

Exposure Draft

Accounting Standard (AS) 3 (revised) (Corresponding to IAS 7)

Statement of Cash Flows

(Last date for Comments: November 10, 2008)



Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard 3 (revised) (Corresponding to IAS 7)

Statement of Cash Flows

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Exposure Draft

Accounting Standard 3 (*revised*)¹ (Corresponding to IAS 7)

Statement of Cash Flows

The following is the Exposure Draft of the Accounting Standard (AS) 3 (revised), Statement of Cash Flows, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

*Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **November 10, 2008**. Comments can also be sent by e-mail at edcommentsasb@icai.org or tdte@icai.org.*

*(This Exposure Draft of the revised Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the revised Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards²).*

Accounting Standard (AS) 3, *Statement of Cash Flows* (revised), issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after _____ and is mandatory in nature³ from that date. The revised Standard supersedes Accounting Standard (AS) 3 (Revised 1997) ‘*Cash Flow Statements*’.

The following is the text of the revised Accounting Standard.

¹ This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Exposure Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

² Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

³ This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Objective

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Scope

- 1 An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.**
- 2 This Standard supersedes AS 3 *Cash Flow Statements (Revised 1997)*.
- 3 Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information

- 4 A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.
- 5 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past

assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

6 The following terms are used in this Standard with the meanings 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 are 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

- 7 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.
- 8 Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
- 9 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a statement of cash flows

10 The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

11 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.

12 A single transaction may include cash flows that are classified differently. For example, when the instalment paid in respect of a fixed asset acquired on deferred payment basis includes both interest and loan, the interest element is classified under financing activities and the loan element is classified under investing activities.

Operating activities

13 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

14 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 of cash flows from operating activities are:

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) cash receipts from royalties, fees, commissions and other revenue;
- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
- (g) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

- 15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

- 16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:
- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
 - (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
 - (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
 - (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
 - (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
 - (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
 - (g) cash payments for futures 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

- (h) cash receipts from futures 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 the cash flows of the position being hedged.

Financing activities

- 17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
- (a) cash proceeds from issuing shares or other equity instruments;
 - (b) cash payments to owners to acquire or redeem the entity's shares;
 - (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
 - (d) cash repayments of amounts borrowed; and
 - (e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

- 18 **An entity shall report cash flows from operating activities using either:**
- (a) **the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**
 - (b) **the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.**
- 19 Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
- (a) from the accounting records of the entity; or

- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of comprehensive income for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, undistributed profits of associates, and non-controlling interests; and
- (c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

Reporting cash flows from investing and financing activities

21 An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.

Reporting cash flows on a net basis

22 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- (a) **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**
- (b) **cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

23 Examples of cash receipts and payments referred to in paragraph 22(a) are:

- (a) the acceptance and repayment of demand deposits of a bank;
- (b) funds held for customers by an investment entity; and
- (c) rents collected on behalf of, and paid over to, the owners of properties.

Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:

- (a) principal amounts relating to credit card customers;
- (b) the purchase and sale of investments; and
- (c) other short-term borrowings, for example, those which have a maturity period of three months or less.

24 Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**
- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and**
- (c) cash advances and loans made to customers and the repayment of those advances and loans.**

Foreign currency cash flows

25 Cash flows arising from transactions in a foreign currency shall be recorded in an entity'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.

26 The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

27 Cash flows denominated in a foreign currency are reported in a manner consistent with AS 11 (Revised) *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, AS 11 (Revised) does not

permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

- 28 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.
- 29 [Deleted by IASB]
- 30 [Deleted by IASB]

Interest and dividends

- 31 **Cash flows from interest and dividends received and paid shall each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial institution should be classified as cash flows arising from operating activities. In the case of other entities, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.**
- 32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with AS I6 *Borrowing Costs*.
- 33 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Some argue that interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. However, it is more appropriate that interest paid and interest and dividends received are classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- 34 Some argue that dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows. However, it is considered more appropriate that dividends paid should be classified as cash flows from financing activities because they are cost of obtaining financial resources.

Taxes on income

- 35 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.**
- 36 Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, 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.

Investments in subsidiaries, associates and joint ventures

- 37 When accounting for an investment in an associate or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.
- 38 An entity which reports its interest in a jointly controlled entity (see AS 27 (Revised) *Interests in Joint Ventures*) using proportionate consolidation, includes in its consolidated statement of cash flows its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

Changes in ownership interests in subsidiaries and other businesses

- 39 The aggregate cash flows arising from obtaining and losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.**
- 40 An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:**
- (a) the total consideration paid or received;**
 - (b) the portion of the consideration consisting of cash and cash equivalents;**
 - (c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and**

(d) 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, summarised by each major category.

- 41 The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.
- 42 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 part of such transactions, events or changes in circumstances.
- 42A 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.
- 42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see AS 21 (Revised), *Consolidated and Separate Financial Statements*). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

Non-cash transactions

- 43 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.**
- 44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
 - (b) the acquisition of an entity by means of an equity issue; and
 - (c) the conversion of debt to equity.

Components of cash and cash equivalents

- 45 **An entity 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 statement of financial position.**
- 46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with AS 1 (Revised) *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.
- 47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with AS 5 (Revised), *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other disclosures

- 48 **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 group⁴.**
- 49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group⁵. Examples include cash and cash equivalent balances 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.
- 50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:
- (a) 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;
 - (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;
 - (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and

⁴ The requirements shall be equally applicable to the entities in case of separate financial statements also.

⁵ Ibid.

(d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see AS 17 (Revised) *Operating Segments*).

51 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.

52 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.

Effective date of Revised AS 3

53 [Deleted by Accounting Standards Board (ASB) of the ICAI]

Appendix A
Statement of cash flows for an entity other than
a financial institution

This appendix accompanies, but is not part of, revised AS 3.

1. The examples show only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with AS 1 (Revised) *Presentation of Financial Statements*.
2. Information from the statement of comprehensive income and statement of financial position is provided to show how the statements of cash flows under the direct method and indirect method have been derived. Neither the statement of comprehensive income nor the statement of financial position is presented in conformity with the disclosure and presentation requirements of other Standards.
3. The following additional information is also relevant for the preparation of the statements of cash flows:
 - all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	100
Accounts receivable	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

- 250 was raised from the issue of share capital and a further 250 was raised from long-term borrowings.
- interest expense was 400, of which 170 was paid during the period. Also, 100 relating to interest expense of the prior period was paid during the period.
- dividends paid were 1,200.

- the liability for tax at the beginning and end of the period was 1,000 and 400 respectively. During the period, a further 200 tax was provided for. Withholding tax on dividends received amounted to 100.
- during the period, the group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.
- plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
- accounts receivable as at the end of 20X2 include 100 of interest receivable.

Consolidated statement of comprehensive income for the period ended 20X2^(a)

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Investment income	500
Foreign exchange loss	(40)
Profit before taxation	3,350
Taxes on income	(300)
Profit	3,050

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2

Consolidated statement of financial position as at end of 20X2

	20X2	20X1
Assets		
Cash and cash equivalents	230	160
Accounts receivable	1,900	1,200
Inventory	1,000	1,950
Portfolio investments	2,500	2,500
Property, plant and equipment at cost	3,730	1,910

Accumulated depreciation	(1,450)	(1,060)
Property, plant and equipment net	2,280	850
Total assets	<u>7,910</u>	<u>6,660</u>
Liabilities		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	400	1,000
Long-term debt	2,300	1,040
Total liabilities	<u>3,180</u>	<u>4,030</u>
Shareholders' equity		
Share capital	1,500	1,250
Retained earnings	3,230	1,380
Total shareholders' equity	<u>4,730</u>	<u>2,630</u>
Total liabilities and shareholders' equity	<u>7,910</u>	<u>6,660</u>

Direct method statement of cash flows (paragraph 18(a))

20X2

Cash flows from operating activities

Cash receipts from customers	30,150
Cash paid to suppliers and employees	(27,600)
Cash generated from operations	<u>2,550</u>
Income taxes paid	(900)

Net cash from operating activities 1,650

Cash flows from investing activities

Acquisition of subsidiary X, net of cash acquired (Note A)	(550)
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Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
	<hr/>	
<i>Net cash used in investing activities</i>		(480)

Cash flows from financing activities

Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Interest paid	(270)	
Dividends paid	(1,200)	
	<hr/>	
<i>Net cash used in financing activities</i>		<hr/> (1,060)

Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
		<hr/>
Cash and cash equivalents at end of period (Note C)		<hr/> <hr/> 230

Indirect method statement of cash flows (paragraph 18(b))

20X2

Cash flows from operating activities

Profit before taxation	3,350	
Adjustments for:		
Depreciation	450	

Foreign exchange loss	40	
Investment income	(500)	
Interest expense	400	
	3,740	
	<hr/>	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
	<hr/>	
Cash generated from operations	2,550	
Income taxes paid	(900)	
	<hr/>	
<i>Net cash from operating activities</i>		1,650
Cash flows from investing activities		
Acquisition of subsidiary X net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
	<hr/>	
<i>Net cash used in investing activities</i>		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Interest paid	(270)	
Dividends paid	(1,200)	
	<hr/>	
<i>Net cash used in financing activities</i>		<hr/> (1,060)

Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of period (Note C)	120
Cash and cash equivalents at end of period (Note C)	<u>230</u>

Notes to the statement of cash flows (direct method and indirect method)

A. Obtaining control of subsidiary

During the period the Group obtained control of subsidiary X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	<u>590</u>
Less: Cash of subsidiary X acquired	<u>(40)</u>
Cash paid to obtain control net of cash acquired	<u><u>550</u></u>

B. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.

C. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

	20X2	20X1
Cash on hand and balances with banks	40	25
Short-term investments	190	135
Cash and cash equivalents as previously reported	<u>230</u>	<u>160</u>
Effect of exchange rate changes	–	(40)
Cash and cash equivalents as restated	<u><u>230</u></u>	<u><u>120</u></u>

Cash and cash equivalents at the end of the period include deposits with banks of 100 held by a subsidiary which are not freely remissible to the holding company because of currency exchange restrictions.

The Group has undrawn borrowing facilities of 2,000 of which 700 may be used only for future expansion.

D. Segment information

	Segment A	Segment B	Total
Cash flows from:			
Operating activities	1,790	(140)	1,650
Investing activities	(640)	160	(480)
Financing activities	(840)	(220)	(1,060)
	<u>310</u>	<u>(200)</u>	<u>110</u>

Alternative presentation (indirect method)

As an alternative, in an indirect method statement of cash flows, operating profit before working capital changes is sometimes presented as follows:

Revenues excluding investment income	30,650
Operating expense excluding depreciation	<u>(26,910)</u>
Operating profit before working capital changes	<u><u>3,740</u></u>

Appendix B

Statement of cash flows for a financial institution

This appendix accompanies, but is not part of, revised AS 3.

1. The example shows only current period amounts. Comparative amounts for the preceding period are required to be presented in accordance with AS 1 (Revised) *Presentation of Financial Statements*.
2. The example is presented using the direct method.

20X2

Cash flows from operating activities

Interest and commission receipts	28,447
Interest payments	(23,463)
Recoveries on loans previously written off	237
Cash payments to employees and suppliers	(997)
	4,224

(Increase) decrease in operating assets:

Short-term funds	(650)
Deposits held for regulatory or monetary control purposes	234
Funds advanced to customers	(288)
Net increase in credit card receivables	(360)
Other short-term negotiable securities	(120)

Increase (decrease) in operating liabilities:

Deposits from customers	600
Negotiable certificates of deposit	(200)
Net cash from operating activities before income tax	3,440

Income taxes paid	(100)	
	<hr/>	
<i>Net cash from operating activities</i>		3,340
Cash flows from investing activities		
Disposal of subsidiary Y	50	
Dividends received	200	
Interest received	300	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
	<hr/>	
<i>Net cash from investing activities</i>		650
Cash flows from financing activities		
Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
	<hr/>	
<i>Net cash from financing activities</i>		200
Effects of exchange rate changes on cash and cash equivalents		600
		<hr/>
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
		<hr/>
Cash and cash equivalents at end of period		<u>8,840</u>

Appendix C

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 3 (revised) and the corresponding International Accounting Standard (IAS) 7, Statement of Cash Flows.

Comparison with IAS 7, *Statement of Cash Flows*

The Exposure Draft of AS 3 (revised) differs from International Accounting Standard (IAS) 7, *Statement of Cash Flows*, in the following major respects:

(i) In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as an item of operating cash flows. However, the Exposure Draft of AS 3 (revised), as in the existing AS 3, does not provide such option and requires these items to be classified as items of financing activity and investing activity, respectively (refer paragraph 33).

(ii) IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, the Exposure Draft of AS 3 (revised), as in the existing AS 3, requires it to be classified as a part of financing activity only.

Appendix D

Major Differences between the Exposure Draft of AS 3 (revised), *Statement of Cash Flows* and the existing AS 3, *Cash Flow Statements*

Note: This Appendix is provided to bring out the major differences between the Exposure Draft of Accounting Standard (AS) 3 (revised), 'Statement of Cash Flows', and the existing AS 3, 'Cash Flow Statements', with a view to facilitate commentators in sending their comments on the Exposure Draft of revised AS 3.

The Exposure Draft of AS 3 (revised) differs from the existing AS 3 in the following major respects:

(i) On the lines of IAS 7, the Exposure Draft of revised AS 3 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents, whereas the existing AS 3 is silent on this aspect (refer paragraph 8 of the Exposure Draft of revised AS 3).

(ii) The Exposure Draft of revised AS 3 provides the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business as cash flows from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activity is also provided (refer paragraph 14 of the Exposure Draft of revised AS 3). The existing AS 3 does not contain such requirements.

(iii) The Exposure Draft of revised AS 3 includes the following new examples of cash flows arising from financing activities (refer paragraph 17 of the Exposure Draft of revised AS 3):

- (a) cash payments to owners to acquire or redeem the entity's shares
- (b) cash proceeds from mortgages
- (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

(iv) As compared to the existing AS 3, the Exposure Draft of revised AS 3 specifically mentions to adjust the profit or loss for the effects of 'undistributed profits of associates and non-controlling interests' while determining the net cash flow from operating activities using the indirect method (refer paragraph 20(b) of the Exposure Draft of revised AS 3).

(v) The existing AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from operating, investing and financing activities, whereas the Exposure Draft of revised AS 3 does not contain this requirement on the lines of IAS 7.

(vi) As compared to the existing AS 3, the Exposure Draft of revised AS 3 requires to disclose the amount of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost (refer paragraph 40(c) and (d) of the Exposure Draft of revised AS 3). The Exposure Draft of revised AS 3 also requires to report the aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses 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 (refer paragraph 42 of the Exposure Draft of revised AS 3). The existing AS 3 does not contain such requirements.

(vii) The Exposure Draft of revised AS 3 requires to classify cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control as cash flows from financing activities (refer paragraphs 42A and 42B of the Exposure Draft of revised AS 3). The existing AS 3 does not contain such a requirement.

(viii) The Exposure Draft mentions the use of Equity or Cost method while accounting for an investment in an associate or a subsidiary on the lines of IAS 7 (refer paragraph 37 of the Exposure Draft of revised AS 3). It also specifically deals with the reporting of interest in a jointly controlled entity using proportionate consolidation and using equity method on the lines of IAS 7 (refer paragraph 38 of the Exposure Draft of revised AS 3). The existing AS 3 does not contain such requirements.

(ix) The Exposure Draft of revised AS 3 uses the term 'functional currency' instead of 'reporting currency' (as used in the existing AS 3) on the lines of IAS 7. The Exposure Draft also deals with translation of cash flows of a foreign subsidiary (refer paragraphs 25 to 27 of the Exposure Draft of revised AS 3) whereas in the existing AS 3, it is not dealt with.

(x) The Exposure Draft of revised AS 3 requires more disclosures as compared to the existing AS 3 (refer paragraph 50 of the Exposure Draft of revised AS 3).
