

CBSE Quick Revision Notes and Chapter Summary
Class-12 Accountancy
Part – B – Cash Flow Statement

Introduction

Cash flow statement was previously known as the flow of Cash statement. Cash Flow Statement is prepared according to Accounting Standard – 3 (Revised). Cash flow statement provides information on a firm's liquidity and solvency. It is concerned with the inflow and outflow of cash in the business. The cash flow statement is partitioned into three segments, namely:

- (1) Cash flow resulting from operating activities;
- (2) Cash flow resulting from investing activities; and
- (3) Cash flow resulting from financing activities.

The cash coming into the business is known as cash inflow, and cash going out from the business is known as cash outflow.

Meaning and Definition of Cash Flow Statement

It is a statement that shows flow (inflow or outflow) of cash and cash equivalents during a given period of time. As per Accounting Standard-3 (Revised) the changes resulting in the flow of cash & cash equivalents arises on account of three types of activities i.e.

- (1) Cash flow from Operating Activities.
- (2) Cash flow from Investing Activities.
- (3) Cash flow from Financing Activities

Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash Equivalents. ----- **Accounting Standard – 3 (Revised) issued by ICAI**

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

Investing activities: - Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities: - Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

OBJECTIVES OF CASH FLOW STATEMENT

1. To ascertain how much cash or cash equivalents have been generated or used in different activities i.e. operating/investing/financing activity.
2. To ascertain the net changes in cash and cash equivalents.
3. To assess the causes of difference between actual cash & cash equivalent and related net earning/income.
4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.
5. To help in short-term financial planning.
6. To ascertain the liquidity of enterprises

LIMITATIONS OF CASH FLOW STATEMENT

1. Non cash transactions are not taken into consideration like shares or debentures issued to vendors, depreciation charged during the year.
2. It is a statement related with past data.
3. It is not used for judging the profitability of enterprises.
4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included.

Calculation of Inflows and outflows from various activities

How to Calculate Cash From Operating Activities	
Step 1. Profit before tax and extraordinary items	
Profit as per statement of Profit & Loss (closing balance – opening balance)	xxxx
Add : Transfer to Reserve (closing balance – opening balance)	xxxx
Add : Proposed dividend for the current year	xxxx
Add : Interim dividend paid during the year	xxxx
Add : Provision for tax made during the year	xxxx
Add : Net Deferred Tax Liabilities (opening balance – closing balance)	xxxx
Less : Net Deferred Tax Asset (opening balance – closing balance)	(xxxx)
Less : Refund of tax credited to the Statement of Profit & Loss	(xxxx)
Add : Extraordinary item (loss), if any, debited to Statement of Profit & Loss (earthquake, disaster etc.)	xxxx
Less : Extraordinary item (insurance claim), if any, credited to Statement of Profit & Loss	(xxxx)
Net Profit before Taxation and Extraordinary Items	xxxx

Step 2. Treatment of Non-cash and Non-operating items		XXXX
Add :		XXXX
➤ Depreciation on fixed tangible assets		XXXX
➤ Amortised Goodwill/Patents/Trademarks/ Copyright and other intangible fixed assets		XXXX
➤ Unamortised expenses and losses (fictitious assets) written off		XXXX
➤ Interest on loans or interest on borrowings		XXXX
➤ Interest on debentures		XXXX
➤ Premium payable on redemption of debentures or preference shares		XXXX
➤ Loss on sale of fixed assets		
➤ Loss on sale of investments (whether short term or long term)		
Less :		
➤ Rental Income		(XXXX)
➤ Interest on investment		(XXXX)
➤ Dividend income		(XXXX)
➤ Profit on sale of fixed assets		(XXXX)
➤ Profit on sale of investment		(XXXX)
Operating Profit before Working Capital Changes		XXXX
Step 4. Treatment of Current Assets and Current Liabilities		
Add :		
➤ Decrease in Current Assets (excluding cash and cash equivalents)		
• Decrease in Inventories (stock)	XXXX	
• Decrease in Trade Receivables (Debtors and B/R)	XXXX	
• Decrease in Prepaid Expenses and accrued incomes etc. (if any)	XXXX	
➤ Increase in Current Liabilities		
• Increase in Trade Payables (creditors and Bills Payable)	XXXX	
• Increase in outstanding expenses or advance incomes (if any)	XXXX	
• Increase in provision for doubtful debts	XXXX	XXXX
Less :		
➤ Increase in Current Assets (excluding cash and cash equivalents)		
• Increase in Inventories (stock)	XXXX	
• Increase in Trade Receivables (Debtors and B/R)	XXXX	
• Increase in Prepaid Expenses and accrued incomes etc. (if any)	XXXX	
➤ Decrease in Current Liabilities		
• Decrease in Trade Payables (creditors and Bills Payable)	XXXX	
• Decrease in outstanding expenses or advance incomes (if any)	XXXX	
• Decrease in provision for doubtful debts	XXXX	(XXXX)
Cash Generated from Operation		XXXX
Less : Income Tax Paid (excluding Tax Refund)		(XXXX)
Cash Flow before Extraordinary Items		XXXX
Add : Extraordinary Credit items		XXXX
Less : Extraordinary Debit items		(XXXX)
Net Cash Flow from (used in) Operating Activities		XXXX

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How to calculate the Cash Flow from Investing Activities	
Add Items :	
Proceeds from sale of Fixed Tangible Assets (Land, Building, Machinery, Furniture etc.)	XXXX
Proceeds from sale of Fixed Intangible Assets (Patents, Trademark and Copyright etc.)	XXXX
Proceeds from sale of Investments (short-term or long-term)	XXXX
Proceeds from loans and advances (repayment by the outsiders to the firm)	XXXX
Interest received on investments (short-term or long-term)	XXXX
Interest received on loans and advances	XXXX
Interest received on debentures held as investments	XXXX
Dividend received	XXXX
Rent received	XXXX
Less Items :	
Purchase of Fixed Tangible Assets	(XXXX)
Purchase of Fixed Intangible Assets	(XXXX)
Purchase of Investments (shares, debentures, bonds etc.)	(XXXX)
Amount advanced to outsiders as loan	(XXXX)
Insurance claim received against the loss of fixed assets	(XXXX)
Cash flow from (used in) Investing Activities	XXXX

How to calculate Cash Flow from Financing Activities		
Proceeds from issue of Equity Share Capital <i>(with premium but exclude discount and share issue expenses, if any)</i>	Add	XXXX
Proceeds from issue of Pref. Share Capital (with premium but exclude discount, if any) <i>(with premium but exclude discount and share issue expenses, if any)</i>		XXXX
Proceeds from issue of Debentures <i>(with premium but exclude discount and debenture issue expenses, if any)</i>		XXXX
Proceeds from other Long-term Borrowings (loans etc.)		XXXX
Redemption of Pref. Shares (with premium paid on redemption)		(XXXX)
Redemption of Debentures (with premium paid on redemption)		(XXXX)
Dividend paid	Less	(XXXX)
Interest paid (on debentures or loans)		(XXXX)
Repayment of loans		(XXXX)
Cash flow from (used in) Financing Activities		XXXX

How to calculate Cash and Cash Equivalents?		
ADD	Cash Flow from (used in) Operating Activities	XXXX
	Cash Flow from (used in) Investing Activities	XXXX
	Cash Flow from (used in) Financing Activities	XXXX
	<i>Net Increase or Decrease in Cash and Cash Equivalents</i>	XXXX
	Add : Cash and Cash Equivalents in the beginning	XXXX
	<i>Cash and Cash Equivalents at the end</i>	XXXX

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