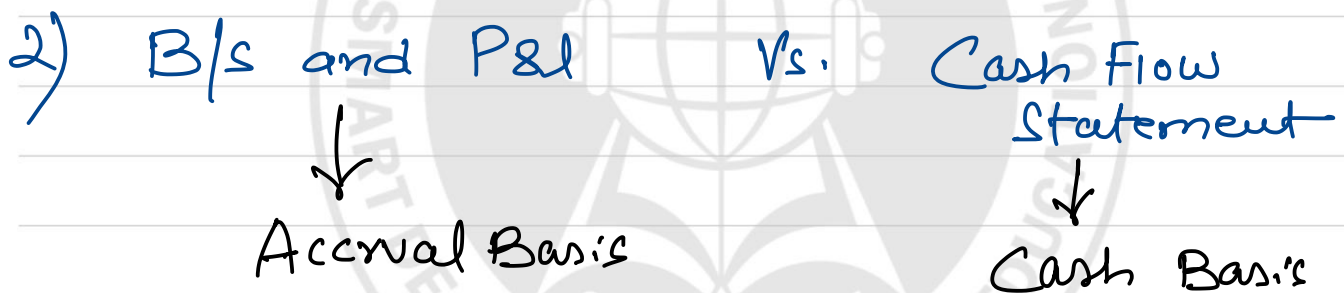
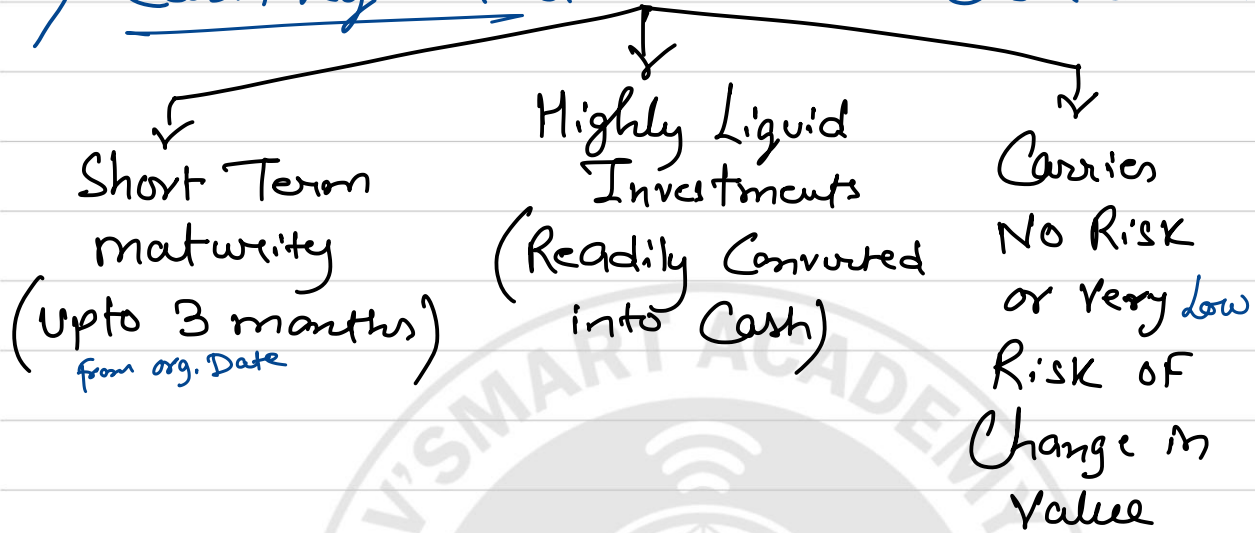


Cash Flow Statement - Summary

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
(+) Transfer to GR in Cy		XX
(+) Dividend Declared during the year (Eg + Prof + Interest)		XX
(+) Tax provision Created in P&L		XX
		NPBT

Format of CFA

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	xxx (Assume it is declared in CY)	xxx (Assume it is Paid in CY)

R/E
(+)

CFF A
(-)

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)
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 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~~ 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

Received in Kind

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 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



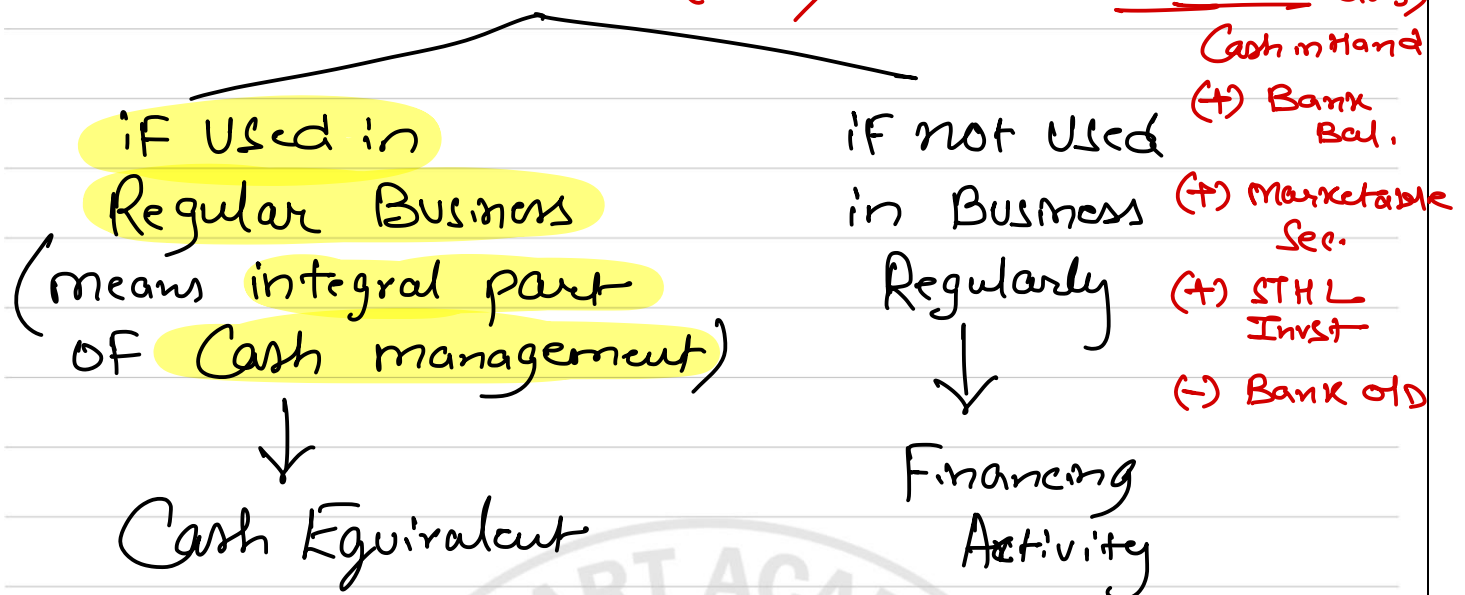
WC adjustment of Inventory

opng
Inventory
at org. Cost

Closg Inventory
at org.
Cost

• Bank overdraft (Liab)

CR CE (op & Clos)



* 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.