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Cash Flow Statement

Cash Flow Statement Cash flow statement is a statement showing the changes in financial position of a business concern during different intervals of time in terms of cash and cash equivalents.

The Revised Accounting Standard-3 has made it mandatory for all listed companies to prepare and present a cash flow statement along with other financial statements on annual basis.

2. Cash Flows Cash flows are inflows and outflows of cash and cash equivalent. It implies movement in and movement out of cash and cash equivalents. Receipt of cash from a non-cash item is termed as 'cash inflow', while cash payment in respect of such item is termed as 'cash outflow'.

Cash Cash comprises of cash in hand and demand deposits with the bank.

Cash Equivalents Cash equivalents are 'short-term highly liquid investments that are readily convertible into known amount of cash and which are subjected to an insignificant risk of change in value'.

3. Objectives of Cash Flow Statement

- (i) Useful in short-term financial planning.
- (ii) Useful in efficient cash management.
- (iii) Helpful in formulation of business policies.
- (iv) Assists in preparation of cash budget.
- (v) Used for assessment of cash flow from various activities, viz operating, investing and financing activities.

4. Limitations of Cash Flow Statement

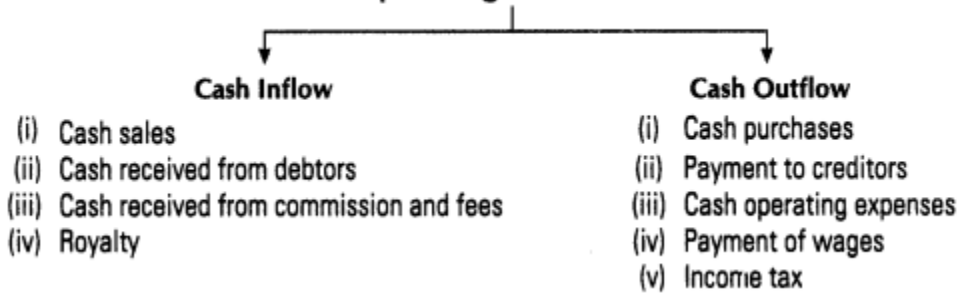
- (i) Based on historical cost principle.
- (ii) Based on secondary data.
- (iii) Ignores non-cash transactions.
- (iv) No adherence of basic accounting principles.
- (v) Cash flow statement is not a substitute for income statement.

5. Classification of Business Activities Accounting Standard-3 (Revised) requires that the changes resulting in inflows and outflows of cash and cash equivalents will be classified into following three activities:

- (i) Cash flow from operating activities.
- (ii) Cash flow from investing activities.
- (iii) Cash flow from financing activities.

6. Cash Flow from Operating Activities Operating activities are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.

Operating Activities



For a Finance Company

- | | |
|--|------------------------------|
| (v) Cash received for interest and dividends | (vi) Cash paid for interest |
| (vi) Sale of securities | (vii) Purchase of securities |

For an Insurance Company

- | | |
|------------------------------------|---------------------------------|
| (vii) Premiums and claims received | (viii) Premiums and claims paid |
|------------------------------------|---------------------------------|

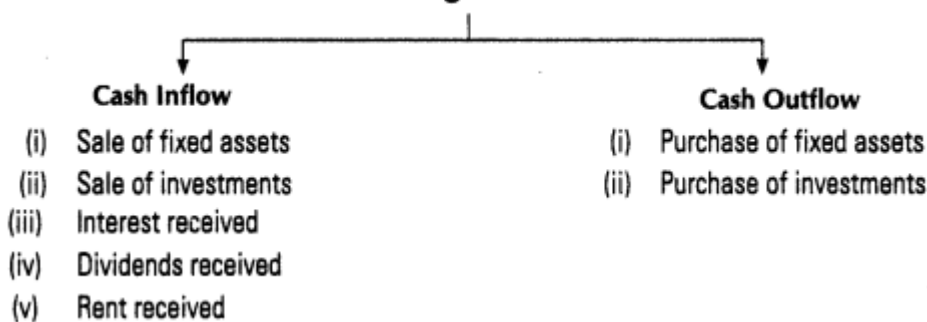
For a Real Estate (Infrastructure) Company

- | | |
|----------------------|----------------|
| (viii) Rent received | (ix) Rent paid |
|----------------------|----------------|

7. Cash Flow from Investing Activities As per AS-3, investing activities are the acquisition and disposal of the long-term assets and other investments, not included in cash equivalents.

Cash flow from investing activities are exhibited as follows:

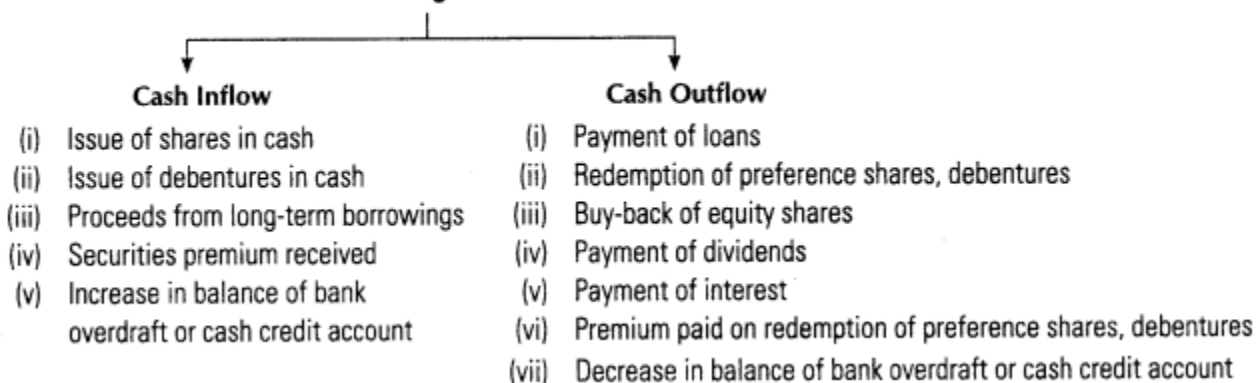
Investing Activities



8. Cash Flow from Financing Activities Financing activities are the activities which result in change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) of the enterprise from other sources.

Cash flow arising from financing activities are exhibited as follows:

Financing Activities



9. Format of Cash Flow Statement

Indirect Method [As per Accounting Standard-3 (Revised)]
for the year ended...

Particulars	Amt (₹)
I. Cash Flow from Operating Activities	
Net Profit before Taxation and Extraordinary Items (Note)	...
Adjustment for Non-cash and Non-operating Items	
(+) Items to be Added	...
Depreciation	
Interest on Borrowings and Debentures	...
Loss on Sale of Fixed Assets	...
Increase in Provision for Doubtful Debts	
(-) Items to be Deducted	
Interest Income	(...)
Dividend Income	(...)
Rental Income	(...)
Profit (Gain) on Sale of Fixed Assets	(...)
Operating Profit before Working Capital Changes	...
(+) Decrease in Current Assets and Increase in Current Liabilities	...
(-) Increase in Current Assets and Decrease in Current Liabilities	(...)
Cash Generated from Operations	...
(-) Income Tax Paid (Net of tax refund received)	(...)
Cash Flow before Extraordinary Items	...
*(+/-) Extraordinary Items	...
Net Cash from (or used in) Operating Activities	...
II. Cash Flow from Investing Activities	
Proceeds from Sale of Fixed Assets	...
Proceeds from Sale of Investments (Other than marketable securities)	...
Proceeds from Sale of Intangible Assets	...
Interest and Dividend Received (For non-financial companies only)	...
Rent Income	...
Purchase of Fixed Assets	(...)
Purchase of Investments (Other than marketable securities)	(...)

Particulars	Amt (₹)
Purchase of Intangible Assets Like Goodwill	(...)
*(+/-) Extraordinary Items	...
Net Cash from (or used in) Investing Activities	...
III. Cash Flow from Financing Activities	
Proceeds from Issue of Shares and Debentures	...
Proceeds from Other Long-term Borrowings	...
Increase/Decrease in Bank Overdraft and Cash Credit	...
Final Dividend Paid	(...)
Interim Dividend Paid	(...)
Interest on Debentures and Loans Paid	(...)
Repayment of Loans	(...)
Redemption of Debentures/Preference Shares	(...)
Share Issue Expenses	(...)
*(+/-) Extraordinary Items	...
Net Cash from (or used in) Financing Activities	...
IV. Net Increase/Decrease in Cash and Cash Equivalents (I + II + III)	...
V. (+) Cash and Cash Equivalents in the Beginning of the Year	
Cash in Hand	...
Cash in Bank	...
Short-term Deposits	...
Marketable Securities	...
VI. Cash and Cash Equivalents at the End of the Year	
Cash in Hand	...
Cash at Bank	...
Short-term Deposits	...
Marketable Securities	...

Working Note

Calculation of Net Profit before Tax and Extraordinary Items

Net Profit as per Statement of Profit and Loss or Difference between Closing Balance and Opening Balance of Statement of Profit and Loss	...
(+) Transfer to Reserves	...
*Deferred Tax Liabilities (Net) (Difference between Opening and Closing Balances)	...
Proposed Dividend for Current Year	...
Interim Dividend Paid During the Year	...
Provision for Tax Made During the Current Year	...
*Extraordinary Item, if any Debited to the Statement of Profit and Loss	...
(-) *Extraordinary Item, if any Credited to the Statement of Profit and Loss	(...)
*Deferred Tax Assets (Net) (Difference between Opening and Closing Balances)	(...)
Refund of Tax Credited to the Statement of Profit and Loss	(...)

*As per CBSE circular, star marked items are extraordinary items, deferred tax assets, deferred tax liabilities are not to be evaluated. However, they have been given for knowledge of students.