

Cash Flow Statements

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Indian Government Accounting Standard on Cash Flow Statements

The Standard, which has been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type, and in the context of the "Preface to Indian Government Accounting Standards". Indian Government Accounting Standards are not intended to apply to immaterial items.

Introduction

1. In India, the Governments at both Union and the States level prepare Finance Accounts and Appropriation Accounts on yearly basis. These accounts are presented before the Parliament and respective State Legislatures and thereafter released in public domain. Governments in India follow cash based system of accounting while preparing above accounts. In conventional cash based accounting system, information about the cash receipts, cash payments and cash balances are made available but information regarding the Government's ability to finance its various operations may not be available. Disclosure of information on matters such as whether cash has been generated from taxes, fines, fees, etc. or the sale of capital assets or borrowings or whether cash was expended to meet operating costs, acquisition of capital assets or for retirement of debt and classifying them in different categories based on their nature, would enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessment of the Governments' current cash flows and the likely sources and sustainability of future cash inflows.

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Information about the cash flows of a Government is useful in providing users of financial statements with information for both accountability and decision making purposes. Cash flow information allows users to ascertain how a government raised the cash it required to fund its activities and the manner in which that cash is used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the Government's activities, users require an understanding of the certainty of cash flows.

Objective

2. The objective of this Standard is to provide information about the historical changes in cash and cash equivalents of the Government by means of a cash flow statement, which classifies cash flows during the period into operating, investing and financing activities.

Scope

3. *The cash flow statement should be presented as an integral part of Financial Statements of the Union and State Governments for each period for which such Financial Statements are*

presented. It should be prepared in accordance with the requirements of this Standard. The Financial Statements should not be described as complying with this Standard unless they comply with all its requirements. The transactions that do not require the use of cash or cash equivalents (non-cash transactions) should be excluded from a cash flow statement

4. Information about cash flows may be useful to users of the Government Financial Statements in assessing its cash flows and assessing compliance with legislation and regulations (including authorized budgets where appropriate). Accordingly this Standard requires Governments to present a cash flow statement.

5. Some activities undertaken by Government do not have direct impact on their current cash flows. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions include accounting for interest payable on provident fund deposits of employees, conversion of debt into equity of an entity. Summary and impact of such non-cash transactions should be disclosed in the notes to Cash Flow Statement forming part of the Financial Statements in a way that provides all the relevant information about these activities.

Benefits of Cash Flow Information

6. The Cash Flow Statement provides benefit to the users by giving information about the cash flows of a Government to predict the future cash requirements of the Government. The Cash Flow Statement also gives information about Government's ability to generate cash flows in the future and to determine the changes in the scope and nature of its activities. A Cash Flow Statement also provides the Government means to discharge its accountability for cash inflows and cash outflows during the reporting period.

7. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in its financial structure (including its liquidity and sustainability) and its ability to affect the amounts of cash flows in order to adapt to changing circumstances and opportunities.

8. 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.

Definitions

9. The following terms are used in this Standard with the meaning specified, unless the context otherwise requires:

Cash comprises cash on hand and cash balance.

Cash balance comprises the balances with the Reserve Bank of India and other banks, cash in treasuries and remittances in transit.

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.

Control is the power to govern the financial and operating policies of an entity so as to benefit from its activities.

Controlled Entity is an entity that is under the control of the Government.

Financing activities are activities that result in changes in the size and composition of the borrowings including deposits, reserve funds, advances and other similar items.

Financial Statements mean the Annual Finance Accounts of the Governments.

Government means the Central (Union) Government or a State Government, or a Union Territory Government;

Investing activities are the disbursal and recoveries of loans and advances, acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Operating activities are the principal activities of the Government and does not include investing or financing activities.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Reporting currency means Indian Rupees.

Cash and Cash Equivalents

10. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For 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.

11. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of a Government rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a Cash Flow Statement

12. *The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.*

13. A Government presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the Government and on the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

14. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a borrowing includes both interest and principal, the interest element may be classified as an operating activity and the principal element is classified as a financing activity.

Operating Activities

15. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Government are funded by taxes both direct and indirect or from the sale of goods and services provided by the Government. The amount of net cash flows also assists in showing the ability of the Government to maintain its operating capability, repay debt and other obligations and make new investments without recourse to external sources of financing. The total operating cash flows provide an indication of the extent to which a Government has financed its current activities through taxation and other receipts. Information about the specific components of historical operating cash flows is useful, in conjunction with the other information, in forecasting future operating cash flows.

16. Cash flows from operating activities are primarily derived from the principal cash generating activities of the Government. Examples of cash flows from operating activities are:

- (a) Cash receipts from taxes, levies and fines;
- (b) Cash receipts from charges for goods and services provided by the Government;
- (c) Cash receipts from grants or transfers and other appropriations;
- (d) Cash receipts from interest, royalties, fees, commissions and other revenue;
- (e) Cash payments on account of various services undertaken by a Government;
- (f) Cash payments on account of interest;
- (g) Cash payments to suppliers for goods and services;
- (h) Cash payments to and on behalf of employees;
- (i) Cash outflows on account of maintenance of assets;

- (j) Cash receipts or payments in relation to litigation settlements; and
- (k) Cash payments as grants or transfers and other appropriations to other governments/entities to finance their operations (not including loans and advances).

Investing Activities

17. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the Government's future service delivery. Examples of cash flows arising from investing activities are:

- (a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets;
- (b) Cash payments to acquire equity or debt instruments in other entities and joint ventures;
- (c) Cash advances and loans made;
- (d) Cash receipts from sale of equity or debt instruments of other entities and interests in joint ventures (whether by way of disinvestment or otherwise);
- (e) Cash receipts from sale of property, plant and equipment, intangibles and other long-term assets;
- (f) Cash receipts from the repayment of advances and loans made; and
- (g) Cash receipts from dividends and profits.

Financing Activities

18. 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 funds to the Government. Examples of cash flows arising from financing activities are:

- (a) Cash proceeds from issuing bonds, loans, notes, mortgages and other short or long-term borrowings including loans and advances received by State Governments from the Union Government; and
- (b) Cash repayments on account of principal amounts borrowed under above categories.

Reporting Cash Flows from Operating, Investing and Financing Activities

19. A Government should report cash flows according to major classes of gross cash receipts and gross cash payments arising from operating, investing, and financing activities, except to the extent that cash flows described in paragraph 21 are reported on a net basis.

20. Governments are required to report cash flows according to major classes of gross cash receipts and gross cash payments. The information about major classes of gross cash receipts and gross cash payments may be obtained from the accounting records of the Government.

Reporting Cash Flows on a Net Basis

21. *Cash flows arising from the following activities may be reported on a net basis:*

(a) Cash receipts collected and payments made, arising from transactions a Government administers on behalf of another Government;

(b) Cash flows on account of cash receipts collected by a Government and assigned to another Government as a part of tax sharing arrangement;

(c) Pass-through cash flows received and paid within the reporting period.

All cash flows reported on a net basis should be disclosed along with details of gross cash flows in the notes to Cash Flow Statement.

22. In some cases, the arrangements in place in respect of the revenue collection activities a Government undertakes on behalf of another Government provide for cash collected to be transferred to that Government. Such cash receipts and payments may be reported on a net basis. In some other cases, cash receipts are collected by a Government and are assigned to another Government as a part of tax sharing arrangement. For example, under the Constitution, there are provisions governing the distribution between the Union and the States and also between the States and local bodies, of the net proceeds of taxes which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds. The cash flows arising from such taxes and duties are reported on a net basis in the cash flow statement of the Government. Similarly, pass-through cash flows in the hands of a Government is also required to be reported on a net basis. Disclosure is made in the notes to the Cash Flow Statement regarding cash flows reported on net basis along with details of gross cash flows for information regarding impact and timing of such cash flows in the Financial Statements of intermediate Government.

Interest, Dividends and Profits

23. *Cash flows on account of interest should be classified as part of operating activities. Cash inflows on account of dividends and profits should be classified as part of investing activities.*

24. The total amount of interest paid as well as interest received during a period is disclosed in the cash flow statement and classified as operating cash flows. Dividends and profits received are classified as part of investing cash flows as they arise on account of investment in other entities. Dividends are received on account of Government's investments in corporate entities, whereas profits are normally received by Union Government from entities like Reserve Bank of India. Cash flows on account of interest are classified as operating cash flows because they enter into the determination of net surplus or deficit. Governments use borrowings primarily for the purpose of financing their operating activities and costs on account of such borrowings are treated as operating costs, forming part of operating cash flows. Classification of such

outflows as a component of cash flows from operating activities assists users to determine the ability of government to make these payments out of operating cash flows.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

25. The aggregate cash flows arising from acquisitions and from disposals of Controlled Entities or other operating units should be presented separately and classified as investing activities.

26. A Government should disclose, in aggregate, in respect of both acquisition and disposal of Controlled Entities or other operating units during the period, each of the following:

(a) The total purchase or disposal consideration; and

(b) The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

27. The separate presentation of the cash flow effects of acquisitions and disposals of Controlled Entities and other operating units (for example, entities carrying on public utility functions) as single line items helps to distinguish those cash flows from other cash flows. The cash flow effects of disposals are not deducted from those of acquisitions.

Components of Cash and Cash Equivalents

28. A Government should disclose the components of cash and cash equivalents by way of disclosure in the notes to the cash flow statement.

29. The Government discloses cash balances at the beginning and at end of the reporting period, which is required to be classified in two categories of cash and cash equivalents. The details of components of cash and cash equivalents should be disclosed by way of notes to the cash flow statement. The effect of any change in the policy for determining components of cash and cash equivalents is also required to be reported as a part of notes to the cash flow statement.

Effective Date

30. This Indian Government Accounting Standard shall be effective for the financial statements for the periods commencing from the 1st April subsequent to the date of notification of the standard by the government.

Appendix**Cash Flow Statement**

This appendix is illustrative and does not form part of the Standard. The purpose of this appendix is to illustrate the application of the Standard to assist in clarifying its meaning.

Cash Flow Statement

Particulars	Actual Amount current financial Year (Rs in crore)	Actual Amount Previous financial Year (Rs in crore)
Cash Flows from Operating Activities:		
Receipts:		
Tax Revenue:		
Taxes on Income and Expenditure		
Taxes on Property and Capital Transaction		
Taxes on Commodity and Services		
Total Tax Revenue		
Non-tax Revenue:		
General Services		
Social Services		
Economic Services		
Interest Receipts		
Total Non-tax Revenue		
Grants-in-aid and Contributions		
Total (A)		
Less Disbursements:		
General Services		
Social Services		
Economic Services		
Grants-in-aid and Contributions		
Total (B)		

<p><i>Net Cash flows from Operating Activities (A)-(B)=(C)</i></p> <p>Cash Flows from Investing Activities</p> <p>Receipts:</p> <p>Sale of Property, Plant and Equipment Sale of Investments (Disinvestment receipts etc.) Loans and Advances Dividends and Profits</p> <p>Total (D)</p> <p>Disbursements:</p> <p>Investments in other Entities Capital Expenditure Heads Loans and Advances</p> <p>Total (E)</p> <p><i>Net Cash Flow from Investing Activities (D)-(E)=(F)</i></p> <p><i>Net Cash flow from Operating and Investing activities (C)+(F)=(G)</i></p> <p>Cash Flows from Financing Activities</p> <p>Cash was provided from :-</p> <p>Internal Debt External Debt (If applicable) Small Savings, Provident Funds etc. Reserve Funds bearing interest Reserve Funds not bearing interest Deposits bearing interest Deposits not bearing interest Advances Suspense and Miscellaneous Remittances</p> <p>Total (H)</p> <p>Cash was disbursed towards :</p> <p>Internal debt</p>		
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External debt (If applicable)		
Small Savings, Provident Funds etc.		
Reserve Funds bearing interest		
Reserve Funds not bearing interest		
Deposits bearing interest		
Deposits not bearing interest		
Advances		
Suspense and Miscellaneous		
Remittances		
Total (I)		
<i>Net Cash Flow from Financing Activities (H)-(I)=(J)</i>		
Net Movement in Cash and Cash Equivalents (G)+(J)=(K)		
Opening Balance of Cash and Cash Equivalents (L)		
Closing Balance of Cash and Cash Equivalents = (L)+(K)		

Notes to the Cash Flow Statement

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in treasuries and deposit with Reserve Bank of India and other Banks and Remittances in transit, as stated below:

	Current FY	Previous FY
Cash in treasuries	*****	*****
Deposit with RBI	*****	*****
Deposit with other Banks	*****	*****
Remittances in transit (Local)	*****	*****
Remittances in transit (Foreign)	*****	*****
TOTAL	*****	*****

(b) Any other notes, if required may be included here.