# Accounting Standard for Local Bodies (ASLB 2)
## Cash Flow Statements

<table>
<thead>
<tr>
<th>Contents</th>
<th>Paragraphs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OBJECTIVE</strong></td>
<td></td>
</tr>
<tr>
<td><strong>SCOPE</strong></td>
<td>1–4</td>
</tr>
<tr>
<td><strong>BENEFITS OF CASH FLOW INFORMATION</strong></td>
<td>5–7</td>
</tr>
<tr>
<td><strong>DEFINITIONS</strong></td>
<td>8–17</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>9–11</td>
</tr>
<tr>
<td>Economic Entity</td>
<td>12–14</td>
</tr>
<tr>
<td>Future Economic Benefits or Service Potential</td>
<td>15–16</td>
</tr>
<tr>
<td>Net Assets/Equity</td>
<td>17</td>
</tr>
<tr>
<td><strong>PRESENTATION OF A CASH FLOW STATEMENT</strong></td>
<td>18–26</td>
</tr>
<tr>
<td>Operating Activities</td>
<td>21–24</td>
</tr>
<tr>
<td>Investing Activities</td>
<td>25</td>
</tr>
<tr>
<td>Financing Activities</td>
<td>26</td>
</tr>
<tr>
<td><strong>REPORTING CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td>27–30</td>
</tr>
<tr>
<td><strong>REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES</strong></td>
<td>31</td>
</tr>
<tr>
<td><strong>REPORTING CASH FLOWS ON A NET BASIS</strong></td>
<td>32–35</td>
</tr>
<tr>
<td><strong>FOREIGN CURRENCY CASH FLOWS</strong></td>
<td>36–39</td>
</tr>
<tr>
<td><strong>INTEREST AND DIVIDENDS OR SIMILAR DISTRIBUTIONS</strong></td>
<td>40–43</td>
</tr>
<tr>
<td><strong>TAXES ON INCOME ARISING FROM GOODS OR SERVICES SUPPLIED BY A LOCAL BODY OUTSIDE ITS OWN JURISDICTION AREA</strong></td>
<td>44–46</td>
</tr>
<tr>
<td><strong>INVESTMENTS IN CONTROLLED ENTITIES, ASSOCIATES AND JOINT VENTURES</strong></td>
<td>47–48</td>
</tr>
<tr>
<td><strong>ACQUISITIONS AND DISPOSALS OF CONTROLLED ENTITIES AND OTHER OPERATING UNITS</strong></td>
<td>49–53</td>
</tr>
</tbody>
</table>
Compendium of Accounting Standards for Local Bodies (ASLBs)

NON-CASH TRANSACTIONS 54–55
COMPONENTS OF CASH AND CASH EQUIVALENTS 56–58
OTHER DISCLOSURES 59–62

ILLUSTRATIVE EXAMPLES

APPENDIX 1 COMPARISON WITH IPSAS 2, ‘CASH FLOW STATEMENTS’
APPENDIX 2 COMPARISON WITH EXISTING AS 3, ‘CASH FLOW STATEMENTS’
Accounting Standard for Local Bodies (ASLB) 2

Cash Flow Statements

(This Accounting Standard includes paragraphs set in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies.)

The Accounting Standard for Local Bodies (ASLB) 2, ‘Cash Flow Statements’, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

Objective

The cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity 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 an entity raised the cash it required to fund its activities, and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity’s activities, users require an understanding of the timing and certainty of cash flows. 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 cash flow statement that classifies cash flows during the period from operating, investing and financing activities.

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1 Attention is specifically drawn to paragraph 4.2 of the ‘Preface to the Accounting Standards for Local Bodies’, according to which Accounting Standards are intended to apply only to items which are material.

2 In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the ‘Preface to the Accounting Standards for Local Bodies’.
Scope

1. An entity that prepares and presents financial statements under the accrual basis of accounting should prepare a cash flow statement in accordance with the requirements of this Standard and should present it as an integral part of its financial statements for each period for which financial statements are presented.

2. Information about cash flows may be useful to users of an entity’s financial statements in (a) assessing the entity’s cash flows, (b) assessing the entity’s compliance with legislation and regulations (including authorised budgets where appropriate), and (c) making decisions about whether to provide resources to, or enter into transactions with, an entity. They are generally 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. Entities need cash for essentially the same reasons, however different their principal revenue producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.

3. This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies³.

4. [Refer to Appendix 1]

Benefits of Cash Flow Information

5. Information about the cash flows of an entity is useful in assisting users to predict (a) the future cash requirements of the entity, (b) its ability to generate cash flows in the future, and (c) its ability to fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

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³ Refer paragraph 1.3 of the ‘Preface to the Accounting Standards for Local Bodies’.
6. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities. 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 other events.

7. 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

8. 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.

**Control**: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amount of those benefits through its power over the other entity.

**Financing activities** are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

**Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

**Operating activities** are the activities of the entity that are not investing or financing activities.

**Reporting date** means the date of the last day of the reporting period to which the financial statements relate.
Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Cash and Cash Equivalents

9. 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.

10. Bank borrowings are generally considered to be financing activities. However, bank overdrafts that are repayable on demand form an integral part of an entity’s cash management. In these circumstances, 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.

11. 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.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

14. An economic entity may include entities with both social policy and commercial objectives. For example, a Local Body XYZ (controlling entity) may control an entity ABC (controlled entity) that provides services of health care for a nominal charge, as well as another entity PQR (controlled entity) that provides transport services on a commercial basis. The group of entities comprising Local Body XYZ and the controlled entities, viz., ABC and PQR, is the economic entity.
Future Economic Benefits or Service Potential

15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity’s objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term “future economic benefits or service potential” to describe the essential characteristic of assets.

16. [Refer to Appendix 1]

Net Assets/Equity

17. Net assets/equity is the term used in this Standard to refer to the residual measure in the balance sheet (assets less liabilities). Net assets/equity may be positive or negative.

Presentation of a Cash Flow Statement

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

19. An entity presents its cash flows from operating, investing, and financing activities in a manner that 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 entity, and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

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

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:
(a) By way of taxes (directly and indirectly); or
(b) From the recipients of goods and services provided by the entity.

The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations and make new investments, without recourse to external sources of financing. The consolidated operating cash flows of an economic entity provide an indication of the extent to which a Local Body has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. 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 entity;
(c) Cash receipts from grants related to revenue/ general grants (excluding grants which are covered under financing activities, i.e., grants in the nature of contribution to the corpus/ municipal fund of Local Body by the government and grants related to assets) or transfers and other appropriations or other budget authority made by Central/ State Government or other entities;
(d) Cash receipts from rentals, royalties, fees, commissions, and other revenue;
(e) Cash payments to other entities to finance their operations (not including loans);
(f) Cash payments to suppliers for goods and services;
(g) Cash payments to and on behalf of employees;
(h) [Refer to Appendix 1];
(i) Cash payments of local property taxes, income taxes (where appropriate) in relation to operating activities;
(j) Cash receipts or payments from discontinuing operations;

(k) Cash receipts or payments in relation to litigation settlements; and

(l) Cash payment of sitting fee/honorarium to elected members.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities.

23. [Refer to Appendix 1]

24. In some cases, Local Bodies will appropriate or authorise funds to entities to finance the operations of an entity, and no clear distinction is made for the disposition of those funds between current activities, capital works, and contributed capital. Where an entity is unable to separately identify appropriations or budgetary authorisations into current activities, capital works, and contributed capital, the appropriation or budget authorisation should be classified as cash flows from operations, and this fact should be disclosed in the notes to the financial statements.

Investing Activities

25. 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 that are intended to contribute to the entity’s future service delivery. Only cash outflows that result in a recognised asset in the balance sheet are eligible for classification as investing activities. 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);
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);

Cash advances and loans made to other parties/employees;

Cash receipts from the repayment of advances and loans made to other parties/employees;

Cash payments for futures contracts, forward contracts, option contracts, and swap contracts;

Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts; and

Receipt of any interest and dividend on investments.

Financing Activities

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:

Cash proceeds from issuing debentures, loans, bonds, mortgages, and other short or long-term borrowings;

Cash receipts from contributions made by the Central/State Government towards the corpus of Local Bodies;

Cash receipts from grants related to fixed assets;

Cash repayments of amounts borrowed; and

Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting Cash Flows from Operating Activities

An entity should report cash flows from operating activities using either:

The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any
Cash Flow Statements

deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

28. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information that (a) may be useful in estimating future cash flows, and (b) 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 operating revenues, operating expenses, and other items in the income and expenditure statement 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.

29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:

(a) Changes during the period in inventories and operating receivables and payables;

(b) Non-cash items such as depreciation, provisions and unrealised foreign currency gains and losses; and

(c) All other items for which the cash effects are investing or financing cash flows.

(d) [Deleted]
Reporting Cash Flows from Investing and Financing Activities

31. An entity should 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 32 and 35 are reported on a net basis.

Reporting Cash Flows on a Net Basis

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

   (a) Cash receipts collected and payments made on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and

   (b) Cash receipts and payments for items in which the cash receipts and related payments are in quick succession, the amounts are large, and the maturities are short.

33. Paragraph 32(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

   (a) The collection of taxes by Local Body for State Government or another entity not including taxes collected by a Local Body for its own use as part of a tax-sharing arrangement;

   (b) [Refer to Appendix 1];

   (c) [Refer to Appendix 1];

   (d) Rents collected on behalf of, and paid over to, the owners of properties; and

   (e) Transfers to third parties consistent with legislation or other government authority.

34. Examples of cash receipts and payments referred to in paragraph 32(b) are advances made for, and the repayment of:

   (a) The purchase and sale of investments; and

   (b) Other short-term borrowings, for example, those that have a maturity period of three months or less.
Foreign Currency Cash Flows

36. **Cash flows arising from transactions in a foreign currency should 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.**

37. [Refer to Appendix 1]

38. Cash flows denominated in a foreign currency are reported in a manner consistent with ASLB 4, ‘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.

39. 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 cash flow statement 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, if those cash flows had been reported at end of period exchange rates.

Interest and Dividends or Similar Distributions

40. **Cash flows from receipt of interest and dividends or similar distributions and payment of interest should be disclosed separately. Cash flow arising from interest paid on bonds, debentures, etc., should be classified as cash flow from financing activities while interest and dividend received should be classified as cash flow from investing activities.**

41. The total amount of interest paid during a period is disclosed in the cash flow statement, whether it has been recognised as an expense in the income and expenditure statement or capitalised in accordance with the ASLB 5, ‘Borrowing Costs’.

42. [Refer to Appendix 1]

43. [Refer to Appendix 1]
Taxes on income arising from goods or services supplied by a Local Body outside its own jurisdictional area

44. Cash flows arising from taxes on income of a Local Body arising from goods or services supplied by it outside its own jurisdictional area should be separately disclosed and should be classified as cash flows from operating activities, unless they can be specifically identified with financing and investing activities.

45. Local Bodies are generally exempt from taxes on income. However, taxes are levied on income of Local Bodies arising from goods or services supplied by them outside their jurisdictional area.

46. [Refer to Appendix 1]

Investments in Controlled Entities, Associates and Joint Ventures

47. When accounting for an investment in an associate, a joint venture or a controlled entity, for reporting cash flows in this regard, the guidance can be found in the ASLBs on the relevant subjects.

48. [Refer to Appendix 1]

Acquisitions and Disposals of Controlled Entities and Other Operating Units

49. 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.

50. An entity should disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:

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4 These services do not cover supply of water or electricity. For details refer Section 10 (20) of the Income Tax Act, 1961.

5 The Guidance with regard to consolidation may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, ‘Accounting Policies, Changes in Accounting Estimates, and Errors’.
Cash Flow Statements

(a) The total purchase or disposal consideration;
(b) The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
(c) The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and
(d) The amount of the assets and liabilities, other than cash or cash equivalents, recognised by the controlled entity or operating unit acquired or disposed of, summarised by each major category.

50A. [Refer to Appendix 1]

51. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units 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 disposals are not deducted from those acquisitions.

52. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

52A. [Refer to Appendix 1]

52B. [Refer to Appendix 1]

53. [Refer to Appendix 1]

Non-cash Transactions

54. Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

55. Many investing and financing activities do not have a direct impact on current cash flows, although they do affect the capital and asset

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6 Purchase consideration may arise, if the entity acquired by the Local Body is a private entity.
structure of an entity. 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 are:

(a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a finance lease; and

(b) The conversion of debt/loans to grants in the nature of contribution to corpus/municipal fund of Local Body by the Government.

Components of Cash and Cash Equivalents

56. An entity should disclose the components of cash and cash equivalents, and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.

57. In view of the variety of cash management practices and banking arrangements and in order to comply with ASLB 1, an entity discloses the policy that it adopts in determining the composition of cash and cash equivalents.

58. The effect of any change in the policy for determining components of cash and cash equivalents is reported in accordance with ASLB 3, ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

Other Disclosures

59. An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.

60. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a controlled entity that operates under legal restriction, when the balances are not available for general use by the controlling entity or other controlled entities.

61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this
information, together with a description in the notes to the financial statements, 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) [Deleted]; and

(c) The amount and nature of restricted cash balances.

62. Where appropriations or budget authorisations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity’s activities or programs and the Local Body’s budgetary information. (As indicated in ASLB 1 for comparison of actual and budgeted figures)

63-64 [Refer to Appendix 1]
Illustrative Examples

*These examples accompany, but are not part of, ASLB 2.*

**Cash Flow Statement**

Direct Method Cash Flow Statement (paragraph 27(a))

**Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2 (In ` lakhs)**

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Sales of goods and services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Grants related to revenue/general grants</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Interest received</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Superannuation</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Suppliers</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
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<tr>
<td>Proceeds from sale of plant and equipment</td>
<td>X</td>
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</tr>
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<td>Proceeds from sale of investments</td>
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<td>X</td>
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## Cash Flow Statements

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<tr>
<th>Cash Flow Statements</th>
<th>20X2</th>
<th>20X1</th>
</tr>
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<tbody>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants received from the Central Government/ State Governments for creation of specific fixed assets</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Repayment of borrowings</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of period</strong></td>
<td>X</td>
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</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Notes to the Cash Flow Statement

(a) **Cash and Cash Equivalents**

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

<table>
<thead>
<tr>
<th>(in ` lakhs)</th>
<th>20X2</th>
<th>20X1</th>
</tr>
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<tbody>
<tr>
<td>Cash on hand and balances with banks</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) **Property, Plant and Equipment**

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of grants for creation of specific fixed assets received from the Central Government/ State Governments. Cash payments of X were made to purchase property, plant and equipment.
(c) Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)

<table>
<thead>
<tr>
<th>(in ` lakhs)</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/(deficit)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Non-cash movements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Amortisation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in provision for doubtful debts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in payables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in borrowings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in provisions relating to employee costs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>(Gains)/losses on sale of property, plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>(Gains)/losses on sale of investments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase in other current assets</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase in investments due to revaluation</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase in receivables</td>
<td>(X)</td>
<td>(X)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net cash flows from operating activities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Indirect Method Cash Flow Statement (paragraph 27(b))

Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2 (In ` lakhs)

<table>
<thead>
<tr>
<th>(in ` lakhs)</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus/(deficit)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Non-cash movements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Amortisation</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
### Cash Flow Statements

<table>
<thead>
<tr>
<th>Item</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in provision for doubtful debts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in payables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
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<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in provisions relating to employee costs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>(Gains)/losses on sale of property, plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>(Gains)/losses on sale of investments</td>
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<td>(X)</td>
</tr>
<tr>
<td>Increase in other current assets</td>
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<td>(X)</td>
</tr>
<tr>
<td>Increase in receivables</td>
<td>(X)</td>
<td>(X)</td>
</tr>
</tbody>
</table>

**Net cash flows from operating activities**

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Notes to the Cash Flow Statement

(a) **Cash and Cash Equivalents**

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

<table>
<thead>
<tr>
<th>(in ` lakhs)</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
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The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) **Property, Plant and Equipment**

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of capital grants by the Central Government/ State Governments. Cash payments of X were made to purchase property, plant and equipment.
Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 2 and the corresponding International Public Sector Accounting Standard (IPSAS) 2, ‘Cash Flow Statements’.

Comparison with IPSAS 2, ‘Cash Flow Statements’

1. Different terminologies have been used in the ASLB 2 as compared to corresponding IPSAS 2, e.g., terms ‘balance sheet’ and ‘income and expenditure statement’ have been used in place of ‘statement of financial position’ and ‘statement of financial performance’.

2. The following paragraphs of IPSAS 2 have been deleted. In order to maintain consistency with the corresponding IPSAS 2, the paragraph numbers have been retained:

   (i) Paragraph 4 and 16 of IPSAS 2 provides that Government Business Enterprises (GBE) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India.

   (ii) Local Bodies in India do not deal in sale and purchase of securities in normal course of their operations. Therefore, provisions pertaining to it have been deleted. (deleted paragraph 23)

   (iii) Local Bodies in India are not engaged in the Insurance Business and Public Financial Institutions. Therefore, provisions pertaining to these have been deleted. (deleted paragraphs 22(h), 28, 33(b), 35)

   (iv) Provisions relating to payment of dividends or similar distribution to owners, do not seem to be relevant in the context of Local Bodies in India. Therefore, the same have been deleted. (paragraphs 42-43 deleted)

   (v) Local bodies in India may not have a foreign controlled entity, therefore, the paragraphs pertaining to such entities have been deleted. (paragraph 37 deleted)

   (vi) Paragraph 46 as the taxes related guidance has already been covered in paragraphs 44-45.
Paragraph 48 of IPSAS 2 prescribing equity method to report cash flows in respect of investments in an associate or joint venture, has been deleted as ASLB on this subject is under formulation.

Paragraphs 50A, 52A and 52B as these paragraphs prescribe the accounting method to be followed in case of consolidation on which ASLBs are yet to be formulated.

Paragraph 53 as it may not be relevant for Local Bodies in India.

Paragraphs 63 - 64 pertaining to effective date have been deleted as the ASLB 2 would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

3. The following paragraphs of IPSAS 2 have been amended significantly to make the same more relevant in the context of Local Bodies in India:

   (i) Deleted the last line of paragraph 9 of IPSAS 2 that the equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

   (ii) List line of paragraph 17 of IPSAS 2, other terms may be used in place of net assets/ equity, provided that their meaning is clear, has been removed.

   (iii) Reference to paragraph 83A of IPSAS 17, ‘Property, Plant and Equipment’ has been deleted from paragraph 22 of the ASLB 2 because similar paragraph is not given in ASLB 17 which was prepared earlier in line with the then corresponding IPSAS.

   (iv) Requirements pertaining to the Income tax expenses have been modified in ASLB 2 as per the provisions of Income Tax Act, 1961 applicable to Local Bodies in India. (refer paragraphs 30(b), 44 – 45 of ASLB 2)

   (v) IPSAS 2 provides guidance for reporting cash flows, when accounting for investment in controlled entities, associates and joint ventures. However, ASLB 2 refers to the ASLBs on the relevant subjects for the guidance in this regard which are under preparation and until the same are issued, guidance to be drawn
from the existing Accounting Standards issued by the ICAI. (refer paragraph 47 of ASLB 2)

4. Some examples of IPSAS 2 have been deleted/ included in the ASLB 2, and some examples have been modified in light of Indian conditions. (refer paragraphs 14, 22, 25, 26, 33, 38, 55(b) and 58)

5. The following paragraphs appear as ‘Deleted’ in IPSAS 2. In order to maintain consistency with paragraph numbers of IPSAS 2, the paragraph numbers are retained in ASLB 2:

   (i) Paragraph 30 (d); and

   (ii) Paragraph 61 (b).
Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 2 and the existing Accounting Standard (AS) 3, ‘Cash Flow Statements’ issued by the Institute of Chartered Accountants of India.

Comparison with Existing AS 3, ‘Cash Flow Statements’

1. ASLB 2 specifically included 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 10 of ASLB 2)

2. ASLB 2 does not contain provisions for the Insurance Business and Public Financial Institution as Local Bodies in India are not engaged in Insurance Business and Public Financial Institutions. However, existing AS 3 contains such provisions.

3. Existing AS 3 contains provisions relating to payment of dividends or similar distribution to owners. However, ASLB 2 does not provide for the same as these are not relevant in the context of Local Bodies.

4. Existing AS 3 requires separate disclosure for the cash flows associated with extraordinary items classified as arising from operating, investing or financing activities. However, ASLB 2 does not provide for the same.

5. In ASLB 2, the provisions in respect of income taxes have been modified as per Income Tax Act, 1961, applicable to Local Bodies in India. (refer paragraph 44 - 45 of ASLB 2)

6. As compared to existing AS 3, ASLB 2 does not contain provisions for cash flows from a foreign controlled entity, as the same is not relevant for Local Bodies in India.

7. As compared to the existing AS 3, ASLB 2 requires the entity to disclose the amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of (refer paragraph 50 (c) & (d) of ASLB 2). ASLB 2 also requires to report the aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of (refer paragraph 52 of ASLB 2). The existing AS 3 does not contain such requirements.
8. Different terminology is used in certain instances, e.g., the term ‘Income and Expenditure Statement’ is used instead of ‘Profit and Loss Account’.

9. ASLB 2 includes additional examples as compared to existing AS 3 such as in case of examples of cash flows from operating activities given in ASLB 2.