

INDAS – 7 **CASH FLOW STATEMENTS**

(TOTAL NO. OF QUESTIONS – 14)

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RTPs QUESTIONS

Q1 (May 18)

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 Rs 15,00,000
- b) 200,000 equity shares having face of Rs 10 and fair value of Rs 15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of Rs 2,50,000 in its books of account. On October 10, 20X2, Company A further acquired 10% stake in Company B for cash consideration of Rs 8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per Ind AS 7.

SOLUTION

As per Ind AS 7, the aggregate cash flows arising from obtaining control of subsidiaries shall be presented separately and classified as investing activities.

As per 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 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 Rs. 15,00,000 less Rs. 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.

Q2 (May 19)

Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposits 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 = Rs 45. The same on 31.12.2018 was US\$1 = Rs 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at Rs 45,00,000 in the balance sheet as on December 31, 2017. It was reported at Rs 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?

SOLUTION

The profit and loss account was credited by Rs. 1,00,000 (US\$ 2000 × Rs. 50) towards interest income. It was credited by the exchange difference of US\$ 100,000 × (Rs. 50 - Rs. 45) that is, Rs. 500,000. In preparing the cash flow statement, Rs 500,000, the exchange difference, should be deducted from the 'net profit before taxes and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference Rs. 500,000, should be added to the opening balance in note to cash flow statement.

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.

Q3 (Nov 19)

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

(Rs. In lacs)

	20X2	20X1
ASSETS		
Non-current Assets		
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
EQUITY AND LIABILITIES		
Equity		
Equity share capital Other equity	300	300
Total equity Liabilities	12,000	8,000
Non-current liabilities		
Long-term borrowings	12,300	8,300
	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:

- Profit after tax for the year ended 31st March, 20X2 - Rs. 4,450 lacs
- Interim Dividend paid during the year - Rs. 450 lacs
- Depreciation and amortization charged in the statement of profit and loss during the current year are as under
 - Property, Plant and Equipment - Rs. 500 lacs
 - Intangible Assets - Rs. 20 lacs
- During the year ended 31st March, 20X2 two machines were sold for Rs. 10 lacs. The carrying amount of these machines as on 31st March, 20X2 is Rs. 60 lacs.
- Income taxes paid during the year Rs. 105 lacs
- 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.

SOLUTION

Statement of Cash Flows

		Rs. 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)	
	4,960	
Change in operating assets and liabilities		
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

Q4 (May 20)

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 (Rs)
Revenue	3,80,000
Cost of sales	(2,20,000)
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	(4,000)
Profit before taxation	70,000
Taxation	(15,000)
Profit after taxation	55,000

Consolidated balance sheet	20X2	20X1
Assets	Amount (Rs)	Amount (Rs)
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	18,000	—
Total assets	2,70,000	1,70,000
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	1,80,000	1,35,000
Shareholders' equity	90,000	35,000
Total liabilities and shareholders'	2,70,000	1,70,000

Other information:

All of the shares of entity B were acquired for Rs 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (Rs)
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.

SOLUTION

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

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

	Amount (Rs)	Amount (Rs)
Cash flows from operating activities		
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)	(14,000)	
Net cash generated from operating activities		79,000
Cash flows from investing activities		

Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
Net cash outflow from investing activities		(72,000)
Cash flows from financing activities		
Interest paid	(4,000)	
Net cash outflow from financing activities		(4,000)
Increase in cash and cash equivalents during the year		3,000
Cash and cash equivalents at the beginning of the year		5,000
Cash and cash equivalents at the end of the year		8,000

Working Notes:

1.	Calculation of change in inventory during the year	Rs
	Total inventories of the Group at the end of the year	30,000
	Inventories acquired during the year from subsidiary	(4,000)
		26,000
	Opening inventories	35,000
	Decrease in inventories	9,000
2.	Calculation of change in Trade Receivables during the year	Rs
	Total trade receivables of the Group at the end of the year	54,000
	Trade receivables acquired during the year from subsidiary	(8,000)
		46,000
	Opening trade receivables	50,000
	Decrease in trade receivables	4,000
3.	Calculation of change in Trade Payables during the year	Rs
	Trade payables at the end of the year	68,000
	Trade payables of the subsidiary assumed during the year	(32,000)
		36,000
	Opening trade payables	60,000
	Decrease in trade payables	24,000

Q5 (November 20 & Also Newly Added in ICAI May 22 Module)

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

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

SOLUTION

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	1.5	Operating Activity
Total Cash flow	86.5	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80
Financing Activity	(22)
Total	86.5

Q6 (May 21)

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 Borrowings repaid
3	Cash paid to suppliers
4	Loan to Director
5	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

SOLUTION

Sr. 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

Q7 (Nov 21 & Also Newly Added in ICAI May 22 Module)

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:

	31.3.20X2 (Rs.)	31.3.20X1 (Rs.)
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

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

Additional information:

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

SOLUTION

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

Particulars	Rs.	Rs.
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

Rs. 56,00,000 = Rs. 1,65,000 + Purchases – Rs. 1,20,000

Purchases = Rs. 55,55,000

2. Calculation of cash paid to Suppliers

Trade Payables

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

3. Calculation of cash received from Customers

Trade Receivables

		Rs.			Rs.
To	Balance b/d	1,88,000	By	Bank A/c (balancing figure)	85,33,000
To	Sales	85,50,000	By	Balance c/d	2,05,000
		87,38,000			87,38,000

4. Calculation of tax paid during the year in cash

Provision for tax

		Rs.			Rs.
To	Bank A/c (balancing figure)	1,12,000	By	Balance b/d	65,000
To	Balance c/d	48,000	By	Profit and Loss A/c	95,000
		1,60,000			1,60,000

Q8 (RTP Nov. 22)

What will be the classification for following items in the statement of cash flows of both
(i) Banks / Financial institutions and (ii) 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

Solution

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.	<i>Interest paid to vendor for acquiring fixed asset under deferred payment basis</i>	<i>Financing activities</i>	<i>Financing activities</i>
8.	<i>Principal sum payment under deferred payment basis for acquisition of fixed assets</i>	<i>Investing activities</i>	<i>Investing activities</i>
9.	<i>Penal interest received from customers for late payments</i>	<i>Operating Activities</i>	<i>Operating Activities</i>
10.	<i>Penal interest paid to suppliers for late payments</i>	<i>Operating Activities</i>	<i>Operating Activities</i>
11.	<i>Interest paid on delayed tax payments</i>	<i>Operating Activities</i>	<i>Operating Activities</i>
12.	<i>Interest received on tax refunds</i>	<i>Operating Activities</i>	<i>Operating Activities</i>

MTPs QUESTIONS

Q9 (October 19 – 6 Marks)

A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 2,00,000, but there are no trade receivables or trade payables balances as on 1st April, 20X1. During the year 20X1-20X2, the entity entered into the following foreign currency transactions:

❖ A Ltd. purchased goods for resale from Europe for €2,00,000 when the exchange rate was €1 = Rs. 50. This balance is still unpaid at 31st March, 20X2 when the exchange rate is €1 = Rs. 45. An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss.

❖ A Ltd. sold the goods to an American client for \$ 1,50,000 when the exchange rate was \$1 = Rs. 40. This amount was settled when the exchange rate was \$1 = Rs. 42. A further exchange gain regarding the trade receivable is recorded in the statement of profit or loss.

❖ A Ltd. also borrowed €1,00,000 under a long-term loan agreement when the exchange rate was €1 = Rs. 50 and immediately converted it to Rs. 50,00,000. The loan was retranslated at 31st March, 20X2 @ Rs. 45, with a further exchange gain recorded in the statement of profit or loss.

❖ A Ltd. therefore records a cumulative exchange gain of Rs. 18,00,000 (10,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.

❖ In addition, A Ltd. records a gross profit of Rs. 10,00,000 (Rs. 60,00,000 – Rs. 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?

SOLUTION

Statement of cash flows

Particulars	Amount (Rs.)
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 Rs. (50 – 45)]	(10,00,000)
Decrease in trade payables [1,00,000 x Rs. (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	50,00,000
Net increase in cash and cash equivalents	1,13,00,000
Cash and cash equivalents at the beginning of the period	2,00,000
Cash and cash equivalents at the end of the period	1,15,00,000

Q10 (May 20 – 10 Marks)

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 (Rs.)
Revenue	3,80,000
Cost of sales	(2,20,000)
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	(4,000)
Profit before taxation	70,000
Taxation	(15,000)
Profit after taxation	55,000

Consolidated balance sheet	20X2	20X1
	Amount (Rs.)	Amount (Rs.)
Assets		
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	18,000	—
Total assets	2,70,000	1,70,000
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	1,80,000	1,35,000
Shareholders' equity	90,000	35,000
Total liabilities and shareholders'	2,70,000	1,70,000

Other information

All of the shares of entity B were acquired for Rs. 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (Rs.)
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 statement of cash flows of Entity A.

SOLUTION

This information will be incorporated into the consolidated statement of cash flows as follows:

Statement of cash flows for 20X2 (extract)	Amount (Rs.)	Amount (Rs.)
Cash flows from opening activities		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	
Decrease in inventories (Note 1)	9,000	
Decrease in trade receivables (Note 2)	4,000	
Decrease in trade payables (Note 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	(14,000)	
Net cash inflow from operating activities		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
Net cash outflow from investing activities		(72,000)
Cash flows from financing activities		
Interest paid	(4,000)	
Net cash outflow from financing activities		(4,000)
Increase in cash and cash equivalents		3,000
Cash and cash equivalents at the beginning of the year		5,000
Cash and cash equivalents at the end of the year		8,000

Working Notes:

1. Inventories

Total inventories of the Group at the end of the year	Rs. 30,000
Inventories acquired during the year from subsidiary	(Rs. 4,000)
	Rs. 26,000
Opening inventory	(Rs. 35,000)
Decrease in inventory	Rs. 9,000

2. Trade Receivables

Total trade receivables of the Group at the end of the year	Rs. 54,000
Trade receivables acquired during the year from subsidiary	(Rs. 8,000)
	Rs. 46,000
Opening trade receivables	(Rs. 50,000)
Decrease in trade receivables	Rs. 4,000

3. Trade Payables

Trade payables at the end of the year	Rs. 68,000
Trade payables of the subsidiary assumed during the year	(Rs. 32,000)
	Rs. 36,000
Opening Trade payable Decrease in Trade payables	(Rs. 60,000)
	Rs. 24,000

Q11 (March 21 – 4 Marks)

During the financial year 20X1-20X2, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:

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

SOLUTION

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	1.5	Operating Activity
Total Cash flow	86.5	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80
Financing Activity	(22)
Total	86.5

QUESTIONS FROM PAST EXAM PAPERS

Q12 (November 20 – 8 Marks)

Entity A acquired a subsidiary, Entity B, during the year ended March 31st, 2020. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.

<i>Consolidated Statement of Profit and Loss for the year ended March 31st, 2020.</i>	<i>Amount (₹)</i>
Revenue	1,90,000
Cost of sales	(1,10,000)
Gross profit	80,000
Depreciation	(15,000)
Other operating expenses	(28,000)
Interest cost	(2,000)
Profit before taxation	35,000
Taxation	(7,500)
Profit after taxation	27,500

<i>Consolidated balance sheet</i>	<i>March 31' 2020</i>	<i>March 31' 2019</i>
<i>Assets</i>	<i>Amount (₹)</i>	<i>Amount (₹)</i>
Cash and cash equivalents	4,000	2,500
Trade receivables	27,000	25,000
Inventories	15,000	17,500
Property, plant and equipment	80,000	40,000
Goodwill	9,000	-
Total assets	1,35,000	85,000
<i>Liabilities</i>		
Trade payables	34,000	30,000
Income tax payable	6,000	5,500
Long to debt	50,000	32,000
Total outside liabilities	90,000	67,500
Shareholders' equity	45,000	17,500
Total liabilities & shareholders' equity	1,35,000	85,000

Other information:

All of the shares of entity B were acquired. for ₹37,000 in cash. The fair values of assets acquired and liabilities assumed were:

<i>Particulars</i>	<i>Amount (₹)</i>
Inventories	2,000
Trade receivables	4,000
Cash	1,000
Property, plant and equipment	55,000
Trade payables	(16,000)
Long term debt	(18,000)

Goodwill	9,000
Cash consideration paid	37,000

You are required to prepare the Consolidated Statement of Cash Flows for the financial year ended March 31st, 2020 in accordance with Ind AS 7.

SOLUTION

Cash flow Statement for 31st March 2020

Cash from operating activities:

Net profit after tax	27,500
Adjustment for non-cash / non-operating items:	
Provision for tax	7,500
Depreciation	15,000
Interest	2,000
Adjustment for changes in working capital:	
Trade receivables (25000+4000-27000)	2,000
Inventories (17500+2000-15000)	4,500
Trade payables (30000+16000-34000)	(12,000)
Cash flow from operations	46,500
Less: Tax paid (5500+7500-6000)	(7,000)
Cash flow from Operating Activities (A)	39,500

Cash flow from investing activities

Subsidiary acquired (37000 - 1000)	(36,000)
Cash flow from investing activities (B)	(36,000)

Cash flow from financing activities

Interest paid	(2,000)
Cash flow from financing activities (C)	(2,000)

Cash flow Statements -

Opening balance of cash and cash equivalents	2,500
Net increase in cash and cash equivalents. (a + b + c)	1,500
Closing balance of cash and cash equivalents	4,000

Q13 (December 21 - 6 Marks)

In the year 2021-22, One Land was sold for Rs. 5 Crores and another land purchased for Rs. 3 Crores by XYZ Limited. The company reported cash flow on a net basis in the cash flow statement i.e. Rs. 2 Crores in Investing Activity as cash receipt from the sale of land. Advise whether the treatment given as above is correct as per provisions of IND AS 7. Also, calculate the cash flow from operations from indirect method from the following information:

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

Particulars	Amount
Sales	20,00,000
Less: Cost of Goods Sold	14,00,000
Administration and selling overheads	2,20,000
Depreciation	28,000
Interest paid	12,000

Loss on sale of Asset	<u>8,000</u>
Profit after tax	3,32,000
Less: Tax	<u>1,20,000</u>
Profit After Tax	<u>2,12,000</u>

Balance sheet as on March 31, 2021

	2021 (Rs)	2020 (Rs)
Assets		
Non-current Assets		
Property, Plant and Equipment	3,00,000	2,60,000
Investment	48,000	40,000
Current Assets		
Inventories	48,000	52,000
Trade receivables	40,000	28,000
Cash and cash equivalents	<u>24,000</u>	<u>20,000</u>
Total	<u>4,60,000</u>	<u>4,00,000</u>
Equity and Liabilities		
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
Payables for Expenses	<u>40,000</u>	<u>28,000</u>
Total	<u>4,60,000</u>	<u>4,00,000</u>

SOLUTION

Cash flow from Operations by Direct Method

Particulars	Rs.	See Note
Cash Sales	20,12,000	1
Less: Cash Purchases	13,80,000	2
Overheads	2,08,000	3
Interest	-	Financing
Depreciation	-	Non-cash item
Loss on sale of the asset	-	Investing item
Cash profit	4,24,000	
Less: Tax	(1,20,000)	
Cash profit after tax	3,04,000	

Note No 1 - Cash Receipts from Sales and Trade receivables

Particulars	Rs.
Sales	20,00,000
Add: Opening Trade receivables	28,000
Less: Closing Trade receivables	40,000
Cash Receipts	20,12,000

Note No 2 - Payment to Trade Payables for Purchases	
Particulars	Rs.
Cost of goods sold	14,00,000
Closing inventories	48,000
Less: Opening inventories	(52,000)
Purchases	13,96,000
Add: Opening Trade Payables	32,000
Less: Closing Trade Payables	(48,000)
Payment to creditors	13,80,000
Particulars	Rs.
Overheads	2,20,000
Add: Opening payables	28,000
Less: Closing payables	(40,000)
Payment for Overheads	2,08,000

Cash flow from Operations by Indirect Method

Indirect Method	Rs.
Profit After Tax	2,12,000
Add/(Less): Depreciation	28,000
Loss on Asset	8,000
Interest paid	12,000
Decrease in Inventory	4,000
Increase in Trade Receivables	(12,000)
Increase in Trade Payables	16,000
Increase in Payables for expenses	12,000
Total	2,80,000

Q14 (Jan 21 – 5 Marks)

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 31st March 2020, as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-2020?

Solution

In the books of Z Ltd.

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

	Rs.	Rs.
<u>Cash flows from operating activities</u>		
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
<u>Cash flows from investing activities</u>		
Acquisition of Property, Plant and Equipment	<u>(19,880)</u>	
Net cash outflow from Investing activities		(19,880)
<u>Cash flows from financing activities</u>		
Net change in cash and cash equivalents		<u>0</u>
Cash and cash equivalents at the beginning of the year i.e. 1st April 2019		4,90,000
Foreign Exchange difference		<u>10,360</u>
Cash and cash equivalents at the end of the year i.e. 31st March 2020		<u>4,80,480</u>

Working Note:

Computation of Foreign Exchange Gain

Bank Account USD	Date	USD	Exchange Rate	Rs.
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	<u>280</u>	71.00	<u>19,880</u>
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot rate)	31.3.2020	6,720	71.50	<u>4,80,480</u>
Foreign Exchange Gain credited to Profit and Loss account				10,360