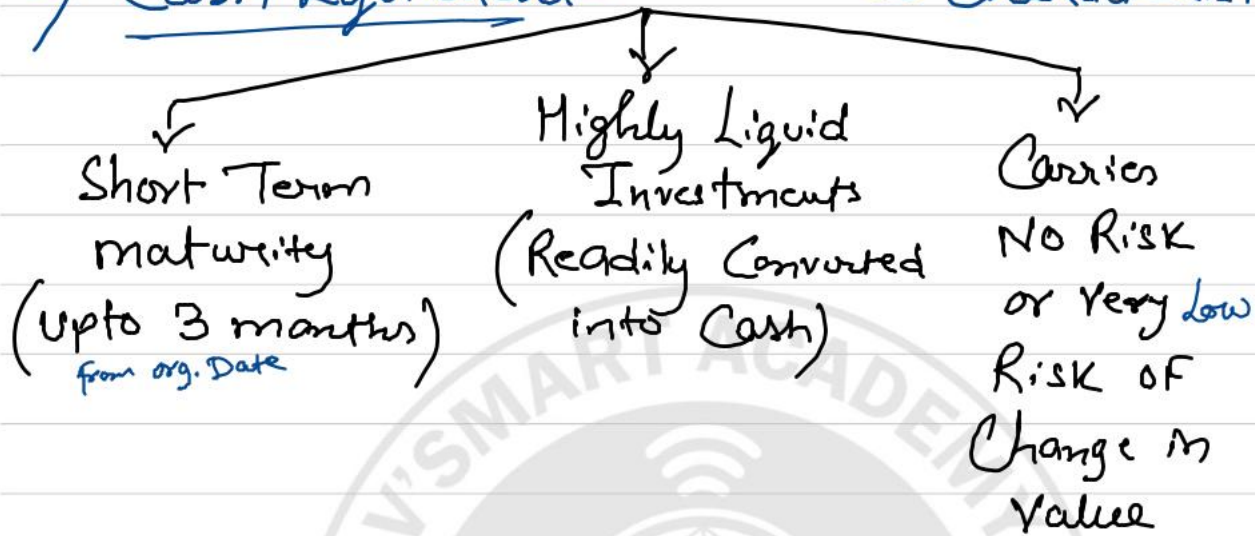


Cash Flow Statement - Summary

1) Cash Equivalent — 3 Characteristics



3) Cash Flow From Operating Activity :- (Direct)

Collection from Debtors
Payment to Suppliers/Creditors
Cash Sales
Cash purchases

Payment of Expenses (other than
Invest/Financing)

Receipt of Incomes (other than financing & Investing)

Cy / Py / Next year

received in cy

Income Tax payments / receipts
(other than Capital Gain Tax)

Any other Cash flow which does not belong to Inv. / Fin. act.

4) Cash Flow From Operating Activity

(Indirect method)

always start with NPBT

From P&L

• IF NPBT is not given then :-

NPAT — XXX


(+) Tax provision — XXX
Created in P&L

NPBT

- IF NPBT & NPAT Both are not given :-

Closing P&L Balance	—	XX
(-) Opening P&L Balance	—	XX
		R/E
(+) Transfers to GR in cy		XX
(+) Dividend Declared during the year (Eg + Prof + Interest)		XX
(+) Tax provision Created in P&L		XX
		NPBT

Format of CFOA

NPBT	XXX
(+/-) Adjustment For :-	
 Non Cash Exp./Incomes OF P&L :-	

- Depreciation
- Foreign Exchange Gain/Loss
- * Inventory adjustment
- Bad-debts

- Goodwill amortised

👉 Non Operating items

- Interest Cost (Loans/Debt)
- Dividend ^{Post-AF9} Income
- Interest Income
- Gain/Loss on Sale
- Premium on Redemption of Debt/Psc

👉 Other Eliminations

- Tax Refund (Temporary)
- Extra-ordinary items (Temporary)
- Any Income/Exp paid in Cy But not yet transfer to p&l

Cash flow before WC Changes = XXX

(+/-) WC adjustments :-

CA Increase	(-)
CA Decrease	(+)
CL Increase	(+)
CL Decrease	(-)

Net Cash before Tax & Extra-ordinary items = XXX

(-) Tax paid

(+) Income Tax Refund

(+/-) Extra ordinary items

Net Cash generated/used
in operations

XXX

Steps to solve question

Step 1:- Prepare Working Notes

Step 2:- Start CFS with NPBT*
(calculate NPBT with working)

Step 3:- Target P&L items (if P&L is available)

Step 4:- Target WN prepared & other adjustments
of question

Step 5:- Target B/s items one by one

5) Important Adjustments :-

Dividend

g activity.

Balance Sheet (Extract)		
	Closing Balances	Opening Balances
Dividend Payable	₹ xxx (Assume it is declared in CY)	xxx (Assume it is Paid in CY)

R/E (+)

CFFA (-)

Extra Ordinary items

Following are examples of Extra ordinary items:

- a) Income from Lawsuit (Compensation)
- b) Compensation/Penalty paid against settlement of Lawsuit
- c) VRS Expenditure (voluntary retirement scheme)
- d) Insurance claim due to loss of stock

CFOA

CFIA

Insurance claim due to loss of PPE

Interest & Dividend

Particulars

Financial Entity's Bank

Manf./Trading, Non Financial Entity's

Dividend & Interest received

Operating activity

Investing activity

Interest Payment

Operating (if paid on public Deposits)

Financing

Dividend Payment

Financing,

Financing

For working capital adjustments the Closing Debtors Creditors & related Current A/L should be taken after following adjustments :-

	<u>Debtors</u>	<u>Creditors</u>
Closg Bal. (as per B/s)	xxx	xxx
Bad debt	+ xxx	N.A.
Discount allowed	+ xxx	N.A.
Discount received From Creditors	N.A.	+ xxx
Foreign Ex. Gain	(xxx)	+ xxx
Foreign Ex. Loss	+ xxx	(xxx)
	<hr/>	<hr/>
Revised Closg. Balance	xxx	xxx

To
↓
Compare with opening.

8. Other Important Adjustments:

- Marketable securities are cash equivalent
- If Nothing is specified in the Question, then treat Net Profit as Net Profit After Tax.
- Previous Year Dividend Balance in Balance Sheet - Assume paid in CY and it is a Financing Activity
- Current year dividend Balance in Balance sheet - Assume it is a Provision created in CY and it is non-cash item hence to be added back in Retained Earnings under Operating Activity.
- On sale of any Asset/PPE, if any gain/loss arise then it needs to be eliminated from operating activity since it not non-operating item.
- However, on sale of any Asset/PPE, if the gain/loss is transferred to Capital reserve (not in Profit and Loss a/c), then there is no need to eliminate such gain loss from operating activity since it not reflected in profit and loss a/c.
- If % of Interest on Debentures is given in the question, we shall always consider such interest in Cash Flow Statement. (Added in CFOA and Deducted in CFFA) (Refer Q308)

CASH FLOW STATEMENT

- If dividend % of Preference Shares is given in question, but question doesn't mention any payment of preference dividend, then we shall ignore the Preference Dividend treatment.
- Pre-acquisition dividend received is always deducted from Cost of Investment (should not be treated as income under P&L).

Cash/Bank A/c Dr.
To Investment A/c

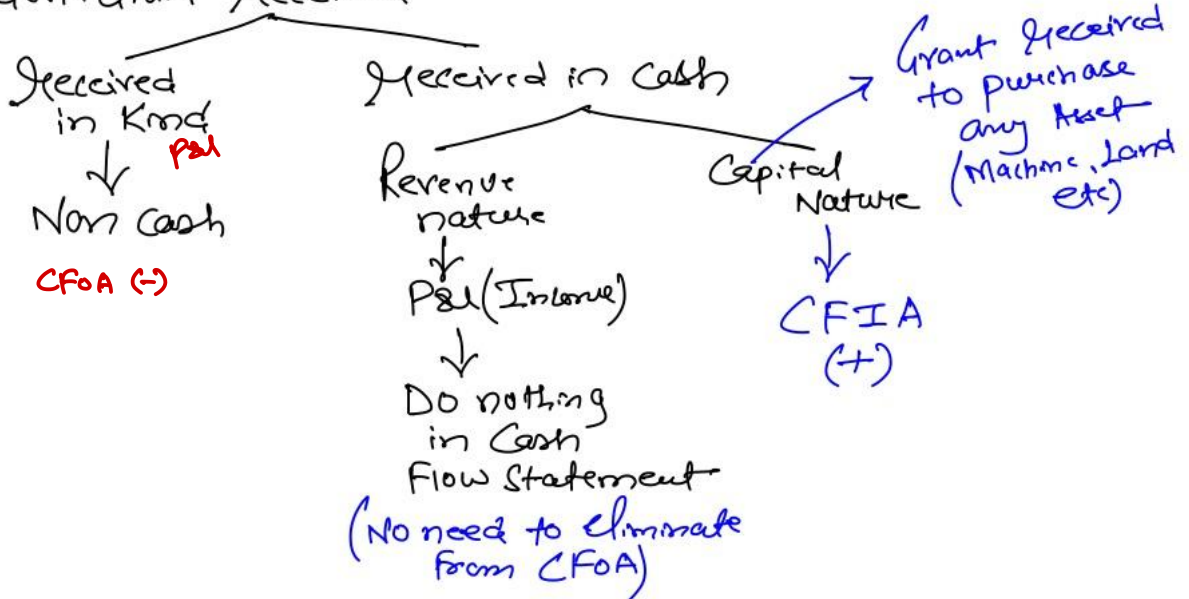
Invest
By Bank Pre Acq Dir

- Post-Acquisition dividend is treated as income under P&L A/c. Hence it should be deducted under Operating activity and added in Investing Activity.
- Retirement ~~Contrib~~ fund is liability.
- If nothing is specified about cash sales & cash purchase, then we would always assume the total sales and purchases in credit only.
- While during working capital adjustment of debtors, the closing debtors balance shall be increased by bad-debt or discount amount accrued during the year, then the revised closing balance shall be compared with opening balance.
- Foreign currency bank balance is also cash equivalent, its value should be:
 $\text{Foreign Currency Amount} \times \text{Closing Exchange Rate}$
- Retained earnings is the difference of Opening P&L Balance and Closing P&L Balance.

• Refund of Tax (inflow)

→ First less in CFOA
→ then add Back in CFOA (sabse last me)

• Govt. Grant Received



• Lease Rent



• Tax A/c

To opng. Adv. Tax xx	By opng Provision xx
To Bank xx (Tax paid in cy)	By P&L a/c xx (Tax provision)
To Closg Provision xx	By Closg Adv. Tax xx

• Inventory adjustment

Always Consider Inventory at Original Cost

If opening (or) org Inventory is shown at other than cost then before doing WC adjustment →

👉 Rectify NPBT For

Inventory adjustment from NRV to Cost

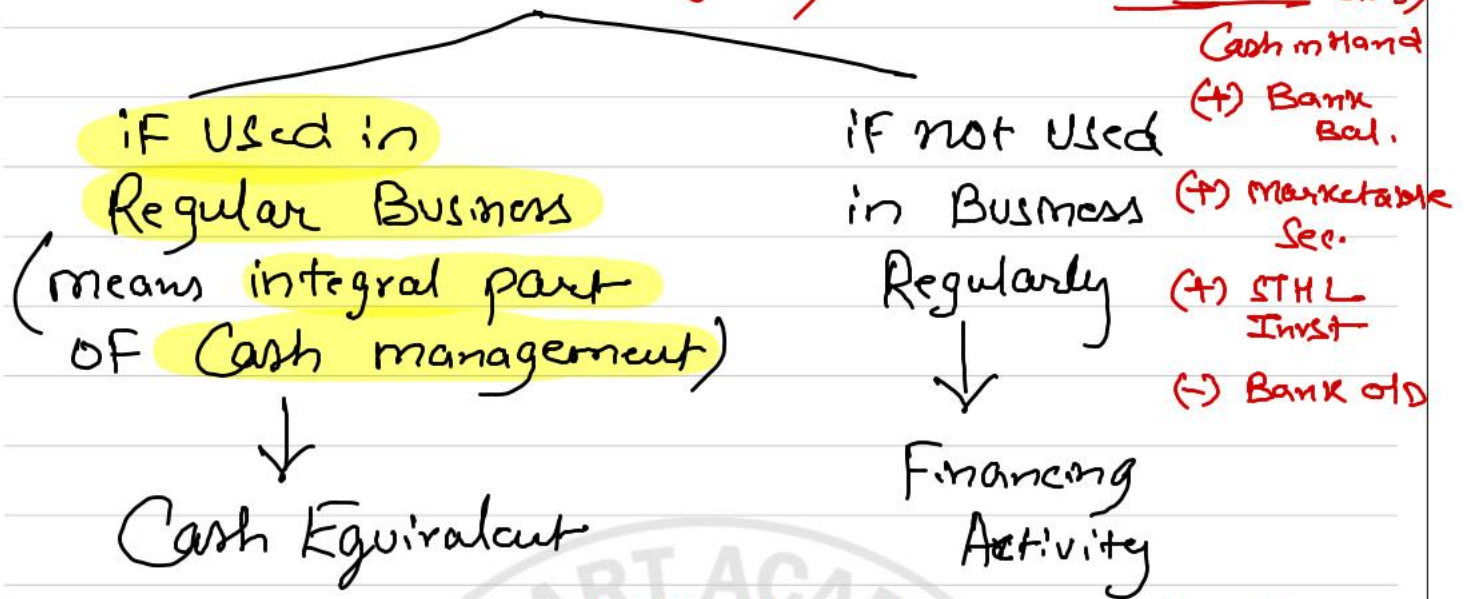
👉 WC adjustment of Inventory

opng
Inventory
at org. cost

Closg Inventory
at org.
Cost

• Bank overdraft (Liability)

CR CE (op & class)



* if nothing is mentioned abt Bank OD then treat Financing

• Bad-debts

Bad-debts Dr.
To Debtors a/c

W/OFF OF Bad-debts

(OR)

From P&L

P&L
To BD

Prov.
To BD

Directly out of "provision for Doubtful Debts"

CFOA (+)

ignore in CFOA

Always assume this if nothing is specified.