

CASH FLOW STATEMENT (AS-3)

It is an additional information provided to the users of accounts in the form of an statement, which reflects the various sources from where cash was generated (inflow) by an enterprise during the year and how these inflows were utilised (outflow) by the enterprise

Financial statements with respect to one person company, small company, dormant company and private company (if such a private company is a start up), may not include the cash flow statement.

‘CASH & CASH EQUIVALENTS’

Cash	Cash in hand, Cash at Bank
Cash Equivalent	Short term highly liquid investments that are readily convertible into known amounts of cash. It has short maturity of ≤ 3 months from date of acquisition

TRANSACTIONS NOT CONSIDERED AS CASH FLOWS

Meaning	Transactions which represent movements between items of Cash or Cash Equivalents are not considered as Cash Flows.
Examples	a) Cash deposited into Bank; b) Cash withdrawn from Bank; c) Purchase/Sale of Short-term Marketable Securities.

‘CASH FLOWS’

Cash Flows	Cash Flows are inflows and outflows of Cash and Cash equivalents.
Cash Inflows	When net effect of transaction is increase in amount of Cash/Cash Equivalents.
Cash Outflows	When net effect of transaction is decrease in amount of Cash/Cash Equivalents.

EXAMPLES OF CASH FLOWS

CASH INFLOWS	CASH OUTFLOWS
1) Cash Sales of Goods	1) Cash Purchases of Goods
2) Cash received from Trade Debtors	2) Cash paid to Trade Creditors
3) Cash received from commission & Royalty	3) Operating Expenses paid (e.g. Salaries & Wages, Administration Exp. Selling Exp.)
	4) Income Tax paid
4) Sale of Fixed Assets for Cash	5) Cash Purchase of Fixed Assets
5) Sale of Investments (whether Current or Non-Current) for Cash	6) Cash Purchase of Investments (whether Short term or Long term) (incl. brokerage)
6) Loans & Advances repayment received (whether Short term or Long term)	7) Loans & Advances granted (whether Short term or Long term)
7) Income received on Investments	
8) Issue of Equity Shares for Cash	8) Buy-back of Equity Shares for Cash
9) Issue of Preference Shares for Cash	9) Redemption of Preference Shares for Cash
10) Issue of Debentures for Cash	10) Redemption of Debentures for Cash
11) Loans taken (whether Short or Long term)	11) Loans repaid (whether Short or Long term)
	12) Interest on Debentures & Loans paid.
	13) Dividend on Shares paid.
	14) Brokerage & Underwriting Commission Paid on issue of Shares & Debentures

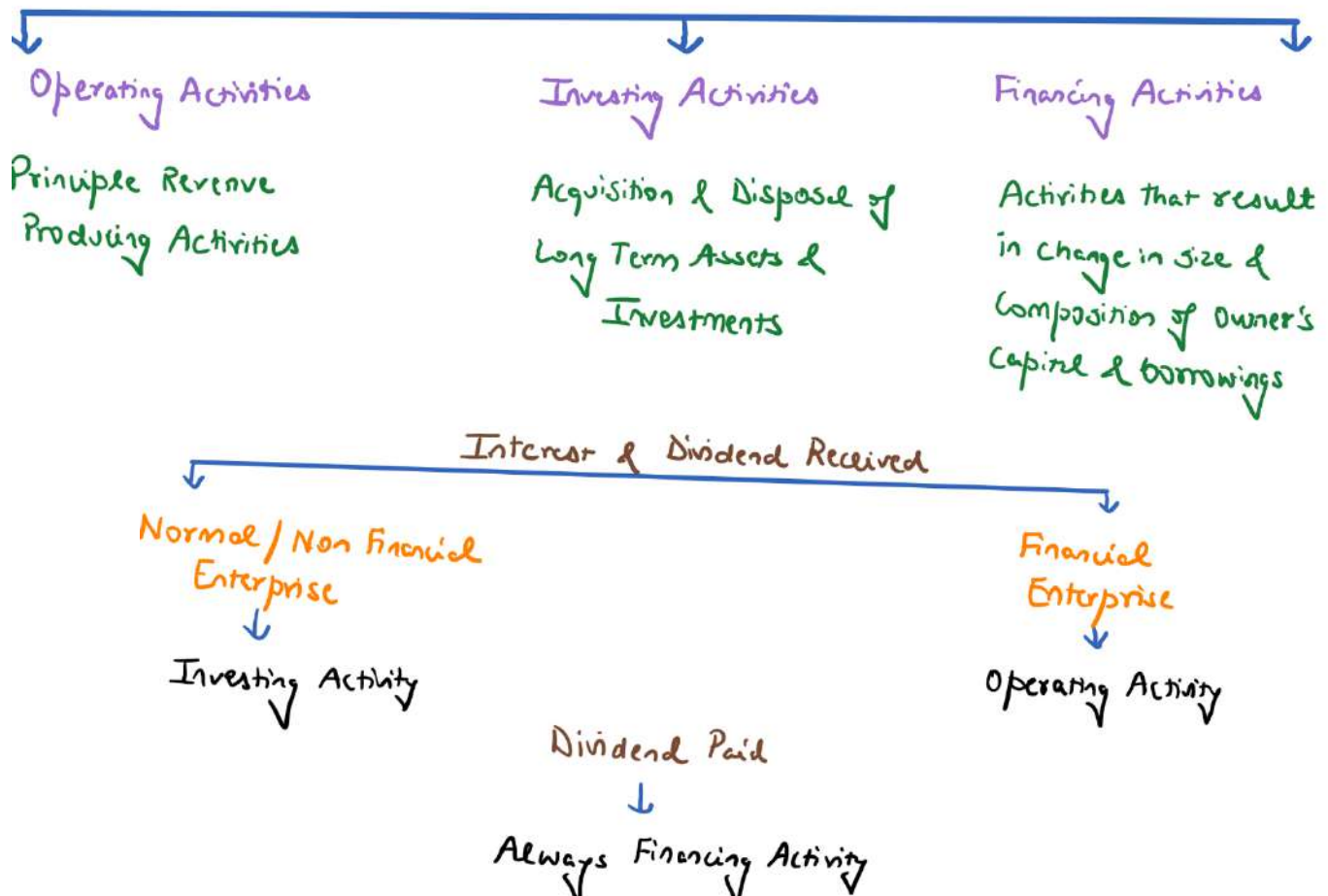
STEPS INVOLVED IN THE PREPARATION OF CASH FLOW STATEMENT

Particulars	Amount
Step 1: Calculate the Cash flow from Operating activities.	XX
Step 2: Calculate the Cash flow from Investing activities	XX
Step 3: Calculate the Cash flow from Financing activities	XX
Step 4: Calculate the Net Increase/(Decrease) in cash & cash equivalents (Step 1 + Step 2 + Step 3)	XX
Step 5: Calculate the Cash and Cash Equivalents at the beginning of period	XX
Step 6: Calculate the Cash and Cash Equivalents at the end of period (Step 4 + Step 5)	XX

NON-CASH TRANSACTIONS

Meaning	Non-Cash Transactions are those transactions which do not involve Cash
Examples (Verification by Journal Entry)	Issue of Equity Shares or Debentures against the purchase of an Asset Asset A/c Dr To Equity Share Capital A/c / Debentures A/c
	Issue of Equity Shares on conversion of Convertible Debentures Convertible Debentures A/c Dr To Equity Share Capital A/c
	Charging of Depreciation/Amortization on a Tangible/Intangible Asset Depreciation/Amortisation A/c Dr To Tangible/Intangible Asset A/c
Why ignored in CFS?	Non-Cash transactions are ignored while preparing Cash Flow Statement because these do not involve Cash.

Activities



NOTES

In case of ***Financial Enterprises*** the following activities are classified as Operating Activities since they relate to the main revenue-producing activity of that enterprise:

- *Purchases and Sales of Shares & Debentures of other companies for Cash*
- *Dividend received on Shares of other companies*
- *Interest received on Debentures of other companies*
- *Loans & Advances granted*
- *Interest received on Loans & Advances granted*

HOW TO COMPUTE NET CASH FLOW FROM OPERATING ACTIVITIES (UNDER DIRECT METHOD)

<u>Particulars</u>	<u>Rs.</u>	<u>Rs.</u>
A. Operating Receipts in Cash (e.g.)		
Cash Sales	xxx	
Cash receipts from Debtors	xxx	
Trading Commission received	<u>xxx</u>	xxx
B. Opening Payments in Cash (e.g.)		
Cash Purchases	xxx	
Cash paid to Suppliers/Creditors	xxx	
Wages & Salaries Paid	xxx	
Office and Administration Expenses paid	xxx	
Manufacturing overheads paid	xxx	
Selling and Distribution expenses paid	<u>xxx</u>	xxx
C. Cash Generated from Operations before taxes (A-B)		xxx
D. Income tax paid (Net of refund of Tax)		xxx
E. Cash flow before extraordinary item (C-D)		xxx
F. Extraordinary item		xxx
G. Net cash from (used in) Operating Activities		xxx

Question

On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2020 (Using direct method):

- a) Total sales for the year were Rs. 398 crores out of which cash sales amounted to Rs. 262 crores.
- b) Receipts from credit customers during the year, totaled Rs. 134 crores.
- c) Purchases for the year amounted to Rs. 220 crores out of which credit purchase was 80%.
Balance in creditors as on
1.4.2019 Rs. 84 crores
31.3.2020 Rs. 92 crores
- d) Suppliers of other consumables and services were paid Rs. 19 crores in cash.
- e) Employees of the enterprises were paid 20 crores in cash.
- f) Fully paid preference share of the face value of Rs.32 crores were redeemed. Equity shares of the face value of Rs.20 crores were allotted as fully paid up at premium of 20%.
- g) Debentures of Rs. 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.
- h) Rs.26 crores were paid by way of income tax.
- i) A new machinery costing Rs. 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was Rs.13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs.15 crores. The balance was paid in cash to the vendor.
- j) Investment costing Rs. 18 cores were sold at a loss of Rs.2 crores.
- k) Dividends totalling Rs. 15 crores was also paid.
- l) Debenture interest amounting Rs. 2 crore was paid.
- m) On 31st March 2019, Balance with Bank and Cash on hand totaled Rs. 2 crores

Solution

Cash flow statement (using Direct Method) for the year ended 31st March, 2020

	Rs (in crore)	Rs (in crore)
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash Purchases	(44)	
Less: Payment to Creditors (84+176-92)	(168)	
Less: Paid to Suppliers of Consumables & services	(19)	
Less: Payment to Employees	(20)	
Cash generated from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Payment for purchase of Machine (25-15)	(10)	
Proceeds from sale of Investments	16	
Net cash generated from investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalent		100
Add: Cash and cash equivalents as on 1.04.2019		2
Cash and cash equivalents as on 31.3.2020		102

HOW TO COMPUTE NET CASH FLOW FROM OPERATING ACTIVITIES (UNDER INDIRECT METHOD)

Particulars	Rs.	Rs.
Step 1 : Calculate Net Profit before Taxation & Extraordinary item :		
Closing Balance of P & L A/c		xxx
Less : Opening Balance of P&L A/c (or Add : Opening Bal. of P&L A/c (Dr.))		xxx
Add : Dividend declared for the current year		xxx
Add : Interim Dividend paid during the current year		xxx
Add : Transfer to Reserve (or Less : Transfer from Reserve)		xxx
Add : Provision for Tax made during the Current Year		xxx
Less : Refund of Tax credited to P&L A/c		(xxx)
Less : Extraordinary Item, if any, credited to P&L A/c (e.g. Insurance proceeds from earthquake disaster settlement)		(xxx)
Add : Extraordinary Debit Items (e.g. Loss due to earthquake)		xxx
Net Profit before Taxation and Extraordinary Item		xxx
Step 2 : Calculate Operating Profit before Working Capital Changes		
Net Profit before Taxation and Extraordinary Item		xxx
Adjustments for Non-Cash and Non-Operating Items:		
Depreciation	xxx	
Interest on Debentures & Loans (whether Short term or Long Term)	xxx	
Preliminary Expenses/Underwriting Commission	xxx	
Discount on Issue of Debentures written off	xxx	
Goodwill/Patents/Trade Marks/Copyright amortized	xxx	
Loss on Sale of Investments (whether Current or Non Current)	xxx	
Interest income from Investments (whether current or non-current)	(xxx)	
Dividend income	(xxx)	
Rental income	(xxx)	
Profit on sale of Investments (whether current or non-current)	(xxx)	xxx
Operating profit before working capital changes		xxx
Step 3: Calculate Cash from Operations before tax & Extraordinary item:		
Operating profit before working capital changes		xxx
Changes in current assets (Excluding cash and cash equivalents) & Current Liabilities (excluding bank overdraft cash and cash credit) :		
Decrease in Inventories, Trade Receivables, Prepaid Exp etc.	xxx	
Increase in Trade Payables, O/s exp. Etc.	xxx	
Increase in Inventories, Trade Receivables, Prepaid Exp etc.	(xxx)	
Decrease in Trade Payables, O/s Exp. etc.	(xxx)	xxx
Cash Generated from Operations		xxx
Step 4: Calculate Cash generated from Operations after tax but before extraordinary item:		
A. Cash generated from Operations		xxx
B. Less: Income taxes paid (including Advance tax but excluding refund of tax)		(xxx)
(Note: Income tax should be related to operating activities only)		
C. Cash flow before extraordinary item		xxx
Step 5 : Calculate Net Cash from (used in) Operating Activities as follows :		
Cash Flow before Extraordinary Items		xxx
Add : Extraordinary Items (e.g. Insurance proceeds from earthquake disaster settlement, Govt. Grant)		xxx
Net Cash Flow from (used in) Operating Activities		xxx

Note : Negative items which are to be deducted have been shown in brackets.

POINTS:

- 1) Prepare Fixed Assets A/c (& Accumulated Dep. A/c)
 - Depreciation for the year
 - Purchase / Sale of Fixed Assets

↓
Only when opening & closing
Acc. Dep. given.

- 2) Never consider change in Provision for taxation & Dividend Payable A/c
 - If Nothing given: Consider opening is paid & closing is provided for
 - If payment / provided for given: Make A/c to ascertain other value.

- 3) Always Tally Increase in P/L A/c before start of answer.

Example

Particulars	Opening	Closing
Plant & Machinery (Cost)	12,00,000	16,00,000
Accumulated Depreciation	3,00,000	5,00,000

During the year a machine having book value of Rs. 90,000 (depreciation provided thereon Rs. 60,000) was sold at a loss of Rs. 20,000.

A machine costing Rs. 90,000 was purchased by issue of Equity shares of Rs. 10 each at a premium of 20%

Plant & Machinery A/c			
To Bal b/d	1200000	By Acc. Dep. A/c	60000
To Equity share cap.	75000	By Bank A/c	70000
To Sec. Premium	15000	By P/L (loss)	20000
To Bank (B.f.)	460000	By Bal fd	160000
Acc. Dep. A/c			
To Plant & Mach. A/c	60000	By Bal b/d	300000
To Bal fd	500000	By Dep. (B.f.)	260000

Question

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2019 and 2020:

Liabilities	As on 31.03.2019	As on 31.03.2020
Equity share capital	3,00,000	4,50,000
12% Preference Share Capital	2,00,000	1,00,000
Capital Reserve	-	65,000
General Reserve	1,00,000	2,00,000
Profit and Loss A/c	2,00,000	2,40,000
12% Debentures	3,00,000	1,00,000
Long term loan from the bank	2,50,000	2,00,000
Trade Payables	1,50,000	1,00,000
Provision for Taxation	25,000	30,000
Dividend Payable	50,000	70,000
Outstanding Expenses	20,000	30,000
Outstanding Debenture Interest	20,000	35,000
	16,15,000	16,20,000

Assets	As on 31.03.2019	As on 31.03.2020
Land and Building	3,00,000	3,50,000
Machinery	3,75,000	4,60,000
Investment	50,000	25,000
Inventory	1,35,000	1,40,000
Trade Receivables	3,00,000	3,20,000
Prepaid Expenses	15,000	10,000
Accrued Interest on Investment	8,000	15,000
Voluntary Separation Payments	60,000	1,20,000
Cash in Hand	2,22,000	1,00,000
Cash at Bank	1,50,000	80,000
	16,15,000	16,20,000

Additional information:

- Depreciation written off on land and building Rs. 10,000 & remaining Land & Building has been revalued which was transferred to Capital Reserve
- The company sold some investment costing 30,000 at a profit of Rs. 5,000, which was credited to Capital Reserve.
- Interest income on Investments credited to P&L Account 20,000
- Income-tax provided during the year Rs. 27,500.
- During the year, the company purchased a machinery for Rs. 1,12,500. They paid Rs. 62,500 in cash and issued 5,000 equity shares of Rs. 10 each at par.
- Preference Shares were redeemed at 10% premium
- Debentures were redeemed at 4% discount on 31.03.2020
- Dividend paid during the year 55,000
- Dividend received during year amounted to 30,000 which includes Preacquisition dividend 10,000
- Voluntary separation cost of Rs. 40,000 was adjusted against General Reserve.
- Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory on 31.3.2020 was correctly valued.

You are required to prepare a cash flow statement for the year ended 31st March 2020 as per AS 3 by using indirect method.

Solution

Cash Flow Statement for the year ending on March 31, 2020

		Rs.	Rs.
--	--	-----	-----

I	Cash flows from Operating Activities		
	Net profit before tax for the year (W.N.1)	2,67,500	
	Add: Depreciation on Machinery (W.N.2)	27,500	
	Add: Depreciation on Land & Building	10,000	
	Add: Interest on Debentures (3,00,000*12%)	36,000	
	Less: Interest income on Investment	(20,000)	
	Less: Dividend received credited to P&L (30,000-10,000)	(20,000)	
	Less: Profit on Redemption of Debentures (2,00,000*4%)	(8,000)	
	Add: Premium on Redemption of Preference Shares (1,00,000*10%)	10,000	
	Operating profit before change in Working Capital	3,03,000	
	Decrease in inventory (1,40,000-1,50,000)	10,000	
	Increase in trade receivables (3,20,000-3,00,000)	(20,000)	
	Decrease in Prepaid Expenses (10,000-15,000)	5,000	
	Decrease in trade payables (1,00,000-1,50,000)	(50,000)	
	Increase in Outstanding Expenses (30,000-20,000)	<u>10,000</u>	
	Cash generated from Operations (before tax & extraordinary items)	2,58,000	
	Income-tax paid	(22,500)	
	Extraordinary Item: Voluntary Separation Payment	<u>(1,00,000)</u>	
	Net cash from operating activities		1,35,500
II.	Cash flows from Investing Activities		
	Purchase on Machinery	(62,500)	
	Sale of Investments	35,000	
	Purchase of Investments	(15,000)	
	Dividend Received	30,000	
	Interest on Investments (8,000+20,000-15,000)	<u>13,000</u>	500
III.	Cash flows from Financing Activities		
	Issue of equity shares (1,50,000-50,000)	1,00,000	
	Redemption of Preference Shares	(1,10,000)	
	Redemption of Debentures	(1,92,000)	
	Repayment of Long Term Loan from Bank	(50,000)	
	Dividend Paid	(55,000)	
	Interest on Debentures Paid (20,000+36,000-35,000)	<u>(21,000)</u>	<u>(3,28,000)</u>
	Net increase in cash and cash equivalent		(1,92,000)
	Cash and cash equivalents at the beginning of the period		<u>3,72,000</u>
	Cash and cash equivalents at the end of the period		1,80,000

Working Notes:

(i) **Net Profit made during the year ended 31.3.2020**

	Rs.
Increase in P & L (Cr.) Balance (2,40,000-2,00,000-15,000)	25,000
Add: Dividend Declared during the year	75,000
Add: Transfer to General Reserve [2,00,000-(1,00,000-40,000)]	1,40,000
Add: Provision for taxation made during the year	27,500
	2,67,500

(ii) **Provision for Taxation Account**

	Rs.		Rs.
To Cash & Bank (Bal. Fig.)	22,500	By Balance b/d	25,000
To Balance c/d	30,000	By P & L A/c	27,500
	52,500		52,500

(iii) **Dividend Payable Account**

	Rs.		Rs.

To Cash & Bank	55,000	By Balance b/d	50,000
To Balance c/d	70,000	By P & L A/c (Bal. Fig.)	75,000
	1,25,000		1,25,000

(iv) **Voluntary Separation Payment Account**

	Rs.		Rs.
To Balance b/d	60,000	By General Reserve	40,000
To Bank	1,00,000	By Balance c/d	1,20,000
	1,60,000		1,60,000

(v) **Machinery Account**

	Rs.		Rs.
To Balance b/d	3,75,000	By Depreciation (Bal. Fig.)	27,500
To Cash & Bank	62,500	By Balance c/d	4,60,000
To Equity share capital	50,000		
	4,87,500		4,87,500

(vi) **Investment Account**

	Rs.		Rs.
To Balance b/d	50,000	By Bank A/c (30,000+5,000)	35,000
To Capital Reserve A/c (Profit)	5,000	By Bank A/c (Preacquisition Div)	10,000
To Bank A/c (Bal. Fig.)	15,000	By Balance c/d	25,000
	70,000		70,000

(vii) **Land & Building Account**

	Rs.		Rs.
To Balance b/d	3,00,000	By Depreciation A/c	10,000
To Capital Reserve A/c (Bal. Fig.)	60,000	By Balance c/d	3,50,000
	3,60,000		3,60,000

IMPORTANT POINTS:

Loans/Advances given and Interests earned

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Investing cash flows
Given to Subsidiaries	Investing cash flows for all enterprises
Given to Employees	Operating cash flows for all enterprises.
Advance Payments to Suppliers	Operating cash flows for all enterprises.

Loans/Advances taken and interests paid

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Financing cash flows
Advance Taken from Customers	Operating cash flows

Tax Deducted at Source

If concerned incomes are Operating Incomes	Operating cash Outflow
If concerned incomes are Investment Incomes	Investing cash Outflow
If concerned expenses are Operating Expenses	Operating cash Inflow
If concerned expenses are Financing Expenses	Financing cash Inflow

Insurance claims received

Against loss of stock or loss of profits	Extraordinary operating cash inflows
Against loss of fixed assets	Extraordinary investing cash inflows

Exchange gains and losses

The foreign currency monetary assets (e.g. balance with bank, debtors etc.) and liabilities (e.g. creditors) are initially recognised by translating them into reporting currency by the rate of exchange transaction date. On the balance sheet date, these are restated using the rate of exchange on the balance sheet date. The difference in values is exchange gain/loss. The exchange gains and losses are recognised in the statement of profit and loss.

The exchange gains/losses in respect of cash and cash equivalents in foreign currency (e.g. balance in foreign currency bank account) are recognised by the principle aforesaid, and these balances are restated in the balance sheet in reporting currency at rate of exchange on balance sheet date. The change in cash or cash equivalents due to exchange gains and losses are however not cash flows. This being so, the net increases/decreases in cash or cash equivalents in the cash flow statements are stated exclusive of exchange gains and losses. ***The resultant difference between cash and cash equivalents as per the cash flow statement and that recognised in the balance sheet is reconciled in the note on cash flow statement.***

Question

Prepare cash flow from investing activities as per AS 3 of M/s Ravi Limited for year ended 31.3.2020.

Particulars	Amount
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates/subsidiaries	5,00,000
Interest on loan received from associate company	70,000
Pre-acquisition dividend received on investment made	52,600
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of Rs. 8,200 was deducted on the above interest)	73,800
Purchased debentures of A Ltd., on. 1st February, 2020 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred Rs. 9,600)	90,000

Solution

Cash Flow Statement from Investing Activities of Ravi Limited for the year ended 31-03-2020

Cash generated from investing activities		
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery (90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

Note:

- Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
- Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
- The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.