Advance Accounts 2/04/25

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	Investing Activities	Financing Activities
Cash flows from principal Revenue generating Activities.	Cash flow from purchase & sale of longterm assets.	Cash flow from Issue & Redempt. of Equity & Borrowig
Eg. Sale of goods/services, fee/Royalities/ Commissions paid to Suppliers of G&S.	Eg. purchase/sale of fixed assets, Investment in securities Income from above Shares too.	Eg. Issue/Buy Back of Share Securities, Redemption of deb. bonds, intrest, dividend paid

2. **Methods of preparation of C.F statement :-**

A.) Cash flow from operating Activities (Principle Revenue generating Activities)

Date
Page

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. Salary, Rent, Elect.)
(-) Payment for wages & Salaries
(-) payment for Income tax.
(+/-) AdJustment for Extraordinary items [if not Related to Investing / Financing]
Cash flow from operating activities | XXX |

Indirect Method - Exclude 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, Intrest Income / Expense Etc.
(+) Non cash Expenses - Eg. Dep., Bad debt writeoff.
operating profit before working Cap. 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 Inv. [Shares/Deb.]
(–) Cash paid for purchase of fixed Assets.
(–) Cash paid for purchase of Inv. [Incl. Brokerage)
(+) Dividend Received
(+) Intrest Received.
(–) Income tax paid Relating to Investing Activities [Eg:- Capital gain tax]

[xxx]

C.) Cash flow from financing Activities :-
Cash Received from issue of Share Cap./Deb/Loan.
(–) Cash paid for Redemption of Share cap./Deb./Loan.
(–) Intrest / Dividend paid.
(–) underwriting Commission paid.
(–) Income tax paid Relating to financing Activity [Eg DDT]

[xxx]

★ Cash & Cash Equivalent } Cash bal. + Bank Bal. + Inv. with maturity of 3 months / less from Acquisition date

[highly liquid marketable securities without risk of change in value.]

points to Remember :-

→ Foregin Currency Cash flows :- foregin Cash flow should be converted into functional currency using Exchange rate at date of transaction

Foregin Bank Balance :-

- Restated at year End using closing rate.
- Difference between opening & closing bank balance
  - Intrest Income = $(Cl. - Opn.) \times Cl.\ rate$
  - Exchange gain = $(Clg.\ Rate\ (-)\ Opn.\ Rate) \times Opn.\ Bal.$

★ Exchange gain will be (-) from NPBT & (+) to Opening bal of Cash & Cash Equivalent.

Debtor A/C

To bal. b/d [opn. Bal]	By Bank [Cash rec. from debtors]
To Sales	By bal c/d [Closing bal. (bf.)]

Creditors A/C

To Bank (Cash paid to creds.)	By bal b/d [Opn. Bal]
To bal c/d [Clo bal.) (bf)	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
- Intrest/Dividend Received
- Intrest paid.

Date
Page

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

→ Non Cash transaction are excluded from CFS.
Eg. A Car is purchased in Exchange of other PPE.

Particulars	Activity
1. Intrest Received on loan given to supplier / Employees	Operating
* Intrest Received on loan given to Subsidy Co.	Investing
2. Refund of Income tax Received.	Operating
3. Intrest Received on TDS 90000 } Inv.	→ Outflow
TDS deducted ~~Intrest Income~~ 10000	↳ Inflow
Intrest income → $\boxed{100000}$	
4. Bank O/D & Cash Credit	Financing.
5 Short term Deposit (73m)	Investing
6.) Insurance claim Received toward loss of FA due to fire	Investing

→ Cash flow should be presented on Gross basis only. [R & P should be shown seperatly.