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शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 10.03.2021

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Cash Flow Statement

Question 1:

Describe the procedure to prepare Cash Flow Statement.

ANSWER:

The procedure to prepare Cash Flow Statement is described in the following steps in their chronological order.

Step 1: Ascertain the cash flows from operating activities

Step 2: Ascertain the cash flows from investing activities

Step 3: Ascertain the cash flows from financing activities

Step 4: Ascertain net increase or decrease by summing up the amounts of Steps 1, 2, and 3.

Step 5: Write the opening balance of cash and cash equivalents and deduct it from the amount ascertained in Step 4. The resulting figure arrived is the Closing Balance of Cash and Cash Equivalents.

There are two methods viz. Direct Method and Indirect Method for the preparation of Cash Flow Statement.

Direct Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Cash Sales	**	
	Cash receipt from Debtors	**	
	Less: Cash Purchases	**	
	Cash paid to creditors and other expenses	**	
	Cash Generated from Operating Activities	**	
	Less: Income Tax Paid	**	
	Cash flow before Extraordinary Items	**	
	Add/Less: Extraordinary Items	**	
	Net Cash Flow from (used in) Operating Activities	**	**

B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less:</i> Purchase of Fixed Assets	**	
	<i>Less:</i> Purchase of long-term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	Cash Flow from Financing Activities		
	Proceeds from Issue of Shares	**	
	Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
	<i>Less:</i> Repayment of Debentures and Other Long-term Borrowings	**	
	<i>Less:</i> Redemption of Preference Shares	**	
	<i>Less:</i> Interest Paid	**	
	<i>Less:</i> Dividend Paid	**	
	Net Cash flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C))		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalent at the end		**

Indirect Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities:		
	Net Profit before tax and extraordinary items		***
	<i>Add:</i> Non-Cash Expenses and non operating expenses.		
	Depreciation	**	
	Goodwill	**	
	Interest paid	**	
	Loss on sale of fixed assets	**	**
	<i>Less:</i> Non-Operating Incomes.		

	Dividend received	**	
	Profit on sale of fixed assets	**	
	Interest received	**	**
	Operating Profit before Working Capital Changes		***
	<i>Add:</i> Decrease in Current Assets	***	
	Increase in Current Liabilities	**	***
	<i>Less:</i> Increase in Current Assets	***	
	Decrease in Current Liabilities	***	***
	Cash generated from Operating Activities		***
	<i>Less:</i> Income tax paid		***
	Cash flow before Extra ordinary items		***
	<i>Add/Less:</i> Extra ordinary items		***
	Net Cash Flow from Operating Activities		***
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of Long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less:</i> Purchase of Fixed Assets	**	
	<i>Less:</i> Purchase of long term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	Cash Flow from Financing Activities		
	Proceeds from Issue of shares	**	
	Proceeds from Issue of Debentures and other Long-term Borrowings	**	
	<i>Less:</i> Repayment of Debentures and other Long-term Borrowings	**	
	<i>Less:</i> Redemption of preference Share	**	
	<i>Less:</i> Interest paid	**	
	<i>Less:</i> Dividend paid	**	
	Net Cash Flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C))		**
	Cash and Cash Equivalents at the beginning (Cash in Hand, Cash at Bank, Marketable Securities, Short-term Deposits)		**
	Cash and Cash Equivalents at the end		**

Note: Preparation of Cash Flow Statement using Direct Method has been excluded from the prescribed syllabus. The format is given since the question has not specified the method explicitly. Students can refer to the direct method for the knowledge purpose.

Question 2:

Describe "Indirect" method of ascertaining Cash Flow from Operating Activities.

ANSWER:

Indirect Method: This method starts with the Net Profit before tax and extraordinary items. For this purpose, the Net Profit as revealed by the Profit and Loss Account cannot be taken into consideration as there exists some items which do not lead to outflow of cash. The following are those items that need to be added back to the Net Profit of the Profit and Loss Account.

- a. Non-cash items like, depreciation goodwill written off, etc are added to the Net Profit.
- b. Non-operating expenses like loss on sale of fixed assets, transfers to reserves, loss on sale of fixed assets are added back to the Net Profit.
- c. Provisions like, provisions for doubtful debts and discount for debtors, proposed dividends etc. should be added back to the Net Profit.
- d. Decrease in current assets and increase in current liabilities should be added to the operating profit.

The following are those items that need to deduct from the Net Profit of the Profit and Loss Account.

- a. Non-operating incomes like profit on sale of fixed assets, etc. are deducted from the Net Profit.
- b. Non-trading Incomes like dividend received, interest received, tax refund, etc. are to be deducted from the Net Profit.
- c. Increase in current assets and decrease in current liabilities should be deducted from the operating profit.

Indirect Method

Cash Flow Statement

Particulars	Amount Rs	Amount Rs
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
<i>Add:</i> Non-Cash Expenses and Non-Operating Expenses.		

Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	**
<i>Less: Non-Operating Incomes.</i>		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating Profit before Working Capital Changes		***
<i>Add: Decrease in Current Assets</i>	***	
Increase in Current Liabilities	**	***
<i>Less: Increase in Current Assets</i>	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
<i>Less: Income tax paid</i>		***
Cash flow before Extra ordinary items		***
<i>Add/Less: Extra ordinary items</i>		***
Net Cash Flow from Operating Activities		***

Question 3:

Explain the major Cash Inflow and outflows from investing activities.

ANSWER:

Investing activities are those activities that are related to sales and purchases of long-term fixed assets like, land and building, plant and machinery, furniture, etc. These fixed assets are not held for resale. The activities like sale and purchase of investments that are not included in the cash equivalents are also included in Investing activities. Any income arising from such investments (assets) are regarded a part of investing activities.

As per the AS3, the major cash inflows and outflows from investing activities are as follows:

- Cash payments to acquire fixed assets (including intangibles like, goodwill). These payments include capitalised cost of research and development and self constructed fixed assets.
- Cash receipts from disposal of fixed assets (including intangible assets).
- Cash payments to acquire shares, warrants, or debt instruments of other enterprises and interest in joint venture (other than payments of those instruments consider as cash equivalents and are held for the trading purposes).
- Cash receipts from disposal of shares, warrants or debt instruments of other enterprises and interest from joint ventures (other than receipts from those held for trading purposes).
- Cash advances and loans made to third parties (other than advances, and loans made by financial enterprises). These will be treated as cash flows from the operating activities.

- f. Cash receipts from repayment of advances and loans made to third parties (other than advances and loans of financial enterprises). These will be treated as cash flows from operating activities.
- g. Cash receipts from insurance company for any property involved in accident.
- h. Any income arising from fixed assets or investments like interest, dividend, rent etc. In case of financial enterprises interest and dividend is treated as operating activities.

Direct Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
	Net Cash Flow from (used in) Operating Activities	**	**
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less: Purchase of Fixed Assets</i>	**	
	<i>Less: Purchase of long-term Investments</i>	**	
	Net Cash Flow from Investing Activities	**	**

Indirect Method

Cash Flow Statement

Particulars	Amount Rs	Amount Rs
Net Cash Flow from Operating Activities		***
Cash Flow from Investing Activities	**	
Sale of Fixed Assets	**	
Sale of Long-term Investments	**	
Interest Received	**	
Dividend Received	**	
Rent Received	**	
<i>Less: Purchase of Fixed Assets</i>	**	
<i>Less: Purchase of long term Investment</i>	**	

Net Cash Flow from Investing Activities	**	**
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