

## CASH FLOW STATEMENT

**Meaning :** It is a statement that shows flow (inflow or outflow) of cash and cash equivalents during a given period.

Transactions that increase Cash and cash Equivalents are called inflows and transactions that decrease it are called Outflows.

**Cash :** Cash comprises cash in hand and demand deposits with bank.

**Cash equivalents :** Cash equivalents are short term highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value (of short-term investment). Generally, these investment has a maturity period of less than three months.

Some examples of cash equivalents : Bank overdraft, cash credit, short term deposits, marketable securities, treasury bills, commercial papers, money market funds (mutual fund), investment in preference shares if redeemable within three months and ensure that there is no risk of the failure of the company.

### OBJECTIVES OF CASH FLOW STATEMENT :

1. To ascertain how much cash or cash equivalents have been **generated** or **used** in different activities i.e. operating/investing/financing activity.
2. To ascertain the **net changes in cash and cash equivalents**.
3. To assess the **causes of difference** between actual cash & cash equivalent and related net earnings/income.
4. To help in **formulation of financial policies** such as dividend policy, fixed assets policy, capital structure related policy.
5. To help in **short-term financial planning**.
6. To ascertain the **liquidity** of enterprises

### IMPORTANCE OR USES OF CASH FLOW:

**1. Efficient cash Management:** Cash Flow Statement gives information relating to surplus or deficit of cash.

The management therefore can decide about the short-term investments in case of surplus and arrange for short term credit in case of deficit.

2. Helps in assessing Liquidity and Solvency.

**3. Comparative Study:** It enhances the comparability of the reporting of Operating performance by different enterprises .

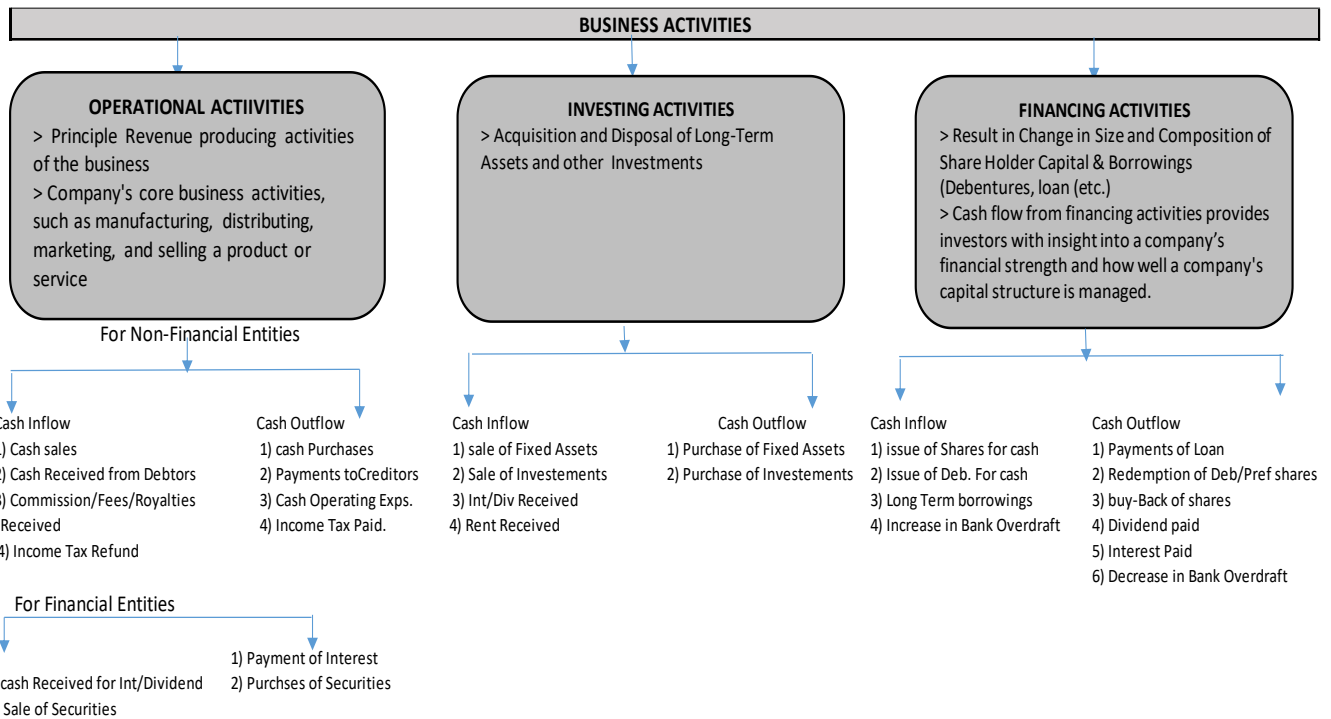
Because it eliminates the effects of using different accounting treatments for the same transactions.

**4. Evaluate Management Decisions:** Cash flow provides information about the investing and financing activities of the Entity.

It Helps investors/lenders/ creditors to assess the financial strength of the Entity.

### LIMITATIONS OF CASH FLOW STATEMENT:

1. Non-cash transaction are not taken into consideration like shares or debentures issued to vendors, depreciation charged during the year.
2. It is a statement related with past data.
3. It is not used for judging the profitability of enterprises.
4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included.
5. It is not a substitute for Balance sheet because it does not show the financial position of the Entity.



Balance Sheet of \_\_\_\_\_

	Particulars	Rs.	Particulars	Rs.
Financing Activities }	Capital	xx	Non Current Assesst	xx
Financing Activities }	Non Current Liabilities	xx	Current Assets (exc. Cash and Equivalents)	xx
Operational Activities }	Current Liabilities	xx		
		xxx		xxx

**OVERVIEW FORMAT OF CASH FLOW STATEMENT**

Cash flow statement as on .....

Cash flow from operating activities	-----
Cash flow from investing activities	-----
Cash flow from financing activities	-----
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Net increase/decrease in cash & cash equivalent (Total of the above three activities) (A)	
Add : Cash & Cash equivalent in the Beginning of the year (as per opening balance sheet) (B)	_____
Cash & Cash equivalent at the end of the year. (A+B)	-----

## OPERATING ACTIVITIES

<i>Particulars</i>	<b>Rs. (')</b>	<b>Rs. (')</b>
<b>1. Cash Flow from Operating Activities</b>		
(A) Net Profit Before Tax and Extraordinary Item		XXXX
Adjustment for noncash and nonoperating items:		
Add :		
1. Depreciation charged during the current year (Non-cash item)	XX	
2. Preliminary expenses, Discount on issue of shares and debentures written off (Non-Cash Item)	XX	
3. Bad Debt provided (Non-cash Item)	XX	
4. Goodwill, Patents and Trademark Amortized (written off) (Non-Cash Item)	XX	
5. Interest on Borrowing and Debentures. (Financing Activity)	XX	
6. Loss on Sale of Fixed Assets	XX	XXX
Less :		
1. Bad Debt written off	XX	
2. Interest income (Investment Activity)		
3. Dividend Income ((Investment Activity)	XX	
3. Rental income ((Investment Activity)	XX	
4. Profit on sale of Fixed Assets	XX	XXX
<b>(B) Operating Profit before Working Capital changes</b>		XXXXXX
Add :		
Increase in Current Liabilities and	XX	
Decrease in current Assets (other than cash and cash equivalent)	XX	XXX
Less :		
Increase in current Assets (other than cash and cash equivalent) and	XX	
Decrease in current liabilities	XX	XXX
<b>(C) Cash Generated from operations</b>		XXXXXX
Less : Income tax paid (Net of Refund received)		XX
<b>(D) Cash flow before Extraordinary item Extraordinary items +/-</b>		XX
Plus/Minus Extraordinary items		XX
<b>(E) Net Cash From (or used in) Operating Activities</b>		XXXXXXXX

Calculations of Net Profit Before Tax and Extra-Ordinary Items :

<b>Particulars</b>	<b>Rs. (')</b>	<b>Rs. (')</b>
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Difference between closing balance and opening balance of profit & loss A/c (As shown in Balance sheet (also called Accumulated or Retained Profit)		XXXX
Add :		
1. Proposed dividend paid during the year (Note 1)	XX	
2. Interim Dividend <b>paid</b> during the year. (Note-2)	XX	
3. Profit Transferred to Reserve ((If reserve of current year increased from previous year)	XX	XXXX
	<b>PAT</b> →	XXXXXX
4. Provision for Taxation <b>made</b> during the year(Note -3)	XX	
Less : Refund of Tax credited to P & L A/c	XX	XXXX
	<b>PBT</b> →	XXXXXX
ADD :Extraordinary item if any Debited to P & L A/c	XX	
Less :Extraordinary item if any Credited to P & L A/c	XX	XXX
	<b>Net Profit Before Tax and Extraordinary Item</b> →	XXXXXX

#### Notes:

##### 1) Proposed Dividend:

Proposed Dividend on both Equity and Preference Shares are generally paid after **being approved by the Shareholders in AGM**.AGM is held within a period of 6 months from the date of closing of the FY. That means AGM for current year is held in the next FY. Companies cannot provide the Proposed dividend in the books of Accounts until approved by Shareholders. It is shown as a contingent liability until approved by SHs.

Summary: Company provides the last year proposed Dividend in the current year and dividend for current year will be provided in the next year only.

##### **Treatment while preparing cash flow:**

Add proposed dividend of previous year to find Net profit before tax and Extraordinary items and show as an outflow in Financing Activity.

##### **Proposed Dividend Account**

Particulars	Rs.	Particulars	Rs.
		By Balance B/d	xx
To Bank (Dividend Paid during the year)	xx	By balance in P&L Account (Proposed dividend during the CY)	xx
To Balance c/d	xx		
	xxx		xxx

##### 2) Interim Dividend:

Interim Dividend is declared and approved by the Board and paid within 7 days of being declared.

##### **Treatment while preparing cash flow:**

Add Interim dividend of CY to find Net profit before tax and Extraordinary items and show as an outflow in Financing Activity.

**3) Provision for Tax:**

Tax of the current year is paid in the next FY and for the previous year is paid in the CY. But Provision for Tax is created every year to find the profit available for transfer to reserves and distribution.

**Treatment while preparing cash flow:**

Provision for **current year** is added to find Net profit before tax and Extraordinary items and income tax paid (Net of refund) is shown as an Operating activity Separately.

**Provision for Tax Account**

Particulars	Rs.	Particulars	Rs.
		By Balance c/d	xx
To Bank (Tax Paid during the year)	xx	By balance in P&L Account (Prov for CY created)	xx
To Balance b/d	xx		
	xxx		xxx

} Added for calculating Profit before tax

**4) Extraordinary Items:**

Extraordinary Items shown as expenses in P&L are **added** to the NP, but at the end it is deducted to find exact cash flow from operating activities, if it relates to Operating Activities

Extraordinary Items shown as income in P&L are **deducted** from the NP, but at the end it is added to find cash flow from operating activities, if it relates to Operating Activities.

**Examples-**

Loss of stock due to fire/theft etc.

Insurance claim received for loss of stock etc.

**5) Non- Cash items:**

Non- Cash items means Expenses or incomes debited/credited to P&L **but does not involve any movement of cash.**

Non-cash Expenses- Depreciation, amortization, bad debts, Provision for doubtful debts, etc.

Non-cash Incomes- writing off any liability, bad debts written off, provision written back, etc.

**6) Non- Operating items:**

Non- Cash items means Expenses or incomes debited/credited to P&L but are not related to Operating Activities.

Non- Operating Expenses- Interest on long term borrowings, loss on sale of FA, discount/loss on debts written off,

Non- Operating Incomes- Interest/ dividend/rent received, gain on sale of FA.

**7) Effect of change in Increase or decrease) in CA and CL :**

a) Increase in CA leads to Decrease in cash and cash Equivalents

b) Decrease in CA leads to Increase in cash and cash Equivalents

c) Increase in CL leads to increase in Cash and cash Equivalents

**INVESTMENTING ACTIVITIES**

Particulars	Rs. ( <sup>o</sup> )	Rs. ( <sup>o</sup> )
<b>Cash Flow from Investing Activities</b>		
<b>Inflows of Cash: (A)</b>	xx	
Cash Received from sales of Fixed Assets.	xx	
Cash Received from sales of Investment (Other than Marketable Securities)	xx	
Loan and Advances repayments received	xx	
Cash Received from sales of intangible Assets like Patents.	xx	
Interest Received	xx	
Dividend Received,	xx	
Rent Received	xx	xxxx
<b>Outflows of Cash: (B)</b>		
cash paid for purchase of Fixed Assets	xx	
cash paid for purchase of Intangible Assets	xx	
Cash paid for purchase of Investments (Except marketable Securities)	xx	
Loan and Advances given	xx	xxx
<b>Cash flow or used in Investing Activities (A-B)</b>		xxxx

For the calculation of sale or purchase of fixed assets and investment, the following accounts are prepared:

**1. Fixed Assets Account**

**2. Investment Account**

A Fixed Assets Account: Fixed assets accounts may be prepared by two methods:

- 1) At written down value method (when provision for depreciation account/accumulated depreciation account is not maintained):

FA A/c			
Particulars	Rs.	Particulars	Rs.
To Balance b/d	xx	By Bank (Sale of Fixed Asset)	xx
To Bank (Additional Purchase)	xx	By Depreciation (On FA Sold)	xx
By P&L A/c ( Profit on sale of FA)	xx	By P&L A/c ( Loss on sale of FA)	xx
		By Depreciation A/c (on rem. FA)	xx
		By Balance c/d	xx
	xxx		xxx

- 2) Fixed Assets (at cost); When provision for depreciation account or accumulated depreciation account has been separated maintained. In this method two separate account named Fixed Assets Account and Provision for Depreciation account are maintained.

FA  
A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	xx	By Acc. Depn A/c (Accu. Depn on FA Sold)	xx
By P&L A/c ( Profit on sale of FA)	xx	By Bank (Sale of Fixed Asset)	xx
To Bank (Additional Purchase)	xx	By P&L A/c ( Loss on sale of FA)	xx
		By Balance c/d	xx
	xxx		xxx

Accumulated Depreciation A/c

Particulars	Rs.	Particulars	Rs.
To FA A/c(Accu. Depn on FA Sold)	xx	By balance C/d (OB)	xx
To Balance C/d	xx	By Depn (Dep for current Year)	xx
	xxx		xxx

Investment Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	xx	By Bank A/c (sale of Investments)	xx
To Bank (Additional Purchase)	xx	By P&L A/c ( Loss on sale of Investments)	xx
By P&L A/c ( Profit on sale of Investments)	xx	By Balance c/d	xx
	xxx		xxx

**FINANCING ACTIVITIES**

Particulars	Rs. (')	Rs. (')
<b>Cash Flow from Financing Activities</b>		
<b>Inflows of Cash: (A)</b>	xx	
Proceeds from Issue of equity Share capital	xx	
Proceeds from Issue of preference shares capital	xx	
Proceeds from taking long-term loan and issue of debentures.	xx	
Proceeds from Bank Overdraft and Cash Credit.	xx	xxxx
<b>Outflows of Cash: (B)</b>		
repayment of long- term loan.	xx	
Payment for Redemption of Preference Shares	xx	

Payment for Redemption of Debentures	XX	
payment for Buy-Back of Equity shares	XX	
Payment of Bank Overdraft and Cash Credits	XX	
Interest paid on long-term loan and Debentures	XX	
Final Dividend paid.	XX	
Interim dividend paid.	XX	
Dividend paid on Preference Shares	XX	
Share Issue Expenses	XX	
Underwriting Commission Paid	XX	XXXX
<b>cash flow or used in Financing Activities (A-B)</b>		XXXX

*Notes:*

- 1) Bonus shares issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity
- 2) If any other information is not given in the question about final dividend paid amount t year proposed dividend is assumed as dividend payable in current year. Current year pr amount is assumed as proposed dividend in current year and to be added in operat calculated net profit before tax and extraordinary item.

**CASH FLOW STATEMENT**

<b>Particulars</b>	<b>Rs. (₹)</b>	<b>Rs. (₹)</b>
<b>1. Cash Flow from Operating Activities</b>		
(A) <b>Net Profit Before Tax and Extraordinary Item</b>		XXXX
<b>Adjustment for noncash and nonoperating items:</b>		
<b>Add :</b>		
1. Depreciation charged during the current year (Non-cash item)	XX	
2. Preliminary expenses, Discount on issue of shares and debentures <b>written off</b> (Non-Cash Item)	XX	
3. Bad Debt provided (Non-cash Item)	XX	
4. Goodwill, Patents and Trademark Amortized (written off) (Non-Cash Item)	XX	
5. Interest on Borrowing and Debentures. (Financing Activity)	XX	
6. Loss on Sale of Fixed Assets (Investing Activity)	XX	<b>XXX</b>
<b>Less :</b>		
1. Bad Debt written off	XX	
2. Interest income (Investment Activity)		
3. Dividend Income ((Investment Activity)	XX	
3. Rental income ((Investment Activity)	XX	
4. Profit on sale of Fixed Assets ((Investment Activity)	XX	XXX
<b>(B) Operating Profit before Working Capital changes</b>		XXXXXX
<b>Add :</b>		
Increase in Current Liabilities and	XX	
Decrease in current Assets (other than cash and cash equivalent)	XX	XXX



<i>Less :</i>		
<i>Increase in current Assets (other than cash and cash equivalent) and</i>	XX	
<i>Decrease in current liabilities</i>	XX	XXX
<b>(C) Cash Generated from operations</b>		XXXXX
<i>Less : Income tax paid (Net of Refund received)</i>		XX
<b>(D) Cash flow before Extraordinary item Extraordinary items +/-</b>		XX
<b>(E) Net Cash From (or used in) Operating Activities</b>		XXXXX
		X
<b>Cash Flow from Investing Activities</b>		
<b>Inflows of Cash: (A)</b>	XX	
<i>Cash Received from sales of Fixed Assets.</i>	XX	
<i>Cash Received from sales of Investment 9Other than Marketable Securities)</i>	XX	
<i>Loan and Advances repayments received</i>	XX	
<i>Cash Received from sales of intangible Assets like Patents.</i>	XX	
<i>Interest Received</i>	XX	
<i>Dividend Received,</i>	XX	
<i>Rent Received</i>	XX	XXXX
<b>Outflows of Cash: (B)</b>		
<i>cash paid for purchase of Fixed Assets</i>	XX	
<i>cash paid for purchase of Intangible Assets</i>	XX	
<i>Cash paid for purchase of Investments (Except marketable Securities)</i>	XX	
<i>Loan and Advances given</i>	XX	XXX
<b>cash flow or used in Investing Activities (A-B)</b>		XXXX
<b>Cash Flow from Financing Activities</b>		
<b>Inflows of Cash: (A)</b>	XX	
<i>Proceeds from Issue of equity Share capital</i>	XX	
<i>Proceeds from Issue of preference shares capital</i>	XX	
<i>Proceeds from taking long-term loan and issue of debentures.</i>	XX	
<i>Proceeds from Bank Overdraft and Cash Credit.</i>	XX	XXXX
<b>Outflows of Cash: (B)</b>		
<i>repayment of long- term loan.</i>	XX	
<i>Payment for Redemption of Preference Shares</i>	XX	
<i>Payment for Redemption of Debentures</i>	XX	
<i>payment for Buy-Back of Equity shares</i>	XX	
<i>Payment of Bank Overdraft and Cash Credits</i>	XX	
<i>Interest paid on long-term loan and Debentures</i>	XX	
<i>Final Dividend paid.</i>	XX	
<i>Interim dividend paid.</i>	XX	
<i>Dividend paid on Preference Shares</i>	XX	
<i>Share Issue Expenses</i>	XX	

<i>Underwriting Commission Paid</i>	xx	xxxx
<b><i>cash flow or used in Financing Activities (A-B)</i></b>		xxxx
Net increase/decrease in cash & cash equivalent (Total of the above three activities)		
Add : Cash & Cash equivalent in the Beginning of the year (Give in opening balance sheet)		xxxxx
Cash & Cash equivalent at the end of the year		xxxxx

Calculations of Net Profit Before Tax Extra-Ordinary Item :

<b><i>Particulars</i></b>	Rs. (₹)	Rs. (₹)
Difference between closing balance and opening balance of profit & loss A/c (As shown in Balance sheet (also called Accumulated or Retained Profit)		xxxx
Add :		
1. Proposes dividend <b>for</b> current year (Note 1)	xx	
2. Interim Dividend <b>paid</b> during the year. (Note-2)	xx	
3. Profit Transferred to Reserve ((If reserve of current year increased from previous year)	xx	xxxx
		xxxxx
	<b>PAT</b> →	x
4. Provision for Taxation <b>made</b> during the year(Note -3)	xx	
Less : Refund of Tax credited to P & L A/c	xx	xxxx
		xxxxx
	<b>PBT</b> →	x
ADD :Extraordinary item if any Debited to P & L A/c	xx	
Less :Extraordinary item if any Credited to P & L A/c	xx	xxx
		xxxxx
<b><i>Net Profit Before Tax and Extraordinary Item</i></b>	→	x