

CASHFLOW STATEMENTS

THEORY

It is a statement prepared at the end of the year after preparing final Accounts.

Cash flow statement indicates effect of different transaction during the year on cash balance of the business. It is a reconciliation of cash balance at the beginning and at the end of the year.

Preparation of cash flow statement is compulsory to all listed companies and other business entities having turnover of 50 cores & more.

Cash flow statement is prepared as per accounting standard 3 (AS 3 – Indirect Method) issued by ICAI. As per AS-3, business transactions are classified into three types of activities.

- A) Operating Activities
- B) Investing Activities
- C) Financing Activities

A) Cash flow from Operating Activities: This part include inflow and outflow of cash related to day to day business activities like Sales, Purchase, Direct Expenses, Administration Expenses, Selling and Distribution Expenses etc.

It also includes transactions related to current assets and Current liabilities i.e. Debtors and Creditors etc. Income Tax paid is also considered in the operating activities.

We can find out cash from operating activities by two different methods.

- 1) Direct
- 2) Indirect

B) Cash flow from Investing Activities:- Here we record all cash transactions related to fixed assets and long term investment like purchase of fixed assets or Investment, sale of fixed assets or Investment, Interest or Dividend received on investment.

C) Cash flow from financing Activities:- In this part we include all cash transactions related to proprietors fund and borrowed fund like issue of shares and Debentures loan taken, Redemption, buyback, Repayment of Loan, Interest paid on loan or debentures, Dividend paid on shares, etc.

Cash flow statement for the year ended _____

Particulars		₹
A) <u>Cash flow from Operating Activities</u>		
Net Profit Before Tax		XX
<u>Adjusted for</u>		
Non-cash transactions	XX	
Non-Operating transactions	XX	
Finance Expenses	XX	XX
<u>Net Operating Profit before W.C. changes.</u>		XX
<u>Adjustments of W.C.</u>		
Increase in C.A.	(XX)	
Decrease in C.A.	XX	
Increase in C.L.	XX	
Decrease in C.L.	(XX)	XX
Cash generated from operations		XX
(-) Income Tax paid		(XX)
Net cash flow from Operating Activities(A)		XX
B) <u>Cash flow from Investing Activities</u>		
1) Sale of Fixed Assets and (Long term) Investment		XX
2) Purchase of Fixed Assets and Long term Investment		(XX)
3) Interest Received, Dividend Received		XX
Net cash flow from Investing Activities(B)		XX
C) <u>Cash flow from Financing Activities</u>		
1) Issue of shares/Debentures		XX
2) Loan taken		XX
3) Redemption, Buyback		(XX)
4) Repayment of Loan		(XX)
5) Interest paid, Dividend paid		(XX)
Net cash flow from financing Activities (C)		XX
Net change in cash and cash equivalent (A+B+C)		XX
Add: Opening Balance of cash and cash equivalent		XX
Closing Balance of cash and cash equivalent		XX

* **Cash and Cash Equivalent:**

Cash flow statement Reconciles opening and closing balances of cash and cash equivalent.

Cash include cash in hand, cash at Bank and Bank overdraft. Cash equivalent include short term or marketable investment, Bank deposits, etc.

Classify given transaction into different types of activities

1. Purchase of Building - Investing Activity
2. Cash Received from Drs - Operating Activity
3. Payment of Bills - Operating Activity
4. Bank Loan taken - Financing Activity
5. Issue of shares - Financing Activity
6. Buy bank of shares - Financing Activity

7. Travelling expense paid - Operating Activity
8. Goods Purchased on cash - Operating Activity
9. Goods Purchased on Credit - Operating Activity
10. Interest received on Investment - Investing Activity
11. Dividend received on Investment - Investing Activity
12. Interest paid on Loan - Financing Activity
13. Income Tax Refund - Operating Activity
14. Sale of Investment - Investing Activity
15. Brokerage Paid on issue of shares - Financing
16. Brokerage Paid on Purchase of premises - Investing