Cash Flow Statement – Summary

1) Cash Equivalent — 3 Characteristics

- Short Term maturity (upto 3 months) from org. Date
- Highly Liquid Investments (Readily Converted into Cash)
- Carries No Risk or Very Low Risk of Change in Value

2) B/s and P&L Vs. Cash Flow Statement

B/s and P&L → Accrual Basis

Cash Flow Statement → Cash Basis

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 Created in P&L	xxx
NPBT	

- If NPBT & NPAT Both are not given :-

Closing P&L Balance	— xx
(-) Opening P&L Balance	— xx
	R/E
(+) Transfer to GR in Cy	XX
(+) Dividend Declared during the year (Eq + Pref + Interim)	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 | Debⁿ)
- Dividend (Post Acq.) Income
- Interest Income
- Gain/Loss on Sale
- Premium on Redemption OF Debⁿ / 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	P&L 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:

CFOA
- ~~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

CFIA Insurance Claim due to loss of PPE

Interest & Dividend

Particulars	Financial entity's Bank	Non Financial entity's (Manf./Trading.)
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 :-

	Debtors	Creditors
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)
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)**

- 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

  Invst

  By Bank Pre Acq Div

- 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 ~~gratuity~~ Gratuity 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 equivalate, its value should be:

  Foreign Currency Amount X 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
  - Received in Kind (P&L) → Non cash → CFoA (-)
  - Received in Cash
    - Revenue nature → P&L (Income) → Do nothing in Cash Flow Statement (No need to eliminate from CFoA)
    - Capital Nature → CFIA (+)

      Grant Received to purchase any Asset (Machine, Land etc)
- Lease Rent
  - Operating → CFOA
  - Finance → Finance Activity

- **Tax A/c**

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

- **Inventory adjustment**

Always Consider Inventory at Original Cost

IF Opening (or) clsg 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 (Liab.)

C & CE (Op & Closg)
Cash in Hand
(+) Bank Bal.
(+) Marketable Sec.
(+) STHL Invst
(−) Bank O/D

if Used in Regular Business (means integral part of Cash management)
↓
Cash Equivalent

if not Used in Business Regularly
↓
Financing Activity

* 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
↓
CFOA (+)

always assume this if nothing is Specified.

Prov. To BD
directly out of "provision For Doubtful Debts"
↓
ignore in CFOA