

Cash Flow Statement

Class- XII

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The three main financial statements to be prepared by company are :



- **Balance Sheet/Position Statement**

- It is the statement of assets, liabilities, shareholders funds of the company at any given date



- **Income Statement/Profit and Loss account**

- This shows the result of the business operations during the accounting period



- **Cashflow Statement**

- Provides information about the company/s cash receipts and cash payments during an accounting period

Cash flow statement

Cash Flow Statement is the statement that shows inflows and outflows of cash & cash equivalents during a period

- **Cash** – cash in hand and demand deposits
- **Cash Equivalents** – short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value

The examples of Cash Equivalents are Treasury Bills, Commercial Papers, Marketable Securities.

An Investment normally qualifies as cash equivalent when it has a short maturity(3months or less) from date of acquisition

Need for Cash flow statement

- An entity must disclose the components of cash and cash equivalents in the cash flow statement
- The income statement computes the profit/loss on accrual basis whereas the cash flow statement reflects the actual cash position of a company.
- It provides a reconciliation of opening cash and cash equivalents and closing cash and cash equivalents on the two balance sheet dates.
- It provides information about the cash provided/used in the company's operating, investing and financing activities.
- This information about sources and uses of cash helps to evaluate the company's liquidity, solvency and financial flexibility.

Components of Cash Flow Statement-The statement is prepared as per AS-3(Revised)

Operating Activities

They are the principal revenue generating activities of an enterprise-day to day activities that generate revenues

Investing Activities

Includes purchase and sale of long term assets and investments

Financing Activities

Activities that result in the change and size and composition of owners capital and borrowings

The total inflows and outflows of cash as a result of these three activities reconciles the balances of cash and cash equivalents on two balance sheet dates

Common Examples- Cash Inflows and Outflows from:

Operating Activities

- Receipts from the sale of goods and the rendering of services
- Receipts from royalties, fees, commissions and other revenue
- Payments to suppliers for goods and services
- Payments to employees
- Payments and refunds of income taxes (unless they can be specifically identified as financing or investing)

Investing Activities

- Payments to acquire/receipts from the sale of long term assets
- Payments to acquire/receipts from the sale of equity or debt instruments of other entities
- Advances and loans made/receipt to other parties

Financing Activities

- Receipts from the issue of shares or other equity instruments
- Payment for buyback of shares
- Receipts from the issue of debentures, loans/bonds and other short term or long term borrowings
- Repayments of amounts borrowed
- Payment of interest on borrowings
- Distribution of dividends

Deep Diving

PROBLEM STATEMENT-Classify the following transactions as operating, investing and financing activities?

- 1) Cash received from sale of goods
- 2) Proceeds from issue of shares
- 3) Sale of investments
- 4) Rent Paid
- 5) Purchase of goodwill
- 6) Cash received from debtors
- 7) Repayment of long term loan
- 8) Dividend paid
- 9) Interest paid on borrowings
- 10) Dividend and interest received

Deep Diving

ANSWERS-Classify the following transactions as operating, investing and financing activities?

- 1) Cash received from sale of goods - *Operating*
- 2) Proceeds from issue of shares- *Investing*
- 3) Sale of investments- *Investing*
- 4) Rent Paid- *Operating*
- 5) Purchase of goodwill- *Investing*
- 6) Cash received from debtors- *Operating*
- 7) Repayment of long term loan- *Financing*
- 8) Dividend paid- *Financing*
- 9) Interest paid on borrowings- *Financing*
- 10) Dividend and interest received- *Investing*

Net Cash Flow from Investing Activities

Problem-the company recorded the following in the year 2019:

Proceeds from issue of long term debts	Rs. 3,00,000
Purchase of Machinery	Rs. 2,00,000
Loss on sale of machinery	Rs. 70,000
Proceeds from sale of Machinery	Rs. 1,20,000
Payment of dividend	Rs. 50,000

The company would report net cash flow from investing activities for the year 2019 as

- A)Rs. 1,50,000
- B)Rs. (80,000)
- C)Rs. (2,00,000)

Solution-

(B) Is correct. The only two items that would effect the investing activities are Purchase of Machinery (2,00,000) and Proceeds from sale of Machinery 1,20,000 = (80,000)

Net Cash Flow from Financing Activities

Problem-The company purchased machinery of Rs. 4,00,000 from X Ltd and issued shares to settle the purchase consideration, the dividend paid during the year is Rs. 60,000

The company would report net cash flow from Financing activities for the year as

- A)Rs. 3,60,000
- B)Rs. (60,000)
- C)Rs. (3,00,000)

Solution-

(B) Is correct. The only item that would effect the financing activity is Payment of dividend. There is no flow of cash when shares are issued to settle the purchase consideration of machinery and thus, will not be recorded in the cash flow statement.

Net Cash Flow from Operating Activities

Cash flows from operating activities must be reported by using either **Direct Method** : where cash receipts and cash payments are disclosed

Indirect Method : where profit or loss is adjusted for

- The effects of transactions of non-cash nature
- Items of income or expenses associated with investing or financing cash flows

The indirect method is built around the principle that operating profit for the period comprises operating activities that were :-

- Settled in cash
- Not yet settled in cash ie. receivable, payables, accruals etc
- Non-cash transactions eg.
 1. depreciation
 2. Profits or losses on disposal of fixed assets

Therefore, if the operating profit is adjusted for non-cash transactions and for transactions that were not yet settled in cash, the result is cash flows from operating activities

Net Cash Flow from Operating Activities

Computing Cash Flow from Operating Activities :

Net Profit Before Tax and Ordinary Items

Add Non Cash/ Non Operating Expenses/Losses

Less Non Operating Income and Gain

Operating Profit Before working Capital changes

Add Decrease in Current Assets and
Increase in Current Liabilities

Less Increase in Current Assets and
Decrease in Current Liabilities

Cash Flow from operating activities

Net Cash Flow from Operating Activities

Problem-the company recorded the following in the year 2019:

Net Profit Before Tax	Rs. 1,00,000
Depreciation	Rs. 5,000
Loss on sale of plant	Rs. 10,000
Increase in Trade Payable	Rs. 12,000
Decrease in Trade Receivables	Rs. 12,000

The company would report net cash flow from operating activities for the year 2019 as

- A)Rs. 1,39,000
- B)Rs. 1,15,000
- C)Rs. 1,00,000

Solution-

(B) Is correct. The Operating Profit is Rs. 1,15,000. After making the adjustments of working capital changes to it(Rs. 1,15,000 + 12,000-12,000) , the cash flow from operating activities is Rs. 1,15,000

THANK YOU