

"Winners aren't who Never fail, But People who Never quit..."

It is an additional information provided to the users of accounts in the form of a statement, which reflects the various sources from where cash was generated (inflow of cash) by an enterprise during the relevant accounting year and how these inflows were utilized (outflow of cash) 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 startup), may not include the cash flow statement.

Cash Flow Statement helps the users of accounts:

- ◆ To identify the historical changes in the flow of cash & cash equivalents.
- ◆ To determine the future requirement of cash & cash equivalents.
- ◆ To assess the ability to generate cash & cash equivalents.
- ◆ To estimate the further requirement of generating cash & cash equivalents.
- ◆ To compare the operational efficiency of different enterprises.
- ◆ To study the insolvency and liquidity position of an enterprise.
- ◆ As an indicator of amount, timing and certainty of future cash flows.
- ◆ To check the accuracy of past assessments of future cash flows
- ◆ In examining relationship between profitability & net cash flow & impact of changing prices

### THE TERM 'CASH'

Meaning	Cash comprises Cash in hand and Demand Deposits with banks.
Examples	Cash in hand, Cash at Bank

### THE TERM 'CASH EQUIVALENTS'

Meaning	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.
Purpose	Cash Equivalents are held for the purpose of meeting short-term cash commitments rather than for Investment or other purposes.
Conditions to qualify	It must be readily convertible to a known amount of cash. It must be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only <i>when it has a short maturity of, say, 3 months or less</i> from the date of acquisition. Investments in shares are not normally taken as cash equivalent (unless they are in substance cash equivalent), because of uncertainties associated with them as to realisable value.
Examples	Treasury Bills, Commercial Papers, Commercial Bills, Call Money, Certificate of Deposit

## TRANSACTIONS NOT CONSIDERED AS CASH FLOWS

Meaning	Transactions which represent movements between items of Cash or Cash Equivalents are not considered as Cash Flows.
Reason	These components are part of the cash management of an enterprise rather than part of its Operating, Investing and Financing Activities.
Examples	<ul style="list-style-type: none"> <li>a) Cash deposited into Bank;</li> <li>b) Cash withdrawn from Bank;</li> <li>c) Purchase/Sale of Short-term Marketable Securities (neither held as Current Investments nor held as Non-current Investments).</li> <li>d) It is important to note that a change in cash does not necessarily imply cash flow. For example: Suppose an enterprise has a bank balance of USD 10,000, stated in books at 4,90,000 using the rate of exchange 49/USD prevailing on date of receipt of dollars. If the closing rate of exchange is 50/USD, the bank balance will be restated at 5,00,000 on the balance sheet date. The increase is, however, not a cash flow because neither there is any cash inflow nor there is any cash outflow.</li> </ul>

## 'CASH FLOWS'

Cash Flows	Cash Flows are inflows and outflows of Cash and Cash equivalents.
Cash Inflows	Cash Inflow arises when the net effect of transaction is increase in the amount of Cash or Cash Equivalents.
Cash Outflows	Cash Outflow arises when the net effect of transaction is to decrease in the amount of Cash or 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) Sale of Fixed Assets for Cash	4) Income Tax paid
5) Sale of Investments (whether Current or Non-Current) for Cash	5) Purchase of Fixed Assets for Cash
6) Loans & Advances repayment received (whether Short term or Long term)	6) Purchase of Investments (whether Short term or Long term) for Cash
7) Income received on Investments (whether Current or Non-Current)	7) Loans & Advances granted (whether Short term or Long term)
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/Long term)	11) Loans repaid (whether Short/Long term)
	12) Interest on Debentures & Loans paid.
	13) Final Dividend on Equity Shares paid.
	14) Dividend on Preference Shares paid.
	15) Interim Dividend on Equity Shares paid.

# ACTIVITIES

## Operating Activities

Principal Revenue producing activities

## Investing Activities

Acquisition & disposal of Long Term Assets & Investments

## Financing Activities

Activities that result in change in size & composition of Owner's Capital & borrowings

## OPERATING ACTIVITIES

### MEANING OF OPERATING ACTIVITIES

Principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

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 Trading Commission & Royalty	3) Operating Expenses paid (e.g. Salaries & Wages, Administration Exp. Selling Exp.)
	4) Income Tax paid (Operating Activity only).

### 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

**Other Examples:** Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits.

Cash receipts & payments relating to futures contracts, forward contracts, option contracts & swap contracts when the contracts are held for dealing or trading purposes. Cash flows arising from the purchase and sale of dealing or trading securities

## INVESTING ACTIVITIES

### MEANING OF INVESTING ACTIVITIES

Acquisition & disposal of long-term assets & other investments not included in cash equivalents.

Cash inflows	Cash outflows
1) Cash sale of fixed assets	1) Cash purchase of fixed assets
2) Cash sale of investments (whether current or non-current)	2) Cash purchase of investments (whether short term or long term)
3) Loans & advances repayment received (whether short term or long term)	3) Loans & advances granted (whether short term or long term)
4) Income received on investments (whether current or non-current)	4) Brokerage paid on purchase of investments (whether short term or long term)

## FINANCING ACTIVITIES

### MEANING OF FINANCING ACTIVITIES

Activities that result in changes in size and composition of the Owners' capital (including Preference share capital in case of a company) and Borrowings (whether short term or long term) of the enterprise.

Cash inflows	Cash outflows
1) Issue of Equity shares for cash	1) Buy-back of Equity shares for cash.
2) Issue of Preference shares for cash	2) Redemption of Preference shares for cash
3) Issue of Debentures for cash	3) Redemption of Debentures for cash
4) Loans taken (whether short term or long-term)	4) Loans repaid (whether short term or long term)
	5) Interest on Debentures and Loans paid
	6) Dividend on Shares Paid
	7) Brokerage & Underwriting Commission Paid on issue of Shares & Debentures
	8) Cash payments by lessee for reduction of O/s liability relating to a finance lease.

### NON-CASH TRANSACTIONS

Meaning	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
Why ignored in CFS?	Non-Cash transactions are ignored while preparing Cash Flow Statement because these do not involve Cash.

### Interest & Dividend Received

Normal / Non Financial  
Enterprise

↓  
Investing Activity

Financial  
Enterprise

↓  
Operating Activity

Dividend Paid

↓  
Financing Activity (Always)

### STEPS INVOLVED IN THE PREPARATION OF CASH FLOW STATEMENT

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

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

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

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

Particulars	₹	₹
<b>Step 1: Calculate Net Profit before Taxation &amp; Extraordinary item:</b>		
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	
<b>Net Profit before Taxation and Extraordinary Item</b>		xxx
<b>Step 2: Calculate Operating Profit before Working Capital Changes:</b>		
Net Profit before Taxation and Extraordinary Item	xxx	
<b>Adjustments for Non-Cash and Non-Operating Items: (For Example)</b>		
Depreciation	xxx	
Interest on Debentures & Loans (whether Short term or Long Term)	xxx	
Preliminary Expenses/Underwriting Commission/Discount on	xxx	
Issue of Debentures/Shares 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
<b>Operating profit before working capital changes</b>		xxx

## CASH FLOW STATEMENT (AS 3)

### Step 3: Calculate Cash from Operations before tax & Extraordinary item:

A. Operating profit before working capital changes	xxx
B. Add: Changes in current assets (Excluding cash and cash equivalents) & Current Liabilities (excluding bank overdraft and cash credit):	xxx
Decrease in Inventories, Trade Receivables etc.	xxx
Increase in Trade Payables, O/s exp. Etc.	xxx
Increase in Inventories, Trade Receivables etc.	(xxx)
Decrease in trade Payables, O/s Exp. etc.	(xxx)

### Cash Generated from Operations

### Step 4: Calculate Net Cash from (used in) Operating Activities :

A. Cash generated from Operations	xxx
B. Less: Income tax paid (Net of refund of tax)	(xxx)
(Note: Income tax should be related to operating activities only)	
C. Add: Extraordinary Items (e.g. Insurance proceeds from earthquake disaster settlement, Govt. Grant)	xxx

### Net Cash Flow from (used in) Operating Activities

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

## CALCULATION OF CASH FLOW FROM INVESTING ACTIVITIES

### Particulars

#### A. Cash inflow from Investing Activities:

Sale of Tangible Fixed Assets (e.g. Machinery) for cash	xxx
Sale of Intangible Assets (e.g. Goodwill/Patents/Trademark/Copyright) for cash	xxx
Sale of Investments (whether current or non-current) for cash	xxx
Loans & Advances repayments received (whether short term or long term)	xxx
Incomes from Investments (whether current or non-current)	xxx
Dividend received on Shares held as investments	xxx
Interest received on Debentures held as investments	xxx
Rent received from Immovable property held as investments	xxx

#### B. Cash used in Investing Activities

Purchase of Tangible Fixed Assets (e.g. Machinery) for cash	(xxx)
Purchase of Intangible Assets (e.g. Goodwill/Patents/Trademark/Copyright) for cash	(xxx)
Purchase of Investments (whether current or non-current) for cash	(xxx)
Loans & Advances granted (whether short term or long term)	(xxx)

### Net Cash flow from/used in Investing Activities (if A>B) / (If A<B)

xxx

## CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

### Particulars

#### A. Cash inflows from financing Activities:

Issue of Equity share capital for cash	xxx
Issue of Preference share capital for cash	xxx
Issue of debentures for cash	xxx
Loans raised (whether short term or long term)	xxx

#### B. Cash used in financing activities

Buy back of Equity shares	(xxx)
Redemption of preference shares for cash	(xxx)
Redemption of debentures for cash	(xxx)

## CASH FLOW STATEMENT (AS 3)

Repayment of loans (whether short term or long term)	(xxx)
Interim dividend paid on Equity shares	(xxx)
Final dividend paid on Equity shares	(xxx)
Final dividend paid on preference shares	(xxx)
Interest paid on debentures & loans (whether short term or long term)	(xxx)
<b>Net Cash flow from/used in Financing Activities (if A&gt;B) / (If A&lt;B)</b>	<b>xxx</b>

### **REPORTING CASH FLOWS ON NET BASIS**

As per AS 3, Cash Flow Statements, an enterprise should report separately major classes of gross cash receipts and gross cash payments, ***except*** in the case of:

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise and ***(E.g. Acceptance & repayment of demand deposits by bank)***
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. ***(E.g. Purchase & Sale of Investments)***

Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis:

- (a) cash receipts & payments for acceptance & repayment of deposits with fixed maturity date
- (b) placement of deposits with and withdrawal of deposits from other financial enterprises
- (c) cash advances & loans made to customers and the repayment of those advances & loans

### **BUSINESS PURCHASE**

Aggregate cash flows arising from acquisitions & disposals of subsidiaries or other business units should be presented separately and classified as cash flow from **investing activities**.

- (a) The cash flows from disposal and acquisition should not be netted off.
- (b) An enterprise should disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following:
  - (i) The total purchase or disposal consideration; and
  - (ii) The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

### **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.

Interests earned from customers for late payments are operating cash flows for non-financial 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

Interests paid to suppliers for late payments are operating cash flows for all enterprises. Interests taken as part of inventory costs in accordance with AS 16 are operating cash flows

**Investments made and Dividend earned**

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Investing cash flows
Given to Subsidiaries	Investing cash flows for all enterprises

**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.*

**DISCLOSURES**

AS 3 requires an enterprise to disclose the amount of significant cash and cash equivalent balances held by it but not available for its use, together with a commentary by management. This may happen for example, in case of bank balances held in other countries subject to such exchange control or other regulations that the fund is practically of no use. AS 3 encourages disclosure of additional information, relevant for understanding the financial position and liquidity of the enterprise together with a commentary by management. Such information may include:

- The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
- The aggregate amount of cash flows required for maintaining operating capacity, e.g. purchase of machinery to replace the old, separately from cash flows that represent increase in operating capacity, e.g. additional machinery purchased to increase

**Question 1**

Classify

- Op
- Pr
- Ca
- Pr
- Ch
- Ca
- Tr
- Pr
- Re
- Ca
- Pr
- Pr
- Int
- Wa
- Pr
- Int
- Int
- Off
- Ma
- Div
- Re
- Se
- Inc
- Div
- Und
- Re
- Bro
- Bar
- Cas
- Sho
- Hig
- Ref

**Question 2**

From the f

P

- To Balance
- To Cash
- To Trade r
- To Trade C
- To Sale of
- To Loan fr
- To Interes

# CASH FLOW STATEMENT (AS 3)

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4) Income received on investments (whether current or non-current)	4) Brokerage paid on purchase of investments (whether short term or long term)

## FINANCING ACTIVITIES

### MEANING OF FINANCING ACTIVITIES

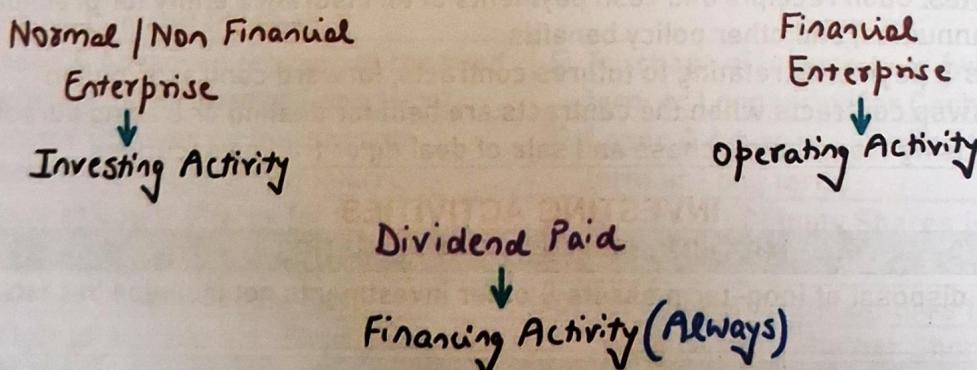
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Meaning	Those transactions which do not involve Cash
Examples (Verification by Journal Entry)	Issue of Equity Shares or Debentures against the purchase of an Asset Asset A/c Dr To Equity Share Capital A/c / Debentures A/c  Issue of Equity Shares on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

### Interest & Dividend Received



### STEPS INVOLVED IN THE PREPARATION OF CASH FLOW STATEMENT

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

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

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

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

Particulars	₹	₹
<b>Step 1: Calculate Net Profit before Taxation &amp; Extraordinary item:</b>		
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
<b>Net Profit before Taxation and Extraordinary Item</b>		xxx
<b>Step 2: Calculate Operating Profit before Working Capital Changes:</b>		
Net Profit before Taxation and Extraordinary Item		xxx
Adjustments for Non-Cash and Non-Operating Items: (For Example)		
Depreciation	xxx	
Interest on Debentures & Loans (whether Short term or Long Term)	xxx	
Preliminary Expenses/Underwriting Commission/Discount on	xxx	
Issue of Debentures/Shares 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
<b>Operating profit before working capital changes</b>		xxx

## CASH FLOW STATEMENT (AS 3)

### Step 3: Calculate Cash from Operations before tax & Extraordinary item:

A. Operating profit before working capital changes	xxx
B. Add: Changes in current assets (Excluding cash and cash equivalents) & Current Liabilities (excluding bank overdraft and cash credit):	xxx
Decrease in Inventories, Trade Receivables etc.	xxx
Increase in Trade Payables, O/s exp. Etc.	xxx
Increase in Inventories, Trade Receivables etc.	(xxx)
Decrease in trade Payables, O/s Exp. etc.	(xxx)

### Cash Generated from Operations

### Step 4: Calculate Net Cash from (used in) Operating Activities :

A. Cash generated from Operations	xxx
B. Less: Income tax paid (Net of refund of tax)	(xxx)
(Note: Income tax should be related to operating activities only)	
C. Add: Extraordinary Items (e.g. Insurance proceeds from earthquake disaster settlement, Govt. Grant)	xxx

### Net Cash Flow from (used in) Operating Activities

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

## CALCULATION OF CASH FLOW FROM INVESTING ACTIVITIES

### Particulars

#### A. Cash inflow from Investing Activities:

Sale of Tangible Fixed Assets (e.g. Machinery) for cash	xxx
Sale of Intangible Assets (e.g. Goodwill/Patents/Trademark/Copyright) for cash	xxx
Sale of Investments (whether current or non-current) for cash	xxx
Loans & Advances repayments received (whether short term or long term)	xxx
Incomes from Investments (whether current or non-current)	xxx
Dividend received on Shares held as investments	xxx
Interest received on Debentures held as investments	xxx
Rent received from Immovable property held as investments	xxx

#### B. Cash used in Investing Activities

Purchase of Tangible Fixed Assets (e.g. Machinery) for cash	(xxx)
Purchase of Intangible Assets (e.g. Goodwill/Patents/Trademark/Copyright) for cash	(xxx)
Purchase of Investments (whether current or non-current) for cash	(xxx)
Loans & Advances granted (whether short term or long term)	(xxx)

### Net Cash flow from/used in Investing Activities (if A>B)/ (If A<B)

xxx

## CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

### Particulars

#### A. Cash inflows from financing Activities:

Issue of Equity share capital for cash	xxx
Issue of Preference share capital for cash	xxx
Issue of debentures for cash	xxx
Loans raised (whether short term or long term)	xxx
<b>B. Cash used in financing activities</b>	xxx
Buy back of Equity shares	xxx
Redemption of preference shares for cash	(xxx)
Redemption of debentures for cash	(xxx)

## CASH FLOW STATEMENT (AS 3)

Repayment of loans (whether short term or long term)	(xxx)
Interim dividend paid on Equity shares	(xxx)
Final dividend paid on Equity shares	(xxx)
Final dividend paid on preference shares	(xxx)
Interest paid on debentures & loans (whether short term or long term)	(xxx)
<b>Net Cash flow from/used in Financing Activities (if A&gt;B) / (If A&lt;B)</b>	<b>xxx</b>

### **REPORTING CASH FLOWS ON NET BASIS**

As per AS 3, Cash Flow Statements, an enterprise should report separately major classes of gross cash receipts and gross cash payments, ***except*** in the case of:

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise and ***(E.g. Acceptance & repayment of demand deposits by bank)***
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. ***(E.g. Purchase & Sale of Investments)***

Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis:

- (a) cash receipts & payments for acceptance & repayment of deposits with fixed maturity date
- (b) placement of deposits with and withdrawal of deposits from other financial enterprises
- (c) cash advances & loans made to customers and the repayment of those advances & loans

### **BUSINESS PURCHASE**

Aggregate cash flows arising from acquisitions & disposals of subsidiaries or other business units should be presented separately and classified as cash flow from **investing activities**.

- (a) The cash flows from disposal and acquisition should not be netted off.
- (b) An enterprise should disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following:
  - (i) The total purchase or disposal consideration; and
  - (ii) The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

### **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.

Interests earned from customers for late payments are operating cash flows for non-financial 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

Interests paid to suppliers for late payments are operating cash flows for all enterprises. Interests taken as part of inventory costs in accordance with AS 16 are operating cash flows

Investments made and Dividend earned

For Financial enterprises	Operating cash flows
For Non-Financial enterprises	Investing cash flows
Given to Subsidiaries	Investing cash flows for all enterprises

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.*

DISCLOSURES

AS 3 requires an enterprise to disclose the amount of significant cash and cash equivalent balances held by it but not available for its use, together with a commentary by management. This may happen for example, in case of bank balances held in other countries subject to such exchange control or other regulations that the fund is practically of no use.

AS 3 encourages disclosure of additional information, relevant for understanding the financial position and liquidity of the enterprise together with a commentary by management. Such information may include:

- The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
- The aggregate amount of cash flows required for maintaining operating capacity, e.g. purchase of machinery to replace the old, separately from cash flows that represent increase in operating capacity, e.g. additional machinery purchased to increase