

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 08.03.2021

Teacher name – Ajay Kumar Sharma

Cash Flow Statement

Question 1:

What is a Cash Flow Statement?

ANSWER:

A Cash Flow Statement is a statement showing inflows and outflows of cash and cash equivalents from operating, investing and financing activities of a company during a particular period. It explains the reasons of receipts and payments in cash and change in cash balances during an accounting year in a company.

Question 2:

How are the various activities classified (as per AS-3 revised) while preparing cash flow statement?

ANSWER:

As per the Revised Accounting Standard 3 (AS-3), preparation of Cash Flow Statement for each period is mandatory. AS-3 also specifies the classification of all inflows and outflows basically under the following heads:

1. Cash Flow from Operating Activities
 2. Cash Flow from Investing Activities
 3. Cash Flow from Financing Activities
-

Question 3:

State the uses of cash flow statement?

ANSWER:

The uses of cash flow statement are as follows:

1. It is useful for short term financial planning about inflows and outflow of cash.
 2. It helps in analysing the reason for the change in cash and cash equivalent balances of a company
 3. It assists in determining and assessing liquidity and solvency positions of a company.
 4. It enables to analyse and study the trends of receipts and payments of cash from various activities of a company and thereby helps in drafting various policy measures and short term planning.
 5. It enables the segregation of cash flows from operating, investing and financing activities of the business separately.
 6. It assists in making decision about distribution of profit with reference to the availability of cash.
-

Question 4:

What are the objectives of preparing cash flow statement?

ANSWER:

The important objectives for preparing Cash Flow Statement are as follows:

1. The most important objective that is fulfilled by preparing Cash Flow Statement is to ascertain the gross inflows and outflows of cash and cash equivalents from various activities.

2. Secondly, Cash Flow Statement helps in analysing various reasons responsible for change in the cash balances during an accounting year.
3. This statement helps in analysing and understanding the liquidity and solvency of a company , thereby, depicting the true liquidity position to the creditors and the investors.
4. Cash Flow Statement also helps in ascertaining the requirement and availability of cash in near future.

Question 5:

State the meaning of the terms: Cash Equivalents, Cash flows.

ANSWER:

Cash equivalents are short term, highly liquid investments that are easily convertible into cash and which are subject to an insignificant risk of change in value. In other words, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or any other purpose. An investment held for short-term maturity, say three months can be regarded as cash equivalent. Some examples of cash equivalents are treasury bills, commercial papers, etc. On the other hand, cash flows are inflows and outflows of cash and cash equivalents. A cash inflow results in increase in the total cash balance and a cash outflow results in decrease in the total cash balance.
