

Cash Flow Statement

Cash Flow statement is a statement that shows inflow and outflow of Cash & Cash Equivalents during the period under Report as is required by Accounting Standard -3

Cash & Cash Equivalents= Cash in Hand + Balance with Bank+ Marketable Securities + Short Term Investments

For an investment to be considered as Short term Investment – it should have a short maturity period of 3 months or less from date of acquisition and it should have an insignificant risk of change in value. Example are Treasury Bills, Commercial Paper , Money Market fund etc .

Cash Flow statement is applicable in respect of-

- 1) Operating Activities
- 2) Investing Activities
- 3) Financing Activities

Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities

Investing Activities are the acquisition and disposal of long term assets and other investments not included in Cash equivalents

Financing Activities are the activities which result in change in size and composition of owner's capital (including preference share capital in case of a company) and borrowings of the enterprise.

FORMAT :

Cash Flow statement for the Year Ended 31/3 /XXXX

Particulars	Rs	Rs
Cash Flow from Operating activities		
Net Profit(Surplus of Closing & Opening balance)		XXX
Add: Appropriations		
Dividend Paid during the Year(proposed Dividend of Previous Year is shown as cash Outflow)	XX	
Interim Dividend	XX	
Transfer to Reserve(General Reserve/Workmen's Compensation /Debenture Redemption Reserve)	XX	
Provision for Tax (Provision made for the Year)	XX	XXX
Add: Non Cash & Non Operating Expense		
Depreciation Charged to P/L	XX	
Goodwill Amortised	XX	
Loss on sale of Machinery	XX	
Amortisation of Patents	XX	
Interest on Debentures/Bank Drafts	XX	

Write off discount of Debentures/Underwriting Commission/Premium on Redemption of debenture	XX	
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Less: Non Operating Income		
Profit on sale of Building/Machinery(credited to P/L)	XX	
Interest on Investment	XX	XXX
Operating Profit before working Capital Changes		XXXX
Add: Decrease in Current Asset & Increase in Current Liabilities	XX	
Less: Increase in Current Asset & Decrease in Current Liabilities	XX	
Cash Generated from Operations		XXXX
Less: Income Tax Paid (Net of Refund)	XX	
Cash Flow from Operating Activities (A)		XXXX
Cash Flow from Investing Activities		
Proceeds from Sale of Assets	XX	
Proceeds from sale of Investment (Non Current)	XX	
Proceeds from Sale of Intangible Assets	XX	
Interest & Dividend Received on Investment	XX	
Rent Income	XX	
Purchase of Fixed Assets	(XX)	
Purchase of Investments (Other than Current/Short term / Marketable Securities)	(XX)	
Purchase of Intangible Assets	(XX)	
Cash Flow from Investing Activities (B)		XXX
Cash Flow from Financing Activities		
Proceeds from Issue of Shares/Debentures	XX	
Proceeds from Securities Premium Reserve	XX	
Proceeds from Other Long Term Borrowings	XX	
Proceeds from Short Term Borrowings	XX	
Final Dividend Paid (Equity + Pref)	(XX)	
Interim Dividend paid	(XX)	
Interest on Debentures & Loans	(XX)	
Interest on bank O/D & cash credit	(XX)	
Repayment of Loans (Long & Short Terms)	(XX)	
Redemption of Debentures/Preference Shares	(XX)	
Premium Paid on Redemption	(XX)	
Share Issue Expenses /UW Commission paid	(XX)	
Cash Flow from Financing Activity (C)		XXX
Net increase in Cash & Cash Equivalents-[(A) + (B) + (C)]		XXXX
Opening Cash & Cash Equivalent		XXX
Closing Cash & Cash Equivalents		XXXX

Salient Points:-

- 1) Cash equivalents are short term/ highly liquid investments that are readily convertible into known amount of Cash. These have a) short Maturity period of 3 months or less b) It is subject to insignificant risk of change in Value.
- 2) Short term investments & marketable securities are included in Cash & Cash Equivalent
- 3) Payments of Instalment under Hire Purchase System have 2 components –a) Principal b) Interest. **Principal** is shown as an Investing Activity and **Interest** is shown as Financing Activity
- 4) Issue of shares & debentures for Consideration other than Cash are not shown in Cash Flow statement
- 5) Cash Deposited into Bank is not a Part of Cash Flow Statement
- 6) If proposed Dividend is given in the Notes to Accounts - Proposed dividend for PY is shown as Outflow of Cash. Dividend paid is shown as Cash used in Financing Activity. No effect is given for proposed dividend for Current Year. However if proposed dividend is given in the Balance Sheet – then current year Dividend is shown as an addition in computing the Operating Profit and last year Dividend is shown as an outflow under Financing Activity. It is best reconciled by using a Proposed Dividend Account.
- 7) Provision for Tax appearing on the liability side of the PY Balance sheet is presumed to have been paid during the year & hence deducted while calculating the Cash Flow from operating Activities. Provision for tax appearing on the liabilities side of Current Year B/Sheet is added to current year's profit to Calculate "Profit before Tax". When tax can be specifically identified with investing & financing Activity –taxes are classified into investing & Financing Activity. For e.g. - Tax on Capital Gain on account of Sale of Piece of Land is shown under Investment Activity. Similarly Dividend Tax is shown under Financing Activity.
- 8) Share Issue Expenses & Underwriting Commission Paid is shown as Outflow of cash under Financing Activity.
- 9) Preliminary expenses is an operating activity , hence it is not adjusted to be determine Cash Flow from operating Activity. However in some books it is shown as an addition to arrive at the adjusted profit under Operating activity. Students are advised to note accordingly .

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