Cash Flow Statement

Cash Flow Statement

Cash Flow Statement is a statement which shows the flow of cash and cash equivalents during the period under report. There are inflows and outflows of cash and cash equivalent. Cash and Cash Equivalents includes Cash, Bank Balance, Marketable Securities, Cheque in hands etc.

Cash Flow Statement is prepared according to the Accounting Standard 3 (Revised). There are three heads in Cash Flow Statements.

Three heads of Cash Flow Statement

1. Cash Flow from Operating Activities
2. Cash Flow from Investing Activities
3. Cash Flow from Financing Activities

Objectives of Cash Flow Statement

1. To Determine Source of Cash & Cash Equivalent
2. To Determine Applications of Cash & Cash Equivalent
3. To Determine Net Change in Cash & Cash Equivalent

Importance of Cash Flow Statement

1. Helps in Short-term Planning
2. Helps in Assessing Liquidity and Solvency
3. Helps in Efficient Cash Management
4. Helps in Comparative Study
5. Helps in Management Decisions
6. Helps to know the reasons of Cash Flow
7. Helps in Dividend Decision

Limitations of Cash Flow Statement

1. Non-cash Transactions are not Shown
2. Not a Substitute for an Income Statement
3. Not a Substitute for Balance Sheet
4. It is Historical in Nature
5. No Assessment of Liquidity

Classification of Business Activities as per AS-3 (Revised)

Operating Activities

Cash Inflow

In case of non-financial companies

1. Cash Sales
2. Cash Received from Trade Receivables
3. Royalty, Fee, Commission Received
4. Income Tax Refund

In Case of financial Companies

1. Receipt of Interest and Dividend
2. Proceeds from Sale of Securities

Cash Outflow

In case of non-financial companies

1. Cash Purchase
2. Payment to Trade Payables
3. Payment Operating Expenses
4. Income Tax Paid

In case of financial Companies

1. Payment for Interest
2. Payment for Purchase of Securities

Investing Activities

Cash Inflow

1. Proceeds from Sale of Fixed Assets
2. Proceeds from Sale of Investment
3. Interest Received
4 Dividend Received
5. Rent Received

Cash Outflow

1. Purchase of Fixed Assets
2.Purchase of Long-term Investment
3. Income Tax (if related to Investing Activities)

Financing Activities

Cash Inflow

1. Proceeds from Issue of Shares
2. Proceeds from Issue of Debentures
3. Proceeds from Long-term Borrowings
4 Increase in Bank Overdraft or Cash Credit

Cash Outflow

1. Payment of Long-term Borrowings
2. Redemption of Debentures
3. Buy-back of Equity Shares
4. Redemption of Pref. Shares
5. Dividend Paid
6. Interest Paid
7. Decrease in Bank Overdraft or Cash Credit

Format of Cash Flow Statement

For the year ended -------------

Particulars	**Details**	**Amount Rs.**
I. Cash Flow from Operating Activities		
Net Profit before tax and Extraordinary items		------
Add:-		
- Depreciation	------	
- Interest on Bank Overdraft/Cash Credit	------	
- Goodwill, Patent and Trade Mark Amortised	------	
- Writing off Underwriting Commission and Share Issue Expenses	------	
- Interest on Debentures and Borrowings (Short and Long-term)	------	
- Loss on Sale of Fixed Assets	------	
- Increase in Provision for Doubtful Debts	--------	------

Particulars	Details	Amount Rs.
Less:-		
- Dividend Received	------	
- Interest Received	------	
- Gain on Sale of Fixed Assets	------	
- Rental Income	------	
- Decrease in Provision for Doubtful Debts	------	-------
Operating Profit before Working Capital change		-------
Add:-		
- Decrease in Current Assets	------	
- Increase in Current Liabilities	------	------
Less:-		------
- Increase in Current Assets	------	
- Decrease in Current Liabilities	------	------
Cash Generated from Operating Activities		------
Less: Income Tax Paid		------
Cash Flow before Extraordinary Items		------
Less/Add: Extraordinary Items		------
Cash flow from Operating Activities		------

Particulars	Details	Amount Rs.
II. Cash Flow from Investing Activities		
- Sale of Fixed Assets and Non-Current Investment	------	
- Purchase of Fixed assets and Non-current Investment	(------)	
- Interest Received	------	
- Dividend Received	------	
- Extra Ordinary Items (insurance claim on machinery against fire)	------	
- Rent Received	------	------
III. Cash Flow from Financing Activities		
- Issue of Shares/Debentures/Long-term Borrowings	------	
- Redemption of Debentures/Preference Shares	(------)	
- Increase/Decrease in Bank Overdraft/Cash Credit	------	
- Share Issue Expenses/Underwriting Commission	(------)	
- Final Dividend Paid	(------)	
- Interim Dividend Paid	(------)	
- Buy Back of Equity Shares	(------)	

Particulars	Details	Amount Rs.
- Repayment of Loans	(------)	
- Interest paid on Debentures and Loans	(------)	------
Net Cash Increase/Decrease (I + II + III)		------
Add: Cash and Cash Equivalent in the beginning		------
Cash and Cash Equivalent at the end		------

Calculation of Net Profit before Tax

Net Profit		----------
<u>Add: (T-PIPE)</u>		
- **Transfer to Reserve**	--------	
- **Payment of Dividend**	--------	
- **Interim Dividend**	--------	
- **Provision for Tax**	--------	
- **Extra Ordinary Expenses**	--------	----------

Less: Refund of Tax		----------
Net Profit Before Tax		----------

How to remember the Items of different Activities?

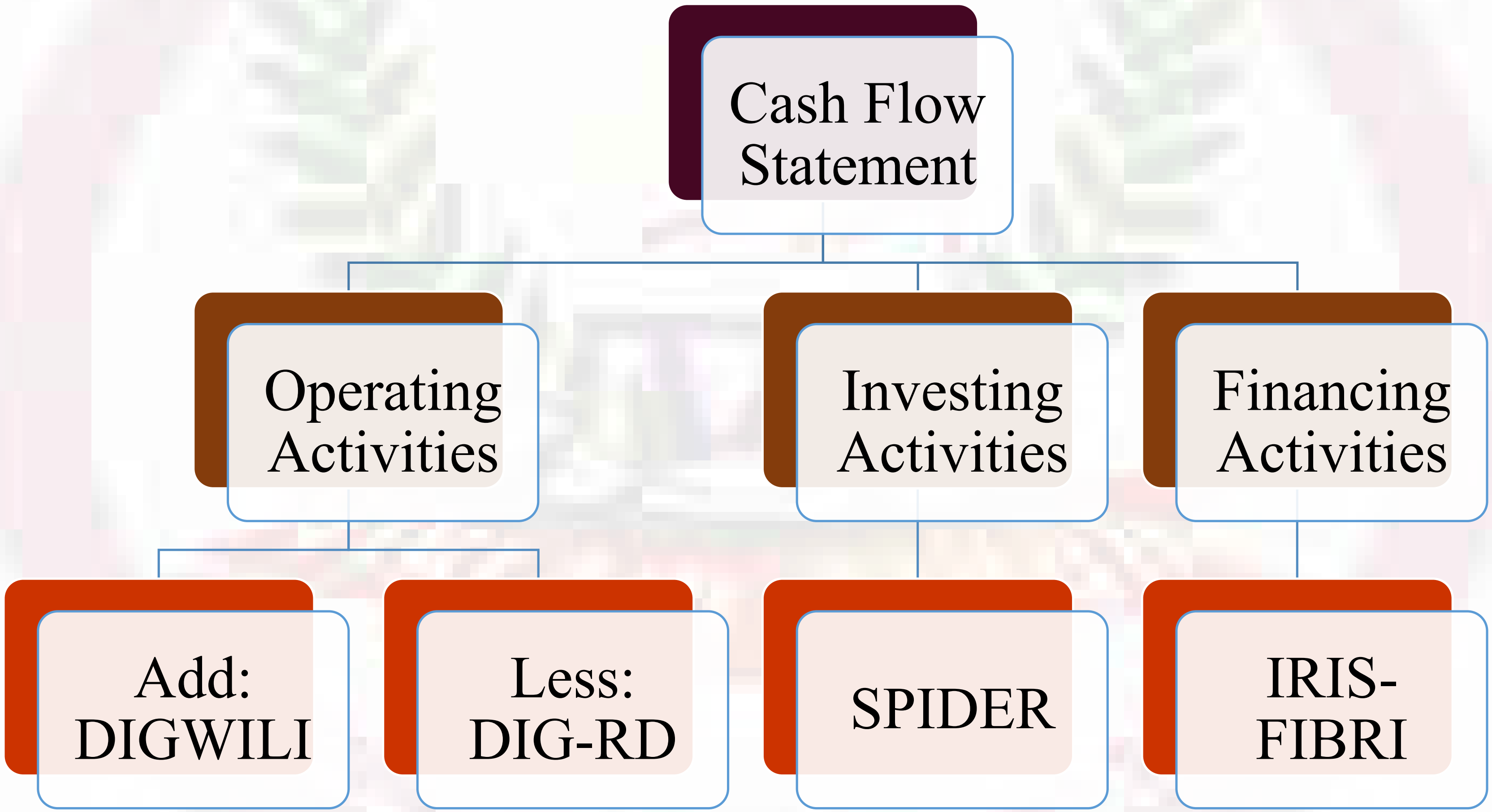

Illustration 1

The following is the Statement of Profit and Loss of Ganga Ltd. for the year ended 31st March, 2019

Particulars	**Note No.**	**Rs.**
I. Revenue from Operations		10,00,000
II. Expenses		
(a) Cost of Material Consumed		50,000
(b) Purchase of Stock in Trade		5,00,000
(c) Other Expenses		3,00,000
Total Expenses		8,50,000
Profit before Tax (I – II)		1,50,000

Additional Information:-

1. **Trade Receivables decrease by Rs.15,000 during the year.**
2. **Prepaid expenses increase by Rs.5,000 during the year.**
3. **Increase in Trade Payables Rs.20,000 during the year.**
4. **Outstanding Expenses increased by Rs.8,000.**
5. **Other Expenses included depreciation of Rs.25,000.**

Calculate Cash Flow from Operating Activities for the year ended 31st March, 2018.

Cash Flow from Operating Activities

Particulars	Details	Amount Rs.
Cash Flow from Operating Activities		
Net Profit before Tax		1,50,000
Add:- Depreciation		25,000
Operating Profit before Working Capital changes		1,75,000
Add:-		
- Decrease in Current Assets		
- Trade Receivables	15,000	
- Increase in Current Liabilities		
- Trade Payables	20,000	
- Outstanding Expenses	8,000	43,000
		2,18,000
Less:-		
- Increase in Current Assets		
- Prepaid Expenses		(5,000)
- Cash Flow from Operating Activities		2,13,000

Illustration 2

From the following information, calculate Cash Flow from Investing Activities:-

Particulars	**31.03.2019**	**31.03.2018**
Investment	5,50,000	2,40,000
Fixed Assets	11,00,000	8,70,000

Additional Information:-

1. **Half of the investment held in the beginning of the year were sold at 10% profit.**
2. **Depreciation on Fixed Assets was Rs.80,000 for the year.**
3. **Interest received on Investment Rs.40,000**
4. **Dividend received on Investment Rs.20,000.**

Cash Flow from Investing Activities

Particulars	Rs.
Proceeds from Sale of Investments	1,32,000
Purchase of Investment	(4,30,000)
Purchase of Fixed Assets	(3,10,000)
Interest Received	40,000
Dividend Received	20,000
Cash used in Investing Activities	(5,48,000)

Investment A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,40,000	By Bank A/c (Sale)	1,32,000
To Profit & Loss A/c	12,000	By Balance c/d	5,50,000
(Profit on Sale)			
To Bank A/c (Purchase) (Balancing Figure)	4,30,000		
	6,82,000		6,82,000
	=========		=========

Fixed Assets A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	8,70,000	By Depreciation A/c	80,000
To Bank A/c (Purchase)	3,10,000	By Balance c/d	11,00,000
(Balancing Figure)			
	11,80,000		11,80,000
	=========		=========

Illustration 3

From the following information, calculate Cash Flow from Financing Activities:-

Particulars	31.03.2019	31.03.2018
Equity Share Capital	5,50,000	4,50,000
10% Debentures	1,00,000	1,50,000
Security Premium Reserves	50,000	40,000
Bank Overdraft	2,50,000	2,00,000
Interest on Bank Overdraft	25,000	20,000

Additional Information:-

1. **Interest paid on debentures Rs.10,000.**
2. **Dividend paid Rs.40,000**

Cash Flow from Financing Activities

Particulars	Rs.
Proceeds from issue of Shares (including premium)	1,10,000
Redemption of Debentures	(50,000)
Increase in Bank Overdraft	50,000
Interest on Bank Overdraft	(5,000)
Interest Paid on Debentures	(10,000)
Dividend Paid	(40,000)
Cash Flow from Financing Activities	55,000

Illustration 4

From the following information, Prepare Cash Flow Statement:-

Balance Sheet as at 31st March, 2018

Particulars	Note No.	31.03.19	31.03.18
I. Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital		10,00,000	8,00,000
(b) Reserve and Surplus	1	4,00,000	(1,00,000)
2. Non-Current Liabilities			
Long-term Borrowings	2	9,00,000	10,00,000
3. Current Liabilities			
(a) Short-term Borrowings	3	3,00,000	1,00,000
(b) Short-term Provisions	4	1,40,000	1,80,000
Total		27,40,000	19,80,000
II. Assets			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	20,46,000	14,40,000
(ii) Intangible Assets	6	2,00,000	2,10,000
2. Current Assets			
(a) Inventories		2,14,000	1,20,000
(b) Cash and Cash Equivalent		2,80,000	2,10,000
Total		27,40,000	19,80,000

Notes to Accounts

Particulars	31.03.2019	31.03.2018
1. Reserve and Surplus		
Surplus, i.e., Balance in Statement of P & L	4,00,000	(1,00,000)
2. Non Current Liabilities		
12% Debentures	9,00,000	10,00,000
3. Short-term Borrowings		
Bank Overdraft	3,00,000	1,00,000
4. Short-term Provisions		
Provision for Tax	1,40,000	1,80,000
5 Tangible Assets		
Machinery	24,46,000	16,42,000
Less: Depreciation	4,00,000	2,02,000
6. **Intangible Assets**	20,06,000	14,40,000
Goodwill	2,00,000	2,10,000

Cash Flow Statement

Particulars	Details	Amount Rs.
I. Cash Flow from Operating Activities		
Net Profit before Tax		**6,40,000**
(4,00,000 + 1,00,000 + 1,40,000 Tax Provision)		
Add:- Depreciation	**1,98,000**	
- Interest on 12% Debentures	**1,20,000**	
- Goodwill written off	**10,000**	**3,28,000**
Operating Profit before Working Capital changes		**9,68,000**
Less:-		
- **Increase in Current Assets**		
- Inventory		**(94,000)**
		8,74,000
Less: Income Tax Paid		**(1,80,000)**
Cash Flow from Operating Activities		**6,94,000**
II. Cash Flow from Investing Activities		
Purchase of Tangible Fixed Assets		**(8,04,000)**

Particulars	Details	Amount Rs.
Cash Flow from Financing Activities		
- Proceed from Issue of Shares	2,00,000	
- Redemption of 12% Debentures	(1,00,000)	
- Increase in Bank Overdraft	2,00,000	
- Interest Paid on 12% Debentures	(1,20,000)	1,80,000
Net Cash Increase/Decrease (I + II + III)		70,000
Add: Cash and Cash Equivalent in the beginning		2,10,000
Cash and Cash Equivalent at the end		2,80,000