AS 3 - Cash Flow Statement

1. Cash Flow Statement

provides details about how the cash is generated & applied by the Entity during the period

Cash flows from

Operating Activities
Cash flows from principal Revenue generating activities

Eg: Sale of goods/services, Fees/Royalties/Commission, Paid to suppliers of G/s

Investing Activities
Cash flows from purchase & sale of Long term assets

Eg: Purchase/sale of fixed assets, Investment in securities/shares, Income from above

Financing Activities
Cash flows from Issue & Redemption of Equity & Borrowings

Eg: Issue/Buy Back of shares/Securities, Redemption of debenture/bonds, Interest/dividend paid.

2. Methods of Preparation of CF statement

(A) Cash flow from Operating Activities (Principle Revenue generating activities)

Direct method - Pick & Drop method

Identify all cash collections & cash payments related to operating activities

	Cash received from sale of goods/services	
(+)	Cash received from Trade receivables / Debtors	
(-)	Payment for Cash purchases	
(-)	Payment to Trade payables / Suppliers / Creditors	
(-)	Payment for Operating expenses (Eg: Rent, Salary, electricity)	
(-)	Payment for Wages & Salaries	
(-)	Payment for Income tax	
(+/-)	Adjustment for Extraordinary items [if not related to Investing/Financing]	
	CF from operating activities	XXX

Indirect method - Exclude the unwanted method

	Proposed dividend
(+)	Transfer to General Reserve
(+)	Retained in P&L A/c
	Profit after tax as per P&L A/c
(+)	Tax charged as per P&L A/c
	Profit before tax as per P&L A/c

(+/-) Extraordinary Expenses / (Income)
(+/-) Non operating Expenses / (Income) → Related to Investing / Financing
Eg: Profit/loss on sale of fixed asset, Interest income/expense, etc.
(+) Non cash Expenses → Eg: Depreciation, Bad debt written off, etc.
Operating profit before working capital changes
(+) ↓ in current assets & ↑ in current liabilities
(-) ↑ in current assets & ↓ in current liabilities
Cash flow from Operations
(-) Income tax paid
Cash flow from operating Activities XXX

(B) Cash flow from Investing Activities (Application of funds)

Cash received from sale of fixed assets [Book value +/- gain/(loss)]
\+ Cash received from sale of Investment [shares/deb]
(-) Cash paid for purchase of fixed assets
(-) Cash paid for purchase of Investment [incl. Brokerage]
\+ Dividend received
\+ Interest received

(-) Income tax paid relating to Investing Activities [Eg: Capital gain tax]
XXX

(C) Cash flow from Financing Activities (Sources of funds)

Cash received from Issue of share capital / debentures / loan
(-) cash paid for redemption of share capital / debentures / loan
(-) Interest / Dividend paid
(-) Underwriting commission paid

(-) Income tax paid relating to financing Activities [Eg: DDT]
XXX

Net Cash flow from all Activities [A+B+C]
(+) Opening Balance of Cash & Cash Equivalents
Closing Balance of Cash & Cash Equivalents XXX

* Cash & Cash Equivalents } Cash balance + Bank balance + Investment with maturity of 3 months / less from Acquisition date
[Highly liquid marketable securities without risk of change in value]

Points to Remember

→ **Foreign Currency Cash Flows** : Foreign cash flows should be converted into functional currency using Exchange rate at the date of transaction

Foreign bank balance :

- Restated at year end using closing rate
- Difference between opening & closing bank balance
  - → Interest Income = $\left(\text{clg bal} - \text{opg bal}\right) \times$ closing rate
  - → Exchange gain = $\left(\text{clg rate} (-) \text{opg rate}\right) \times$ opg balance

* Exchange gain will be (-) from NPBT & (+) to opening bal of C&CE

→ **Debtor A/c**

To balance b/d [opening balance]	By Bank [cash recd from drs] (b.f)
To Sales	By balance c/d [closing balance]

→ **Creditors A/c**

To Bank [cash paid to crs] (b.f)	By balance b/d [opening balance]
To bal. c/d [closing balance]	By Purchases

→ If **Entity is Financial Institution [Bank]**, the following cash flows will be part of operating Activities :

- Loan given to customer
- Loan repaid by customer
- Deposit accepted / repaid
- Interest/dividend received
- Interest paid

* Dividend paid will be part of financing Activities for FI also

→ **Non cash transactions** are excluded from CFS

Eg: A car is purchased in exchange of other PPE

→

Particulars		Activity
1. Interest received on loan given to suppliers / employees		Operating
Interest received on loan given to subsidiary co.		Investing
2. Refund of Income tax received		Operating
3. Interest received on TDS	90,000	Investing → Outflow
TDS deducted	10,000	
Interest income	100,000	Investing → Inflow
4. Bank overdraft & Cash Credit		Financing
5. Short term deposits (>3m)		Investing
6. Insurance claim received towards loss of FA due to fire		Investing

→ Cash flows should be presented on Gross basis only. [Receipt & payments should be shown seperately]