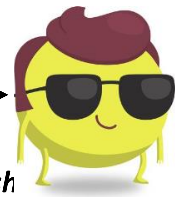
AS 3: CASH FLOW STATEMENT

STUDENT NOTES

WHAT IS THE MEANING OF CASH FLOW mcq

Answer: Inflow and Outflow of Cash and Cash Equivalents is cash flow.



Cash Received → Inflow of Cash

Cash Paid → Outflow of Cash

DEBTOR | BUSINESS | CREDITOR

Cash Deposit ↓ ↑ Cash Withdrawn

cash management

Neither Cash Inflow | Nor Cash Outflow

Bank a/c

MUN MUN BANK

clear

Any Movement between cash and cash equivalents does not results in cash flow. This is Called Cash Management.

100%

CASH AND CASH EQUIVALENTS :

1) Cash in hand
2) Cash deposited with bank (demand deposit)

   - Saving account deposit & Current account deposit

fixed deposit → cash equi ✗

indiv

cash equiv.

cash equiv.

Bank: receivable OD ✓ − payable OD ✓ C.E.

- This does not include fixed deposits/recurring deposits.
- Bank overdraft if payable on demand then it is included in cash & cash equivalents. Otherwise, it will be considered a part of financing activity.

3) Short Term highly liquid investments, where there is insignificant risk of change in value of investments.

- Short Term = Realizable within 3 months from date of acquisition.
- E.g. : Government Bonds, Treasury Bills.

CA Tejas Suchak

Cash & Cash Equivalents

1) Cash

2) Bank deposits :- Savings a/c → ✓
Current a/c → ✓ } receivable on demand : Demand dep.
Fixed deposit → ×

Bank / C.E. :- Deposits Receiv on Dem
- Bank o/d pay. on Dem.
Bank cash Equiv.

(*) Bank Overdraft

Payable on Demand → Treated as Cash Equivalents

Not Payable on Demand → Treated as financing Activity

3) Short Term
Highly Liquid } → "3 months mein realisable"
Investment
+
Insignificant Risk of change in Value

} Both satisfied ⇒ Cash Equivalent.

Cash Management

1. Cash (C & C.E.) - - - - → Bank : Savings a/c (C.E.)

Source → Destination

movement between cash and C.E.
↓
Cash management

Destination (Cash) ← - - - - Source (C.E.)

movement between cash and cash equivalents
↓
Cash mangement

Source		Destination
Debtor ······→	cash flow ······→	Bank

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Cash ⟶ Cash flow ⟶ Creditor

Bank Savings a/c ⟶ Cash flow ⟶ Bank fixed deposit

Bank Savings a/c ⟶ Cash management ⟶ Cash

Bank Savings a/c ⟶ Cash flow ⟶ Investment in Equity shares for 2 months.

Classification of Cash Flow through Balance sheet

Sh. Cap. R&S B.L. Debentures — Financing activity.	Land Build. F.A. Invest — Investing activity
Credit B/s	Debtors B.R. Stock

Credit B/s, Debtors, B.R., Stock ⟶ Operating activity.

Cash Flow Statement is prepared by two methods :-

Direct Method

↓

V.V. Easy.

Cash flow — Trading a/c

Start ↓ End

↓

Cash flow from operating activities

Indirect Method

↓

Logical and easy once logics are understood.

Cash flow : P&L a/c

Start ↑ End

↓

Cash flow from operating activities

Cash flow from Investing & Financing Activities is same under both methods.

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INDIRECT METHOD

Cash flow from → OA ⟹ with the help of P&L a/c.
IA
FA

Trading and P&L

OS		Sales → Operating Incomes	
P		C.S	
D.E.			
G.P.			
Operating Expenses (business related; day-to-day activity)		Gross Profit b/d	
Advertisement exp		**Operating Incomes** → X	
Telephone bill			
Internet bill			
Depreciation → non-cash			
Salary			
Electricity bill			
OPERATING PROFIT			
Non-Operating expenses (business related; but not day-to-day activity)		**Non-Operating Incomes**	
Interest on bank loan		Interest Income	
Interest on Debentures.		Rental Income	
loss on sale of PPE/Inv		Dividend Income	
		Gain on sale of PPE/Inv.	
Extraordinary Expenses (not related to business)		**Extra-ordinary Incomes**	
loss due to fire		Insurance claim for fire	
loss due to Earthquake		" " for E.Q.	
Net Profit before tax			
- Tax expenses/provision			
Net Profit after tax			

Appropriation
- Transfer to General Res
- Proposed Dividend
- Retained in P&L a/c

Cash flow from Operating Activities

Particulars	Amount	Amount
1. Transfer to General Reserve		
2. Proposed Dividend		
3. Retained in P&L		
Net Profit after tax		
add: tax expense		
Net Profit before tax		
add: Extraordinary expenses		
less: Extraordinary incomes		
Net Profit before tax and extraord. items		
add: Non-Operating expenses		
less: Non-operating incomes		
Operating Profit		
add: Operating Non-Cash items		
Operating Profit before w.c. changes		
add: Decrease in C.A.		
less: Increase in C.A.		
add: Increase in C.L.		
less: Decrease in C.L.		
Cash flow from operations		
less: Income Tax paid		
Cash flow from operating activities		

Operating Profit ⟶ Operating cash flow

Profit = 5crore + Depreciation - Debtors + Creditor = Cash flow

1crore. 3000000 2crore = 7.70crore

Operating Profit + 1. Operating Non-cash Expenses - Debtors/C.A. + Creditors/C.L.

Debtors/C.A.: Opening bal. 2000000 ; Cl. bal. 5000000

Creditors/C.L.: Opening bal. 2000000 ; closing bal. 5000000

2.
- Increase in C.A. → cash outflow
+ Decrease in C.A → cash inflow

3.
+ Increase in C.L. → Cash inflow
- Decrease in C.L → Cash Outflow

ΔCA - ΔCL = Δ working capital

→ Cash flow from operations