

CASH FLOW STATEMENT

Cash Flow Statement Cash flow statement is a statement showing the changes in financial position of a business concern during different intervals of time in terms of cash and cash equivalents.

The Revised Accounting Standard-3 has made it mandatory for all listed companies to prepare and present a cash flow statement along with other financial statements on annual basis.

It is a statement that shows the inflows and the outflows of Cash and Cash Equivalents during the period. Inflows are those transactions that increase the Cash and Cash Equivalents and outflows are those transactions that decrease the Cash and Cash Equivalents. Such statement is prepared in accordance with the Accounting Standard-3 (Revised) on Cash Flow Statement.

Cash Flows: Cash flows are inflows and outflows of cash and cash equivalent. It implies movement in and movement out of cash and cash equivalents. Receipt of cash from a non-cash item is termed as 'cash inflow'; while cash payment in respect of such item is termed as 'cash outflow'.

Cash: - Cash comprises of cash in hand and demand deposits with the bank.

Cash Equivalents: - Cash equivalents are 'short-term highly liquid investments that are readily convertible into known amount of cash and which are subjected to an insignificant risk of change in value'.

Classification of Business Activities as per Accounting Standard-3 (Revised) requires that the changes resulting in inflows and outflows of cash and cash equivalents will be classified into following three activities:

- (i) Cash flow from operating activities.
- (ii) Cash flow from investing activities.
- (iii) Cash flow from financing activities

Legal effects of the cash follow statement

According to company act 2013. Preparation of cash flow statement mandatory for every type of companies except one person company (OPC), small company and dormant companies vide sections 2(40)

The cash flow statement is prepared according to revised accounting standard-3[AS-3(revised)] or new Indian accounting standard-7 (ind.AS-7) on cash flow statement which has been made mandatory w.e.f. 1st April, 2001.

Applicability

This stander applied to the following entities:-

- Which have a turnover of more than RS 50 crore in a preceding financial year
- Which have borrowing more than RS10 crore at any time during the immediately Preceding accounting period
- Banks and insurance companies.

Cash from Operating Activities

Operating activities are the activities that constitute the primary or main activities of an enterprise. Cash flows from operating activities are primarily derived from the main activities of the enterprise. They generally result from the transactions and other events that enter into the determination of net profit or loss. Examples of cash flows from operating activities are:

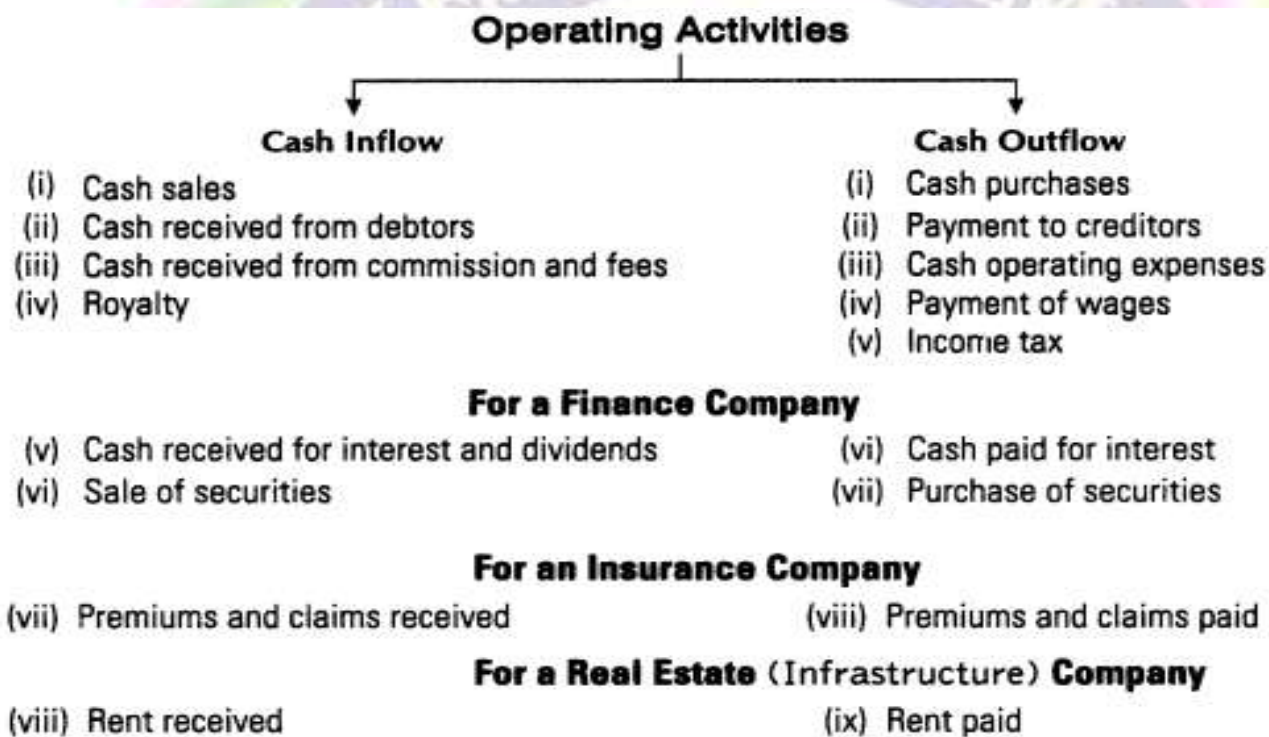
1. (Boring Road and kankarbagh Patna "By □□□□□ □□")

Cash Inflows from operating activities

- Cash receipts from sale of goods and the rendering of services.
- Cash receipts from royalties, fees, commissions and other revenue.

Cash Outflows from operating activities

- Cash payments to suppliers for goods and services.
- Cash payments to and on behalf of the employees.
- Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.
- Cash payments of income taxes unless they can be specifically identified with financing and investing activities.



Calculation of cash flow from operating activities (Direct method)

Particulars	amount	amount
Cash flow from operations activities:		
(A) Operating cash receipts:		
Cash sales		
Cash received from customers/debtors	
Trading commission received	
Royalties received	
Gross cash receipts from operating activities	
(B) Less: operating cash payment :		
Cash purchase	
Cash paid to the creditors/suppliers	
Cash paid to the employees	
Cash paid for others operating expenses like office expenses, Manufacturing expenses, selling and distribution expenses	 (.....)
(C) Cash generated from operating activities (A-B)	
(D) Less: income tax paid (net of tax refunds received i.e income -tax Paid less tax refunds received)		(.....)
Cash flow before extra -ordinary income	
(E) Add: adjusted extra - ordinary item (+/-) receipt/payment	
Net cash flow from (or used in) operating activities	

Increase in current assets (+) - outflow
Decrease in current assets (-) - inflow
Increase in current liabilities (+) - inflow
Decrease in current liabilities (-) - outflow

Format of cash flow from operating activities(Indirect Method)

Particulars	Amount	Amount
Net Profit before tax and extra- ordinary items		xxx
Adjustments for (Non - cash and Non operating Expenses which have already been debited to statement of profit & loss)		
Add: Depreciation	xxx	
Provision for Income Tax		
Transfer to General Reserve	xxx	
Provision for doubtful debt		
Goodwill written off	xxx	
Amortization of intangible assets (preliminary expenses, discount on issue of shares and debentures written off, underwriting commission written off, expense on issue of shares)	xxx	xxx
Loss on sale of long term or fixed assets/Investment		
Interest on borrowings & Debentures	xxx	
Dividend Paid	xxx	
Less: Non cash and non operating Income which have already been credited to profit and loss A/C	xxx	
Dividend received		
Interest income	xxx	
Profit on sale of fixed assets (machinery, building etc.)		
Profit on sale of long-term investments		
Provision for bad debts		
Provision for discount on debtors		
Net Operating profit before working capital changes		
Add: Increase in items of current liabilities	xx	
Decrease in items of current assets	xx	
Less: Increase in items of current assets	(xx)	
Decrease in items of current liabilities(or used in)	(xx)	
Cash generated from (or used in) operating activities		
Less: Income tax paid		
Extra ordinary item(+/-)		
Net cash flow from (or used in) operating activities		

Cash from Investing Activities

investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc.

Cash Outflows from investing activities

Cash payments to acquire fixed assets including intangibles and capitalized research and development.

Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments those held for trading purposes.

Cash advances and loans made to third party (other than advances and loans made by a financial enterprise wherein it is operating activities).

Cash Inflows from Investing Activities

Cash receipt from disposal of fixed assets including intangibles.

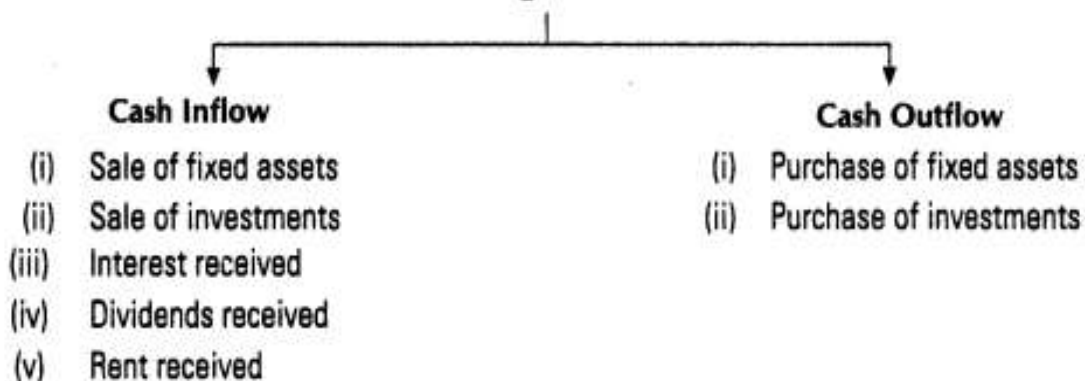
Receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise).

Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.

Interest received in cash from loans and advances.

Dividend received from investments in other enterprises.

Investing Activities



Cash flow from Investing Activities:

Particulars	Amount
Sale of fixed assets	xxx
Sale of investment	xxx
Purchase of fixed assets	(xxx)
Purchase of investment	(xxx)
Purchase of intangible assets	(xxx)
Interest Received	xxx
Dividend Received	xxx
Net cash flow/uses from investing activities	xxx

Cash from Financing Activities

Financing activities relate to long-term funds or capital of an enterprise, e.g., cash proceeds from issue of equity shares, debentures, raising long-term bank loans, repayment of bank loan, etc.

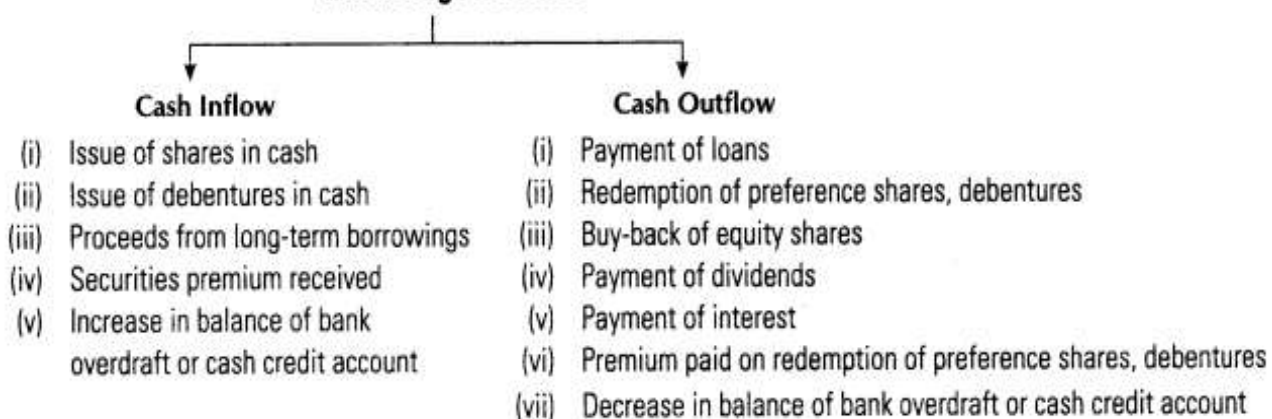
Cash Inflows from financing activities

- Cash proceeds from issuing shares (equity or/and preference)
- Cash proceeds from issuing debentures, loans, bonds and other short/long-term borrowings.

Cash Outflows from financing activities

- Cash repayments of amounts borrowed.
- Interest paid on debentures and long-term loans and advances.
- Dividends paid on equity and preference capital

Financing Activities



CASH FLOW FROM FINANCING

	Rs
Issue of equity share capital	xxx
Issue of preference share capital	xxx
Issue of debentures	xxx
Taken of long term loan	xxx
Buy back of equity share capital	(xxx)
Redemption of preference share capital	(xxx)
Redemption of long term loan	
Interest paid	(xxx)
Dividend paid	(xxx)
Net cash flow/uses from financing activities	(xxx)
	xxx

- **Objectives of Cash Flow Statement:** A Cash Flow Statement is prepared:
 - i. To determine the sources of Cash and Cash Equivalents under operating, investing and financing activities of the enterprise.
 - ii. To determine the applications of Cash and Cash Equivalents for operating, investing and financing activities of the enterprise.
 - iii. To determine the net change in Cash and Cash Equivalents due to cash inflows and outflows for operating, investing and financing activities of the enterprise that takes place between the 2 balance sheet dates.
- **Importance or Uses of Cash Flow Statement:** Preparation of Cash Flow Statement is helpful for following reasons:
 - i. **To facilitate Short-term Planning:** It helps in planning investments and assessing the financial requirements of the enterprise based on information provided in the statement about the sources and applications of Cash and Cash Equivalents.
 - ii. **To assess Liquidity and Solvency:** It helps in identifying the ability of the enterprise to meet its liabilities on time.
 - iii. **To manage Cash Efficiently:** It provides information about the cash position by reflecting either a surplus of cash or a deficit of cash in the statement. This helps the enterprise to take decisions about the investment of surplus cash and the arrangement of deficit funds.
 - iv. **To facilitate Comparative Study:** It facilitates the comparison of actual cash flows with the budgeted cash flows to identify whether the inflows and outflows of cash are moving as per the plan. Such comparison will also reflect deviations of the actual cash flows from the budgeted cash flows for which necessary actions are then taken by the enterprise.

- v. **To justify Cash Position:** Cash flow statement is prepared to record all the cash inflows and outflows which result in the surplus or deficit of cash for an enterprise. Since, all the cash transactions are presented in the statement, it becomes easy to identify the items which increase or decrease the cash balances.
 - vi. **To evaluate Management Decisions:** This statement classifies the cash transactions under 3 separate heads namely, operating, investing and financing. Such classification helps the users of the statement to evaluate whether the decisions taken by the management are appropriate from investing and financing point of view.
 - vii. **To take dividend decisions:** In order to declare or approve the dividends, every enterprise should comply with the prescribed provisions e.g. depositing the amount of dividend in a separate bank, etc. Accordingly, to identify whether the enterprise has sufficient funds for such compliance cash flow statement is referred by the management. Also, it helps in deciding how much dividend the enterprise should pay during a particular year.
- **Limitations of Cash Flow Statement:**
 - i. **Non-cash transactions are not shown:** It takes into consideration only cash inflows and cash outflows. Non-cash transactions are not considered for preparation of cash flow statement.
 - ii. **Not a substitute for an Income Statement:** Cash flow statement cannot be used as a substitute for an Income Statement because Income Statement is prepared on accrual basis of accounting whereas cash flow statement is prepared on cash basis. Also, it is not possible to compute net profit or loss from the cash flow statement.
 - iii. **Not a substitute for Balance Sheet:** Cash flow statements do not show the financial position of the enterprise and therefore, cannot be used as a substitute for Balance Sheet.
 - iv. **Historical in Nature:** Cash flow statement is prepared based on the cash inflows and outflows that have already taken place during the year and hence, it is historical in nature.
 - v. **Assessment of Liquidity:** Cash flow statement takes into consideration all the transactions of cash and cash equivalents. This cash and cash equivalents is just one of the components

In the current assets which determine the liquidity position of the enterprise. Therefore, cash flow statement alone cannot help in determining the liquidity position of the enterprise.

Accuracy of Cash Flow Statement: Since, the cash flow statement is prepared from the financial statements of an enterprise; accuracy of the same shall depend upon how accurately the financial statements of the enterprise are prepared.

Methods of Cash Flow Statement

Cash flow from operating activities can be determined using both **Indirect and Direct methods**. These processes are explained in detail as follows:

Direct Methods: Here, the notable titles of cash outflows and inflows (namely employee benefits expenses paid, cash received from trade receivables, etc.,) are contemplated. It is significant to perceive here that items are reported on accrual data in the statement of profit and loss. Therefore, some changes are made to transform them into a cash basis.

Indirect Method: Indirect method of determining cash flow from operating pursuits starts with the amount of net profit and loss. This statement includes the results of all operating activities of a firm. However, an account of profit and loss is outlined on an accrual base and not on a cash basis. It involves non-operating items (such as profit and loss on the sale of fixed assets, interest paid, etc. Non-cash items such as goodwill to be written-off, depreciation, etc.). Hence, it becomes vital to regulate the amount of net profit and loss as depicted by a statement of profit and loss for landing at cash flows from operating activities.

Preparation of Necessary Ledger Account: -

In the case of Assets Transaction

- i. When purchase of Assets
Assets A/c Dr
To cash / bank A/c
- ii. When depreciation charged on Assets
Depreciation A/c Dr
To assets A/c
- iii. When depreciation amount transfer into SPL A/c
SPL Account Dr
To depreciation A/c
- iv. When sale of assets
Cash/Bank A/c Dr
To assets A/c

v. When profit/loss on sale of assets

Transfer into SPL

a) In the case of profit

Assets A/c Dr

To SPL A/c

b) In the case of loss

SPL A/c Dr

To assets A/c

ASSETS ACCOUNT:

	Rs		Rs
To Balance b/d	xxx	By Depreciation A/c	xxx
To cash A/c	xxx	By cash A/c	xxx
To SPL A/c (profit)	xxx	By SPL A/c (Loss)	xxx
		By Balance C/d	
	xxx		xx

In the case of provision for Income Tax:-

I. When creation of provision for income tax during the year

SPL Account Dr

To provision for Income Tax A/c

II. When payment of Income Tax during the year

Provision for Income Tax A/c Dr

To cash /Bank A/c

Provision for Income Tax

To Cash A/c	xxx	By Balance b/d	xxx
To balance c/d	xxx	By SPL A/c (current year)	xxx
	xxx		xxx

Rankers' Commerce (Patna (9386035411,9934073666))

ASSIGNMENT NO 1:-

The following information is given by X Ltd

	2018 - 19	2019 - 20
Machinery A/c	500000	600000

Find out the amount affect into the cash flow statement.

ASSIGNMENT NO 2:

The following information is given by X Ltd

	2018 - 19	2019 - 20
Machinery A/c	600000	850000

During the year depreciation charged on machinery @ 10% P.A. find out the amount effect into the cash flow statement.

ASSIGNMENT NO 3:

The following information is given by X Ltd

	2018- 19	2019 - 20
Machinery A/c	800000	1250000

During the year depreciation charged on machinery Rs. 30000 and A machinery costing Rs 40000 was sold Rs 25000. Find out the amount effect into the cash flow statement.

ASSIGNMENT NO 4:

The following information is given by X Ltd

	2018 - 19	2019 - 20
Provision for Income Tax	40000	65000

Find out the amount effect into the cash flow statement.

ASSIGNMENT NO 5:-

The following information is given by X Ltd.

	2018 - 19	2019 - 20
Provision for Income Tax	80000	95000

During the year provision for Income Tax Rs 60000 find out the amount effect into cash flow statement.

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ASSIGNMENT NO 6:

Prepare cash flow from operating activities from the following information.

	2018 - 19	2019 - 20
Share Capital	600000	850000
Reserve and Surplus		
Profit / loss A/c	50000	
150000		
General Reserve	20000	30000
Sundry Creditors	50000	65000
Bills Receivable	10000	5000
Provision for Income Tax	10000	60000
Provision for Bad Debts	20000	35000
Goodwill	4000	2000
Preliminary Expenses	6000	4000

Additional Information:-

- Interest received during the year Rs 10000 and Dividend received Rs 20000.
- Loss on sale of machinery during the year Rs 30000.
- Interest paid Rs 5000 during the year.
- Depreciation charged on fixed assets during the year Rs 10000.

ASSIGNMENT NO 7:

Prepare cash flow from Investing Activities.

	2018 - 19	2019 - 20
Plant A/c	600000	800000
Machinery A/c	250000	350000
Building A/c	600000	950000
Land A/c	150000	100000
Goodwill A/c	50000	90000
Investment A/c	90000	120000

Additional Information:-

- During the year depreciation charged on plant @ 20% P.A and machine @ 10% P.A
- A machinery costing Rs 30000 was sold Rs 22000.
- 40% of the investment was sold At Rs 25000 profit.
- Interest received Rs 35000 and dividend received Rs 40000 during the year.

ASSIGNMENT NO 8:

Prepare cash flow from financing activities.

	2018 - 19	2019 - 20
Equity Share Capital	500000	800000
10% Preference share capital	60000	40000
10% Debentures	40000	80000
Bank loan	10000
Loan from financial institution	80000	150000

Additional Information:-

- i. **Redemption of preference share capital @ 10% premium.**
- ii. **Interest paid during the year Rs 30000.**
- iii. **Dividend paid during the year Rs 40000.**

• **Steps for Preparing Cash Flow Statement:**

- **Step 1:** Compute cash flow from Operating Activities.
- **Step 2:** Compute cash flow from Investing Activities.
- **Step 3:** Compute cash flow from Financing Activities.
- **Step 4:** Adding Step 1, Step 2 and Step 3 above, compute the net increase or decrease in Cash and Cash Equivalents.
- **Step 5:** Amount computed in Step 4 is to be added to the balance of Cash and Cash Equivalents in the beginning of the year.
- **Step 6:** Adding Step 4 and Step 5 will give the balance of Cash and Cash Equivalents at the end of the year which will match the balance as per Balance Sheet.

• **Precautions to be taken for preparing Cash Flow Statement:**

- **Balance in Statement of Profit and Loss:** Identify whether the balance in the Statement of Profit and Loss is positive or negative. When the opening balance is negative, it is to be added to the closing balance and when the opening balance is positive, it is to be deducted from the closing balance.
- **Balance of Other Reserves:** Identify whether the balances of other reserves have increased or decreased. When the increase is due to appropriation from Surplus, i.e., Balance in Statement of Profit and Loss, it is to be added to compute Net Profit before tax and Extraordinary Items.
- **Interest on borrowings:** Identify if the percentage of interest on borrowings is given and add the amount of interest paid to compute Net Profit before Working Capital Changes and show it as an 'Outflow' under Cash Flow from Financing Activities
- **Interest on Investment:** Identify if the percentage of interest on

Rankers' Commerce (Patna \9386035411,9934073666)

Investment is given and deduct the amount of interest received to compute Net Profit before Working Capital Changes and show it as an 'Inflow' under cash Flow from Investing Activities

- **Non-cash Expenses:** Identify if non-cash expenses are given and add them to compute Net Profit before Working Capital Changes.
- **Non-operating Expenses:** Identify if non-operating expenses are given and add them to compute Net Profit before Working Capital Changes. It will be shown as an outflow under appropriate head.
- **Non-operating Incomes:** Identify if non-operating incomes are given and deduct them to compute Net Profit before Working Capital Changes.

CASH FLOW STATEMENT

(For the year ended.....)

PARTICULARS	AMOUNT	AMOUNT
1. <u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Net Profit before tax and extra- ordinary items	Xxx	
<u>Adjustments</u>		
Add: Non Operating & Non Cash Expenses which have already been debited to statement of profit & loss)	Xxx	
Depreciation		
Provision for Income Tax		
Transfer to General Reserve		
Provision for doubtful debt		
Goodwill written off		
Amortization of intangible assets (preliminary expenses, discount on issue of shares and debentures written off, underwriting commission written off, expense on issue of shares)		
Loss on sale of long term or fixed assets/Investment		
Interest on borrowings & Debentures		
Dividend Paid	(xxx)	
Less: Non cash and non operating Income which have already been credited to profit and loss A/C		
Dividend received		
Interest income		
Profit on sale of fixed assets (machinery, building etc.)	Xxx	
Profit on sale of long-term investments		
Net Operating profit before working capital changes		

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Add: Increase in items of current liabilities	xx	XXX	
Decrease in items of current assets	xx	(XXX)	XXX
Less: Increase in items of current assets			
(xx)			
Decrease in items of current liabilities(or used in)	(xx)		
Cash generated from (or used in) operating activities		XXX	
Less: Income tax paid		XXX	
Extra ordinary item(+/-)		(XXX)	
Net cash flow from (or used in) operating activities		(XXX)	
2. CASH FLOW FROM INVESTING ACTIVITIES		(XXX)	
Sale of fixed assets		XXX	XXX
Sale of investment		XXX	
Purchase of fixed assets			
Purchase of investment			
Purchase of intangible assets		XXX	
Interest Received		XXX	
Dividend Received		XXX	
Net cash flow/uses from investing activities		XXX	
3. CASH FLOW FROM FINANCING ACTIVITIES		(XXX)	
Issue of equity share capital			
Issue of preference share capital		(XXX)	
Issue of debentures		(XXX)	XXXX
Taken of long term loan		(XXX)	Xxx
Buy back of equity share capital			xxx
Redemption of preference share capital			xxx
Redemption of long term loan			
Interest paid			
Dividend paid			
Net cash flow/uses from Financing activities			
Net Increase /Decrease in cash and cash equivalents			
Cash and Cash equivalent in the beginning of the year			
Cash and Cash equivalent in the end of the year			