

# CASH FLOW STATEMENT

CFS-1.

- statement showing inflow & outflow of cash & cash equivalent as per AS-3.
- **Cash & cash equivalent:** cash in hand, demand deposits with bank, short term investments highly liquid, readily convertible into known amt of cash, maturity period of 3 months & ↓, insignificant risk of change in value)

| <u>OPERATING ACTIVITY:-</u>  | <u>INVESTING ACTIVITY :</u>   | <u>FINANCING ACTIVITY:</u>  |
|--|---|---|
| <p>Primarily revenue producing activity &amp; act which are not investing &amp; financing</p> <ul style="list-style-type: none"> <li>• purchase of RM</li> <li>• sale of goods &amp; services</li> <li>• payment to employees.</li> <li>• loan to employees, advances to creditors.</li> <li>• taxes of income (except in normal invst or financing)</li> <li>• all activities in normal course of business</li> </ul> | <p>act pertaining to long term asset which generate income in future</p> <ul style="list-style-type: none"> <li>• purchase &amp; sale of FA</li> <li>• purchase &amp; sale of long term Inv</li> <li>• Joint investure.</li> <li>• invst - subsidiaries, associates, debenture, preference shares.</li> <li>• loan given &amp; interest earned on loan.</li> <li>• TDS on interest, dividend received.</li> <li>• long term asset or inv</li> </ul> | <p>all items pertaining to share capital &amp; borrowings, changing the size and composition of capital &amp; borrowing.</p> <ul style="list-style-type: none"> <li>• Issue, redemption of eq share, preference shares.</li> <li>• Premium of redemption of capital.</li> <li>• loan taken, repaid &amp; interest paid.</li> <li>• dividend paid, corporate dividend tax.</li> <li>long term liability</li> </ul> |

| <u>INDIRECT METHOD :- (OPERATING ACTIVITIES)</u>   |   |   |
|--|---|---|
| <p>start with net profit to cash.</p> <p><b>Net profit transferred to B/s</b></p> <ul style="list-style-type: none"> <li>(+) non cash expenses</li> <li>(+) non operating expenses</li> <li>(-) non operating income</li> <li>(+) Transfer to Reserve</li> <li>(-) Transfer from Reserve</li> </ul> <p><b>Operating profit w/c change</b></p> <ul style="list-style-type: none"> <li>(-) ↑ in CA (stock purch/manu) (COF)</li> <li>(+) ↓ in CA (debtors payment/lend) (CIF)</li> <li>(+) ↑ in CL (loan taken) (CIF)</li> <li>(-) ↓ in CL (loan repaid) (COF)</li> </ul> <p><b>Cash generated from operations</b></p> <ul style="list-style-type: none"> <li>(-) Tax paid</li> <li>(+) Tax refund</li> </ul> <p><b>Cash generated by Extra ordinary items.</b></p> <ul style="list-style-type: none"> <li>(+) extra ordinary income</li> <li>(-) extra ordinary expenses.</li> </ul> <p><b>Net cash flow from operating activity.</b></p> | <p>XX</p> <p>X X (X) X (X)</p> <p>XX (X) X X (X) XX (X) X</p> <p>X X (X)</p> <p>XXX</p> | <p>Net cash flow from operating activity.</p> |

## Cash Flow Format

I] Cash flow statement from operating activity.  
(direct OR indirect method)

II] Cash flow from investing activity.

III] Cash flow from financing activity.

Net change in cash & cash equivalent. [1+2+3]

(+) opening cash & cash equivalent

= closing cash & cash equivalent balance

XX

XX

XX

XX

XX

XX

## DIRECT METHOD : OPERATING ACTIVITY

• only cash item no P&L item.

Cash inflow: Cash sales. X

Adv | cash received from keebros / BR X

Bad debts recovered X

Cash outflow: Cash Purchase (X)

Cash paid to creditors / BP (X)

Cash paid to prod<sup>n</sup> exp (X)

admin & sd exp (X)

Cash generated from op<sup>n</sup> XX

(+)(-) Taxes paid / refund X

Cash flow b4 EO items - XX

(+)(-) extra ordinary items X

Net cash flow from op<sup>n</sup> activity XX

### IMP POINTS

- 1] Always start with balance sheet - post tax, dividend, fixed assets & depreciation
- 2] Always prepare various accounts like Tax Provision A/c. (necessary under AS-3)
- 3] Always post after closing the accounts.
- 4] Assume last year tax is paid in CY.
- 5] Proposed dividend, FA, dep (acc)