d	12,00,000
To Balance c/d	13,20,000	By Profit & Loss A/c (provisional)	6,00,000

	18,00,000		18,00,000
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## 3. Computation of sale price of Equipment

Particulars	₹
Original cost	7,20,000
Less: Accumulated Depreciation	(4,80,000)
Net cost	2,40,000
Profit on sale of assets	1,20,000
Sale proceeds from sale of assets	3,60,000

## 4. Provision for tax Account

Particulars	₹	Particulars	₹
To Bank A/c	8,68,000	By Balance b/d	1,20,000
To Balance c/d	1,32,000	By Profit & Loss A/c (provisional)	8,80,000
	10,00,000		10,00,000

**Q27:** Following is the Balance Sheet of Mars Ltd:

₹ in Lakhs

Particulars	31.3.20X3	31.3.20X2
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Deferred Tax Asset (net)	45	45
Other Non-current Asset	<u>95</u>	<u>85</u>
Total Non-current Assets	<u>680</u>	<u>630</u>
<b>Current Assets</b>		
Financial Asset		
Investments	100	60
Trade Receivables	580	600
Cash and Cash Equivalents	300	300
Inventories	800	700
Other Current Assets	160	120

Total Current Assets	1,940	1,780
Total Assets	2,620	2,410
Equity and Liabilities		
Equity		
Equity Share Capital	280	250
Other Equity	980	820
Total Equity	1,260	1,070
Non-current Liabilities		
Financial Liabilities		
Borrowings	360	300
Other Non-current Liabilities	90	80
Total Non-current Liabilities	450	380
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	45	90
Total Current Liabilities	910	960
Total Liabilities	1,360	1,340
Total Equity and Liabilities	2,620	2,410

**Additional Information:**

- Profit before tax for the year is ₹ 200 lakhs and provision for tax is ₹ 40 lakhs.
- Property, Plant and Equipment purchased during the year ₹ 100 lakhs.
- Current liabilities include Capital creditors of ₹ 25 lakhs as at 31st March 20X3 (Nil – 31st March 20X2)
- Long Term Borrowings raised during the year ₹ 120 lakhs.

From the information given, prepare a Statement of Cash Flows following Indirect Method. Assume that Bank overdraft is an integral part of the entity's cash management.

[RTP May 2024]

**Ans:** Statement of Cash Flows for the year ended 31st March, 20X3

	(₹ in lakhs)	(₹ in lakhs)
<b>Cash flows from operating activities</b>		
Profit before taxation	200	
Adjustments for non-cash items:		
Depreciation [410 - (450 - 100)]	<u>60</u>	
	260	
Increase in inventories (800 - 700)	(100)	
Decrease in trade receivables (600 - 580)	20	
Increase in other non-current assets (95 - 85)	(10)	
Increase in other current assets (160 - 120)	(40)	
Increase in non-current liabilities (90 - 80)	10	
Increase in trade payables (455 - 25 - 450)	(20)	
Other current liabilities (Refer Note 1)[(90 + 40) - 45]	<u>(85)</u>	
<i>Net cash generated from operating activities</i>		35
<b>Cash flows from investing activities</b>		
Cash paid to purchase PPE (100-25)	(75)	
Cash paid to acquire investment (100-60)	<u>(40)</u>	
<i>Net cash outflow from investing activities</i>		(115)
<b>Cash flows from financing activities</b>		
Raising of equity share capital (280 - 250)	30	
Long-term borrowings raised during the year	120	
Long-term borrowings repaid during the year[(300 + 120) - 360]	<u>(60)</u>	
<i>Net cash outflow from financing activities</i>		90
Increase in cash and cash equivalents during		
the year		10
Cash and cash equivalents at the beginning of the year (420-300) (Refer Note 2)		(120)
Cash and cash equivalents at the end of the year (410-300) (Refer Note 2)		(110)

**Note: Other current liabilities are assumed to consist of provision for taxation.**

**Q28:** The opening balance sheet at 1st April, 20X6 of an Indian company (which account for its transactions in INR (₹), which consists of cash of ₹ 1,00,000 and share capital of ₹ 100,000. The Company borrows a long term loan on 30th September, 20X6 for US \$ 2,200 when the rate of

exchange is 1 US \$ = ₹ 87. There are no other transactions during the year. The exchange rate at the balance sheet date of 31st March, 20X7 is 1 US \$ = ₹ 85. The summarized balance sheet at 31st March, 20X7 is as follows:

	₹	₹
<b>Assets</b>		
Cash (1,00,000+1,91,400)		2,91,400
		<b>2,91,400</b>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Share capital	1,00,000	
Other Equity		
Foreign Currency Translation Reserves	4,400	1,04,400
<b>Non- current liabilities</b>		
Long -term loan		1,87,000
<b>Total equity and liabilities</b>		<b>2,91,400</b>

**Required:**

How the foreign exchange difference arising from unsettled transactions will reflect in the Statement of Cash Flows? [RTP May 2025]

**Ans:** The foreign currency loan, having been translated at the rate ruling at the receipt date to ₹ 1,91,400 (US \$ 2,200 x ₹ 87), is translated at the balance sheet date to ₹ 1,87,000 (US \$ 2,200 x ₹ 85). The exchange gain of ₹ 4,400 is recognised in the Statement of profit and loss. The cash is made up of ₹ 1,00,000 (received from the share issue) and ₹ 1,91,400 (received on converting the currency loan immediately to ₹).

**Statement of Cash Flows**

	₹
<b>Cash flows from operating activities</b>	
Profit	4,400
Less: Foreign exchange gain	(4,400)
<i>Net cash flow from operating activities</i> <i>A</i>	<u>0</u>
<b>Cash flows from financing activities</b>	
Receipts of foreign currency loan	1,91,400
<i>Net cash flow from financing activities</i> <i>B</i>	<u>1,91,400</u>

Net increase in cash and cash equivalent <i>A+B</i>	1,91,400
Cash and cash equivalents at the beginning of the reporting period	1,00,000
Cash and cash equivalents at the end of the reporting period*	2,91,400

\* Represents year end cash balances.

The exchange gain of ₹ 4,400 does not have any cash flow effect and is related to financing activities. Therefore, it needs to be eliminated from profit. A similar adjustment would be necessary if the loan remains outstanding at 31st March, 20X8.