



THE 13th ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS

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Issues involved in IAS 7, Statement of Cash Flows



Accounting Standards Board
The Institute of Chartered Accountants of India, India

Topics for discussion

- Background
- Issues in IAS 7:
 - 1) Information needs
 - 2) Lack of guidance leading to diversity in practice
 - 3) Other issues with respect to language improvement or alignment with other Standards

Background : Statement of cash flows

- Helps to assess the ability to generate cash and cash equivalents (C&CE) and its utilisation under 3 sections viz.:

Operating Activity

Investing Activity

Financing Activity

- In conjunction with other financial statements provides information to evaluate:
 - ✓ changes in net assets
 - ✓ financial structure (including its liquidity and solvency) and
 - ✓ ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities
- Enhances comparability of performance by different entities:
 - ✓ depicts movement of cash flows
 - ✓ eliminates the effects of using different accounting treatments for the same transactions and events

Background: Statement of cash flows

In some cases, transactions are not properly classified into the operating, investing, and financing sections, which :

- ✓ result in loss of comparability and
- ✓ may not represent fair presentation

Key concerns

Information needs

**Lack of guidance
leading to diversity
in practice**

**Other issues wrt
language improvement
or alignment with other
Standards**

Issues suggesting need for improvements in IAS 7

1. Information needs:

Restricted cash and cash equivalent

Issue 1(a) Classification of restricted cash and cash equivalents (particularly Demand Deposits)

Whether restricted C&CE qualify to be classified as 'C&CE'?

- Item that is restricted from use does not qualify to be cash equivalent if it is not available for the purpose of meeting short-term cash commitments (IAS 7.7)
- On the other hand, an item of cash like **demand deposits** would continue to be classified as 'cash' even if there is restriction on its usage.
- Does not appear to be conceptually aligned.

Issue 1(a) Classification of restricted cash and cash equivalents (particularly Demand Deposits)

- Term 'demand deposits' not defined
- Common parlance- bank balance that can be **withdrawn at any time without prior notice**
- Demand deposits having restriction on its use cannot be used to meet short-term commitments and hence not similar to unrestricted cash
- Example -maintaining a minimum cash deposit with bank continuously until the issued bonds are fully redeemed- *balances might not be available to meet short-term commitments and hence should not be regarded as cash.*
- May be appropriate to specifically deal with the impact of restrictions on classification of cash; guidance similar to paragraph 7 may be considered

Issue 1(a) Classification of restricted cash and cash equivalents (particularly Demand Deposits)

Guidance required:

- What is meant by 'demand deposits'
- Elaborate on the term 'restrictions' - clarity as to what kind of restrictions can change the nature of the deposit. IFRS 12.13 considers significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group.

Our view:

- Restriction on both 'use' and 'ability to access' (similar to IFRS 12) should be considered to determine if demand deposits qualifies to be cash
- Recent TAD on 'Demand Deposits with Restrictions on Use (IAS 7)' acknowledges that some **restriction may change the nature of the deposits**, however, no guidance as to what kind of restrictions will change the nature of the deposit which may lead to diversity in practice.
- Clarification on 'restriction' will be useful for consistent application

Issue 1(b) Presentation of restricted cash and cash equivalents

Conceptual Framework (paragraph 7.2) prescribes that effective communication of information in f/s requires:

- a) ...
- b) classifying information in a manner that groups similar items and separates dissimilar items; and
- c) aggregating information in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.

An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. **(IAS 1.55)**

In view of the discussions under '*(a) Classification of restricted cash and cash equivalents*', demand deposit not available to meet short-term commitments should be presented separately.

Our view: - Option given under IAS 1, based on entity's judgement, to present such items as separate line item is not sufficient.

- Restricted demand deposits should be specifically required to be classified and presented separately from line item 'cash' and cash equivalents, in the statement of financial position and cash flows.

2. Lack of guidance leading to diversity in practice:

**Cash and cash equivalents in case of
overnight mutual funds**

Issue 2: Cash and cash equivalents in case of overnight mutual funds

What are Overnight mutual funds?

- Debt funds (generally AAA rated) that invest in following instruments that mature in one day:
 - ✓ collateralized borrowing and lending obligation (CBLOs)
 - ✓ overnight reverse repos
 - ✓ other permitted debt or money market securities.
- Commonly used as they :
 - ✓ bear minimal risk with low-return
 - ✓ preserve the value of the assets and
 - ✓ maintaining a high level of liquidity
- Generally for meeting short-term cash commitments rather than for investment or other purpose.

On Realisation:

- Net Asset Value (NAV) of the same day is credited but there is no fixed maturity.

Issue:

Whether such investments meet the definition of C&CE as per IAS 7 because

- On realisation the change in value is expected to be insignificant but
- At the time of initial investment the exact amount at which the investment will be realised is not known



Issue 2: Cash and cash equivalents in case of overnight mutual funds

Conditions for an item to qualify for C&CE (paragraph 7)	
a) held for the purpose of meeting short-term cash commitments rather than for investment or other purposes	✓
b) short maturity of, say, three months or less from the date of acquisition	✓
c) readily convertible to known amounts of cash and	?
d) which are subject to an insignificant risk of changes in value	✓

- Condition (c)-Exact amount of NAV on realisation is not known at the time of initial investment, but **can be calculated/estimated, and the inputs to, and the method of, calculation are known at the acquisition date.**
- Realised amount may vary, however, the variation will be insignificant.

Whether conditions (c) and (d) are **independent** or both need to be **read together**.

Issue 2: Cash and cash equivalents in case of overnight mutual funds

July 2009 IFRIC Agenda decision

Critical criteria in the definition of Cash equivalents are **‘convertible to known amounts of cash’** and **‘subject to insignificant risk of changes in value’**.

IFRIC noted that the first criterion means that the amount of cash that will be received must be known at the time of the initial investment, i.e. the units cannot be considered cash equivalents simply because they can be converted to cash at any time at the then market price in an active market. An entity would also have to satisfy itself that any investment was subject to an insignificant risk of changes in value for it to be classified as a cash equivalent.

Clarity required :

Condition ‘known amount of cash’ is independent of condition ‘insignificant risk of changes in value’ or the two conditions are to be read together.

Diversity in classification is prevailing

Possible classifications

View 1: Investment is cash equivalent

- Investment made for meeting short-term cash commitments rather than for investment
- Realisation amount can be estimated and the risk of change in such value is insignificant
- On a substantive basis, meets the cash equivalent criteria of 'known amount of cash'
- Classified as cash & cash equivalents

NOTE 12 CASH AND CASH EQUIVALENTS

	As at 31st March, 2021	As at 31st March, 2020
Cash on hand	0	0
Balances with banks		
In current accounts	189	2,957
Term deposits with original maturity of less than three months	1,650	229
Others		
Overnight Mutual funds	3	30
	1,842	3,216

Possible classifications

View 2: Investment is not cash equivalent

- Test of 'known amount of cash' not met even though the variability is low.
- Consequently, classified under investing activities

	As at 31 March 2021		As at 31 March 2020	
	Nos.	Amount	Nos.	Amount
(b) Current				
Investments in mutual funds				
Unquoted				
<i>(Measured at fair value through profit and loss)</i>				
ICICI Pru Equity Arbitrage Fund -Direct-Growth	3,642,102.04	1,022	-	-
Kotak Equity Arbitrage Fund -Direct- Growth	3,379,725.30	1,023	-	-
DSP Overnight Fund - Direct - Growth	-	-	47,169.05	504
Franklin India Overnight Fund -Direct-Growth	-	-	191,756.92	2,004
HSBC Overnight Fund - Direct - Growth	-	-	67,686.62	707
ICICI Prudential Overnight Fund-Direct-Growth	-	-	1,434,024.43	1,545
Invesco India Overnight Fund - Direct-Growth	-	-	143,281.93	1,447
Kotak Overnight Fund - Direct- Growth	-	-	169,155.80	1,803
		2,045		8,010

Issue 2: Cash and cash equivalents in case of overnight mutual funds

Issues requiring guidance

Clarification required on intent of IAS 7

- Whether both the conditions (c) and (d) are independent. If so, need to add clarity.
- Whether two conditions are to be read together- investments may qualify as cash equivalents. If so, condition (c) is sub-set or subordinate to condition (d). Hence, condition (c) may be removed.



3. Other Issues wrt language improvement or alignment with other Standards:

Paragraph 7-example of cash equivalents

Issue 3- Paragraph 7-example of cash equivalents

- IAS 7.7 provides an example of cash equivalents:
“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.”
- As per IAS 32, *Financial Instruments: Presentation*, such preference shares are classified as debt in the books of issuer.
- Example of preference shares with short maturity is not appropriate in relation to the equity investments.
- Example may either be deleted or suitably replaced.

***Thank
You***

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