

# IND AS 7

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Consultancy Services



The Ind AS are converged IFRS standards, which have been introduced to standardize the way Indian companies report their financial information to various stake holders.

Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty-nine Indian Accounting Standards converged with International Financial Reporting Standards are (henceforth called IND AS) are currently notified by the Ministry. These are: IND ASs 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 40,41, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110,111,112,113,114,115, 116.

Companies follow Ind AS either Voluntarily or Mandatorily. Once a company follows Indian AS, either mandatorily or voluntarily, it cannot revert to old method of Accounting.The Mandatory Applicability from Accounting Period beginning on or after 1 April 2017 is for :

- Every Listed Company or company in process of being listed.
- Unlisted Companies with Net worth greater than or equal to Rs. 250 crore (2.5 billion)

The Ministry of Corporate Affairs has implemented the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues have been resolved with the concerned departments.

We have prepared a simple analysis for below mentioned Ind AS for your ready reference which can act as ready-reckoner for your day to day use.

**Hope you enjoy reading our Analysis.**

**Happy reading!!**

**Team J P Chawla & Co. LLP**

**Rajat Chawla**

He is a Fellow member of the Institute of Chartered Accountants of India. He is also a C.P.A; Certified Public Accountant from The American Institute of Certified Public Accountants, United States of America. He is also a commerce honours graduate from Delhi University, Delhi, India. He is also a Certified Information System Auditor (C.I.S.A) and a member of Information system Audit and Control Association, United States of America.

His area of expertise includes Audit and assurance, International Taxation ,Transfer Pricing, International business advisory, Valuations, FEMA/ RBI advisory, Goods & Service tax (GST), Merger and Acquisitions, Management consultancy, Due Diligence, Information system audit and development, reporting under US GAAP and IFRS, Accounting process improvement, Business process outsourcing, Knowledge process outsourcing and Business process off shoring.

He has been a regular speaker at various forums on various topics related to Tax, finance and commerce. He has also contributed in various tax publications as author / co-author. He has also co-authored two books on transfer pricing, published by Lexis – Nexis and Taxmann respectively.

**Mohit Dixit**

He is a member of the Institute of Chartered Accountants of India and he is also a commerce honours graduate from Delhi University.

He is having 5 + years of experience in the area of statutory audits, internal audits, assurance & Transaction Advisory related engagements in industries such as manufacturing, retail, infrastructure, information technology, e-commerce, banking, telecommunication, health and aviation sectors.

His area of expertise includes Indian GAAP and IND AS Advisory, Management accounting, outsourcing, audit & assurance, financial reporting and valuation.

## Ind AS-7 Statement of Cash Flows

### Cash Flow Statement

A statement of cash flows 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.

### Why Ind AS 7?

By preparation of Statement of Cash Flows applying Ind AS 7, it:

- Provides information about the historical changes in cash and cash equivalents of an entity,
- Classifies cash flows during the period from operating, investing and financing activities.

### Some Important Definitions

Cash equivalents	Short-term, highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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. Bank overdrafts are included as a component of cash and cash equivalents.
Operating activities	Principal revenue-producing activities of the entity and other activities that are not investing or financing activities. <b>Selling goods or rendering services are the operating activities.</b>
Investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents. <b>Sale or Purchase of assets and long term investment are investing activities.</b>
Financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. <b>Borrowing a loan or issuing shares is the financing activity.</b>

### Presentation of a statement of cash flows

The statement of cash flows shall report cash flows during the period classified by:

Operating Activities	Investing Activities	Financing Activities
Cash flows from operating activities are primarily derived from the <b>principal revenue producing activities</b> of the entity. Therefore, they generally result from the transactions that enter into the <b>determination of profit or loss.</b>	Cash flows from investing activities are the cash flows for expenditures have been made for resources <b>intended to generate future income</b> and cash flows. Only expenditures that <b>result in a recognized asset</b> in the balance sheet are eligible for classification as investing activities.	Cash flows from financing activities that result in changes in the size and composition of the contributed <b>equity and borrowings of the entity.</b>

<u>Some Examples of cash flow from Operating Activities:</u>	<u>Some Examples of cash flow from Investing Activities:</u>	<u>Some Examples of cash flow from Financing Activities:</u>
<ul style="list-style-type: none"> <li>• Cash receipts from the sale of goods and the rendering of services</li> <li>• Cash receipts from royalties, fees, commissions and other revenue</li> <li>• Cash payments to suppliers for goods and services</li> <li>• Cash payments to and on behalf of employees</li> <li>• Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities</li> <li>• Cash receipts and payments from contracts held for dealing or trading purposes.</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition or sale of property, plant and equipment, intangibles and other long-term assets in cash.</li> <li>• Acquisition or sale of equity or debt instruments of other entities and interests in joint ventures in cash.</li> <li>• Cash receipt or repayment of advances and loans made to other parties.</li> </ul>	<ul style="list-style-type: none"> <li>• Cash proceeds from issuing shares or other equity instruments</li> <li>• Cash payments to owners to acquire or redeem the entity's shares</li> <li>• Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings</li> <li>• Cash repayments of amounts borrowed</li> <li>• Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.</li> </ul>

### Reporting cash flows from operating activities

Cash flows from operating activities can be report by using either of the following:

Direct Method	Indirect Method
<p><i>In this method, Major classes of gross cash receipts and gross cash payments are disclosed.</i></p>	<p><i>In this method, 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.</i></p>

Note: Direct method is considered more appropriate since it provides information which may be useful in estimating future cash flows and which is not available under the indirect method.

### Statement of Cash Flows

Particulars	Amount
Cash flows from Operating Activities (Direct or Indirect Method)	xxx
(+ ) Cash flows from Investing Activities	xxx
(+ ) Cash flows from Financing Activities	xxx
<b>Net cash flow from operating, investing and financing activity during the year...(A)</b>	xxx
Cash and Cash Equivelant at the beginning of year...(B)	xxx
<b>Cash and Cash Equivelant at the beginning of year...(A+B)</b>	xxx

### **Cash Flows in Foreign Currency**

Cash flows in foreign currency shall be recorded in an entity's functional currency by applying the exchange rate at the date of the cash flow.

The cash flows of a foreign subsidiary shall be translated at the exchange rates at the dates of the cash flows

Unrealised gains and losses arising due to changes in exchange rates are not cash flows. However, such unrealised gains and losses are reported separately in the statement of cash flows to reconcile cash and cash equivalents at the beginning and the end of the period.

### **Non-cash transactions**

If investing and financing transactions are not in cash or cash equivalents, then such transactions shall be excluded from a statement of cash flows. However 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.

### **Components of cash and cash equivalents**

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 balance sheet.

### **Other disclosures**

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

### **Difference with Indian GAAP**

#### **Ind AS 7 vs. AS 3**

Point of Difference	AS 3	Ind AS 7
Separate Disclosure for Extraordinary Items	AS 3 requires separate disclosure for Extraordinary Items in Cash Flow Statement under respective Activity	No such requirement of separate disclosure of extraordinary items under Ind AS 7.

**Dear Valuable Client / Colleague,**

In case you require any further detailed analysis on above mentioned content, please do get back to us and we shall be happy to provide you the same.

**With Best Regards,**

**Team JPC**

## **About JPC**

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit [www.jpc.co.in](http://www.jpc.co.in)

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