

Chapter-1 → Cash flow Statements (AS-3)

"Self Analysis"

- ① Before redemption of debentures, interest must be paid upto the date of redemption
- ② Patents written off → Amortisation on Intangible Assets (It just like a depreciation on Tangible Assets)
- ③ Dividend paid only face value (Q22)
- ④ If claim received for loss of machinery in earthquake then it is Investing activities (Q20)
- ⑤ The balance of PL A/c given in B/S is of PL Appropriation A/c
- ⑥ Before Redemption of debenture, interest must be paid upto date of redemption.
- ⑦ As per AS-13, Any pre-acquisition dividend should be credited to Investment A/c (Capital Receipt) and post-acquisition dividend should be "cr" to Dividend A/c (PL A/c (Revenue Receipts)) - (Q17)
- ⑧ Payment of dividend (interim or final) is FA

(11-2A)

(FS, 28, 19-2A)

Meaning of the term Cash and Cash equivalents

⇒ Cash and cash equivalents for the purpose of cash flow Statement following:-

- (a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and
- (b) Cash equivalents are **short-term, highly liquid investment** that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
 - A short-term investment is one which is due for maturity within three months from the date of acquisition.

Meaning of the Cash flow Statement

⇒ A cash flow statement is a **financial statement** that provides aggregate data regarding all **cash inflow** that a company receives from its **ongoing** operations and external investment sources. It also includes all **cash outflow** that pay for business activities and investments during a given period.

Definitions

⇒ The following terms are used in this statement with the meaning specified:-

- Cash flows → Cash flow are inflows and outflows of cash and cash equivalents.
- Cash → Cash comprises cash on hand and demand deposits with banks.
- Cash equivalents → are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Classification of Activities

Classification of Activities

Operating activities

Investing activities

Financing activities

[A] Operating Activities

⇒ Operating activities are those activities which are relating to day to day business operation of an enterprise

- Examples:- (a) Cash receipts from the sale of goods and the rendering of services.
- (b) Cash receipts from royalties, fees, commission and other revenue.
- (c) Cash payments to suppliers for goods and service
- (d) Cash payment to and on behalf of employees.
- (e) Cash receipts and cash payment of an insurance enterprise for premiums and claims, annuities and other policy benefits.
- (f) Cash payment or refunds of income taxes unless they can be specifically identified with financing and investing activities and
- (g) Cash receipt and payment relating to future contracts forward contracts option contracts and swap contracts when the contract are held for dealing or trading purpose.

[B] Investing Activities

⇒ Investing activities are those activities where an expenditures have been made for resources intended to generate future income and cash flow creation of an asset.

Example:- (a) Cash payment to acquire fixed assets (including intangible). These payments include those relating to capitalised research and development cost and self-constructed fixed assets.

- (b) Cash receipts from disposal of fixed assets (including intangibles).
- (c) Cash receipts / payments to Sell / Acquire Shares warrants or debt instruments of other enterprise and interests in joint venture (other than payment for these instrument considered to be cash equivalent and those held for dealing or trading purposes)
- (d) cash advances and loans made to third parties (other than advances and loans made by a financial enterprise)

[C] Financing Activities

⇒ Financing Activities are those activities which results in change in financing structure of a company.

- Example → (a) Cash proceeds from issuing Shares or other similar instruments.
- (b) Cash proceeds from issuing debentures loans, notes bonds and other short or long term borrowings.
- (c) Cash repayments of amounts borrowed

Cash flow Activities

Inflow of activities

Cash increase

Outflow of activities

Cash decrease

- Known amount of Cash
- insignificant risk of market

Calculation of Cash flows from Operating activities

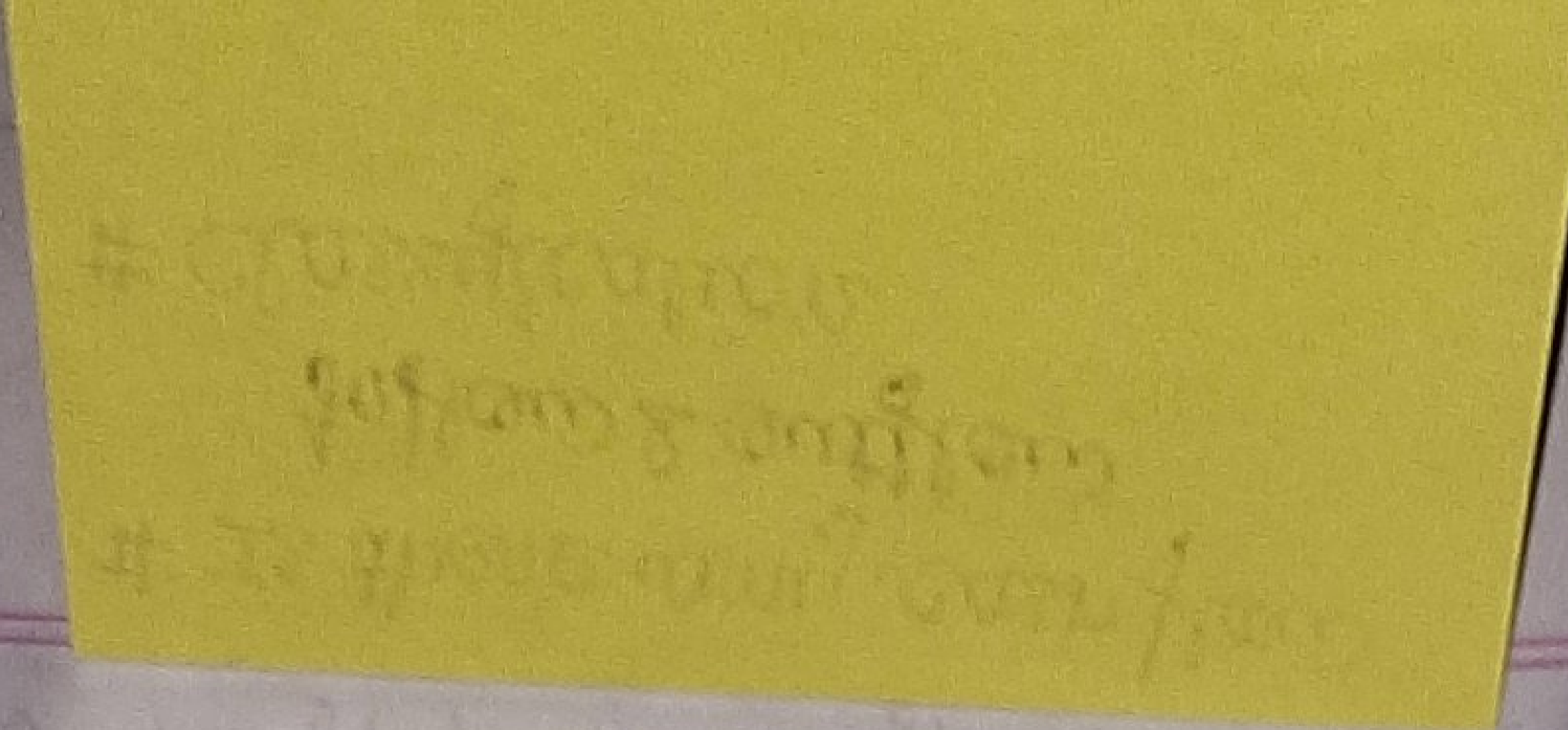
⇒ these following methods of cash flow from operating activities :-

Methods

Direct methods

Indirect method.

L-7 AAA enquiry



(A) Direct Method

⇒ In direct method we take the gross receipts from sales, trade receivables and other operating **inflows** subtracted by gross payment for purchases, creditors and other expenses **ignoring** all non-cash items like depreciation provisions etc.

cash flow income
OA, IA, FA

format of Cash flow from (Direct method)

Particular	₹
[A] Cash flow from operating Activities	
Add:- all income received operating / trading Activities	xxx
less:- All payment made from operating and trading activities	(xxx)
Net cash inflow / outflow from OA	xxx
[B] Cash flow from investing activities	
Add:- All investment income received	xxx
less:- All payment made for investment	(xxx)
Net cash inflow / outflow from IA	xxx
[C] Cash flow from financing activities	
Add:- All financing income received	xxx
less:- All financing expenses paid	(xxx)
Net cash inflow / outflow from FA	xxx
Net Cash and cash equivalents (A+B+C)	xxx
Add: Cash and Cash equivalents in the beginning of the year	xxx
Cash & Cash equivalents at end of the year	xxx

Redemption \rightarrow Re-payment

underwriting \rightarrow Broker

[B] Indirect Method

\Rightarrow An indirect method we start from the net profit or loss figure eliminate the effect of any non-cash items investing item and financing item from such profit figure i.e. all such expenses like depreciation, provision, interest paid, loss on sale of assets etc. are added and interest received etc. are deducted.

• Adjustment for changes in working capital items are also made ignoring cash and cash equivalent to reach to figure of net cash flow.

• Comparative Balance sheet is required

Format of Cash flow Statement for (Indirect method)

Particular	₹	₹
[A] Cash flow from operating activities		
Net profit before tax (Note 1)	xxx	
Adjustment:		
Add:- All non-cash expenses, transfer to reserves & provisions	xxx	
All expenses relating to IA and FA	xxx	
less:- All income relating to IA and FA	(xxx)	
Operating profit before working capital changes	xxx	
Add:- Decrease in Current Assets (Inflow) (Note 2)	xxx	
Increase in current liability (Inflow)	xxx	
less:- Increase in current Assets (outflow)	(xxx)	
Decrease in current liabilities (outflow)	(xxx)	
Cash generated from operating activities	xxx	
less:- Income tax paid (Note 3)	(xxx)	
Net cash generated from operating activities (cash inflow / outflow)		xxx

Cash flow from ordinary activities
Add / less:- Extra-ordinary activities

[B] Cash flow from investment activities		
Add:- All income in investing activities	xxx	
less:- All payment in investing activities	(xxx)	
Net Cash inflow / outflow from investing activities		xxx
[C] Cash flow from financing Activities		
Add:- All financing income	xxx	
less:- All financing payment	(xxx)	
Net Cash inflow / outflow from financing activities		xxx
Net cash and cash equivalent		xxx
Add:- cash and cash equivalent at the beginning of the year		xxx
cash and cash equivalent at the end of the year		xxx

• Note 1 → Calculate Net profit before tax

Particular	₹
Net profit After tax	xxx
Add:- Provision for tax	xxx
	xxx

• Note 2 → How does change in working capital.

Eg:- Inventory / Stock
(Current Assets)

Increase

• Purchase more stock → cash outflow

• Sales are less → less cash inflow
or
cash outflow

Decrease

• Sell more stock → cash inflow

• purchase less stock → less cash outflow
or
cash inflow

Patents off → Amortisation on IA
 ↓
 Depreciation on I

Eg:- Trade receivable/Debtors (Credit Sales)
 (Current Assets)

- | | |
|--|--|
| ↓
Increase | ↓
Decrease |
| <ul style="list-style-type: none"> more credit sales → less cash inflow or less cash sales → cash outflow | <ul style="list-style-type: none"> more in collection from debtors → cash inflow |
| <ul style="list-style-type: none"> collection from debtors reduces → less cash inflow or cash outflow | <ul style="list-style-type: none"> more cash sales → cash inflow or less credit sales |

Eg:- Bills payable
 (Current liabilities)

- | | |
|---|---|
| ↓
Increase | ↓
Decrease |
| <ul style="list-style-type: none"> New bill accepted → less cash outflow or less cash paid → cash inflow | <ul style="list-style-type: none"> less new bill are accepted or more cash paid → cash outflow |
| <ul style="list-style-type: none"> less bill are honoured → less cash outflow or cash inflow | <ul style="list-style-type: none"> more bill honoured → cash outflow |

* Note 3 → Income tax paid

Income tax Expense at the year (given P/L)	xxx
Add:- Income tax payable at the beginning of the year (B/S)	xxx
	<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>
	xxx
Less:- Income tax payable at the end of the year	(xxx)
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	xxx

Adjustments

→ outflow (-O.A)

Provision for Tax Account (Liabilities)

Particular	₹	Particular	₹
To Cash/Bank A/c (Payment of tax)	xxx	By balance b/d (O/B)	xxx
To Balance c/d (C/B)	xxx	By Statement of P/L (Provision for tax made during year)	xxx
			(+) O.A (P/L)

Advance Tax Account (Assets)

Particular	₹	Particular	₹
To Balance b/d (O/B)	xxx	By Cash/Bank A/c	xxx
To Cash/Bank A/c (Payment of tax)	xxx	By balance c/d (C/B)	xxx
	xxx		xxx

Fixed Assets Account (Cost) ↑ flow (+I.A)

to Balance B/d	xxx	By Bank A/c (Sale)	xxx
to Bank A/c (purchase)	xxx	By loss on sale (loss) → NOE (+O.A)	xxx
to Gain on Sale (profit)	xxx	By PFD A/c (Accumulate d depreciation of machine sold)	xxx
↓ NO.A (-O.A)		By balance B/d	xxx

↓
outflow
(-I.A)

↓
(transfer in
PFD)

Provision for Depreciation A/c

Particular	₹	Particular	₹
To Fixed Assets A/c	(XXX)	By balance b/d	XXX
	↓ (from fixed Assets A/c)	By Depreciation (current year)	XXX
to balance c/d	XXX	NCE (+ O.A)	

OR

Fixed Assets A/c (Book-Value)

Particular	₹	Particular	₹
to Balance b/d (B.V)	XXX	By bank A/c (Sale)	XXX
to Bank A/c (purchase)	XXX	By loss on sale (loss)	XXX
to Gain on Sale (profit)	XXX	By Depreciation	XXX
		By balance c/d (B.V)	XXX