**30.3 PREPARATION OF CASH FLOW STATEMENT**

**(i) Operating Activities**

Cash flow from operating activities are primarily derived from the principal revenue generating activities of the enterprise. A few items of cash flows from operating activities are :

1. Cash receipt from the sale of goods and rendering services.
2. Cash receipts from royalties, fee, Commissions and other revenue.
3. Cash payments to suppliers for goods and services.
4. Cash payment to employees

(vi) Cash payment or refund of Income tax.

## Determination of cash flow from operating activities

There are two stages for arriving at the cash flow from operating activities

## Stage-1

Calculation of operating profit before working capital changes, It can be calculated in the following manner.

Net profit before Tax and extra ordinary Items xxx

Add Non-cash and non operating Items

which have already been debited to profit and Loss Account i.e.

|  |  |  |
| --- | --- | --- |
| DepreciationAmortisation of intangible assets | xxxxxx |  |
| Loss on the sale of Fixed assets.Loss on the sale of Long term Investments | xxxxxx |
| Provision for taxDividend paid | xxxxxx | xxx |
|  |  | xxx |

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**Notes**

**Cash Flow Statement**

Less : Non-cash and Non-operating Items which have already been credited to Profit and Loss Account i.e.

|  |  |  |
| --- | --- | --- |
| Profit on sale of fixed assets | xxx |  |
| Profit on sale of Long term investment | xxx | xxx |
| Operating profit before working Capital changes. |  | xxx |

## Stage-II

After getting operating profit before working capital changes as per stage I, adjust increase or decrease in the current assets and current liabilities.

The following general rules may be applied at the time of adjusting current assets and current liabilities.

## Current assets

1. An increase in an item of current assets causes a decrease in cash inflow because cash is blocked in current assets.
2. A decrease in an item of current assets causes an increase in cash inflow because cash is released from the sale of current assets.

## Current liabilities

1. An increase in an item of current liability causes a decrease in cash outflow because cash is saved.
2. A decrease in an item of current liability causes increase in cash out flow because of payment of liability.

Thus,

Cash from operations = operating profit before working capital changes + Net decrease in current assets + Net Increase in current liabilities – Net increase in current assets – Net decrease in current liabilities.

## Illustration 1

The net Income reported in the Income Statement for the year was Rs. 110,000 and depreciation of fixed assets for the year was Rs. 44000. The balances of the current assets and current liabilities at the beginning and end of the year are as follows. Calculate cash from operating activities.

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End of the year Beginning of the year Amount Amount

**Cash Flow Statement**

(Rs.) (Rs.)

##  Notes

**Current Items**

Cash 130,000 140,000

Debtors 200,000 180,000

Inventories 290,000 300,000

Prepaid expenses 15,000 16,000

Account payables 102,000 1,16,000

## Solution

**Cash from operating Activities**

|  |  |
| --- | --- |
| Details | Amount (Rs.) |
| Net Income | 1,10,000 |
| Adjustment for non cash and Non-operating items |  |
| Add Depreciation | 44,000 |
| Operating Profit before | 154,000 |
| working capital changes |  |
| Current Assets : |  |
| Add : (a) Decrease in inventories 10,000 |  |
| (b) Decrease in prepaid expenses 1000 | 11000 |
|  | 165,000 |
| Deduct : (a) Increase in Debtors (20,000) |  |
| Current liabilities |  |
| (b) Decrease in Account payables (14,000) | 34,000 |
| Net Cash flow from |  |
| operating Activities | 131,000 |

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**Notes**

**Cash Flow Statement**

**Step - II**

**Investing Activities**

Investing Activities refer to transactions that affect the purchase and sale of fixed or long term assets and investments.

Examples of cash flow arising from Investing activities are

1. Cash payments to acquire fixed Assets
2. Cash receipts from disposal of fixed assets
3. Cash payments to acquire shares, or debenture investment.
4. Cash receipts from the repayment of advances and loans made to third parties.

Thus, Cash inflow from investing activities are

* Cash sale of plant and machinery, land and Building, furniture, goodwill etc.
* Cash sale of investments made in the shares and debentures of other companies
* Cash receipts from collecting the Principal amount of loans made to third parties.

Cash outflow from investing activities are :

* Purchase of fixed assets i.e. land, Building, furniture, machinery etc.
* Purchase of Intangible assets i.e. goodwill, trade mark etc.
* Purchase of shares and debentures
* Purchase of Government Bonds
* Loan made to third parties

## Illustration 2

From the following information calculate the cash flow from investing activities

|  |  |  |
| --- | --- | --- |
| Particulars | Opening | Closing |
| Machinery (at cost) | 400,000 | 420,000 |
| Accumulated Depreciation | 100,000 | 110,000 |
| Patents | 280,000 | 160,000 |

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**Notes**

**Cash Flow Statement**

## Additional Information :

* 1. During the year a machine costing Rs 40,000 with this accumulated depreciation Rs 24000 was sold for Rs 20,000
	2. Patents were written off to the extent of Rs 40,000 and some patents were sold at a profit of Rs 20,000

## Solution.

**Cash Flow from Investing Activities**

|  |  |
| --- | --- |
| ParticularsInflow from sale of machinery | Rs20,000 |
| Inflow from sale of patent (2) | 100000 |
|  | 120000 |
| Outflow on purchase of machinery (1) | (60000) |
| Net cash flow from investing activities | 60000 |
| **Working notes** |  |

**Machinery A/c**

|  |  |  |  |
| --- | --- | --- | --- |
| Balance b/dProfit and Loss A/c(Profit on sale of machine) Bank A/c | 400000400060000 | Bank (Inflow)Accumulated depreciation (Depreciation on machinery sold) Balance c/d | 20,00024000420000 |
| 464000 | 464000 |

**Patent A/c**

|  |  |  |  |
| --- | --- | --- | --- |
| Balance b/d | 280000 | Bank A/c (Inflow) | 100000 |
| Profit and Loss A/c | 20000 | Balancing figure | 40000 |
| (Profit) |  | Profit and Loss A/c | 160000 |
|  |  | Balance c/d |  |
|  | 300000 |  | 300000 |

**Step- III**

**Financing Activities**

The third section of the cash flow statement reports the cash paid and received from activities with non-current or long term liabilities and

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**Notes**

**Cash Flow Statement**

shareholders Capital. Examples of cash flow arising from financing activities are

* Cash proceeds from issue of shares or other similar instruments.
* Cash proceeds from issue of debentures, loans, notes, bonds, and other short-term borrowings
* Cash repayment of amount borrowed Cash Inflow from financing activities are
* Issue of Equity and preference share capital for cash only.
* Issue of Debentures, Bonds and long-term note for cash only Cash outflow from financing activities are :
* Payment of dividends to shareholders
* Redemption or repayment of loans i.e. debentures and bonds
* Redemption of preference share capital
* Buy back of equity shares.

## Illustration 3

From the following information. Calculate the Cash from financing activities:

|  |  |  |
| --- | --- | --- |
|  | 31.12.2006 | 31.12.2007 |
| Particulars | Rs | Rs |
| Equity share capital | 400,000 | 500,000 |
| 10% debentures | 150,000 | 100,000 |
| Securities premium | 40000 | 50000 |

**Additional Information :** Interest paid on debentures Rs10000.

**Solution.** Calculation of Cash from financing activities

|  |  |  |
| --- | --- | --- |
| ParticularsCash proceeds from the issue of shares (Including premium)Interest paid on debenture Redemption of debenture | Rs1000050000 | 11000060,000 |
| 50,000 |

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## Notes

**Cash Flow Statement**

**Illustration 4**

Classify the following into cash flows from operating activities investing activities financing activities

1. Cash sale of goods
2. Cash paid to suppliers of raw material
3. Cash payments of salaries and wages to employees.
4. Cash payment to acquire fixed assets
5. Cash proceeds from issues of shares at premium.
6. Payment of dividend
7. Interest received on investment
8. Interest on debenture
9. Payment of income tax
10. Cash payment of a long term loan

## Solution

1. **Cash Flow from operating Activities**
	1. **Cash sale of goods :** Normal business activity of selling Inventories or goods (Cash inflow)
	2. **Cash paid to suppliers** of raw materials

Routine payments for purchasing the goods (Cash outflow)

## Cash payment of salaries and wages :

Cash payments to employees for their services in the office (Cash outflow)

(i) **Payment of Income Tax :** Payment of tax on business Income (Cash outflow)

## Cash Flow from investing Activities

* 1. **Cash payment to acquire fixed assets :** Purchase of long term assets (Cash outflow)
	2. **Interest received on Investment :** it is an Income on Investment (Cash inflow)

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**Cash Flow Statement**

## Cash Flow from financing Activities

* 1. Cash proceeds from issuing shares at premium : (Cash inflow)
	2. **Payment of dividends :** It is related to issue of share capital, a (Cash outflow)
	3. **Interest paid on debentures :** Payment associated with loan capital (Cash outflow)

(i) **Cash payment of a long term loan :** Redemption of loan or borrowed capital (Cash outflow)

 **INTEXT QUESTIONS 30.3**

Classify the following items into (i) Operating (ii) Investing and Financing activities.

1. Refund of income tax
2. Payment of dividend to shareholder
3. Purchase of land and building
4. Purchase of plant
5. Interest paid on debentures.

 **30.4 TREATMENT OF SPECIAL ITEMS**

**(i) Payment of Interim Dividends**

The following procedure is followed

1. The amount of interim dividend paid during the year is shown as outflow of cash in cash flow statement.
2. It will be added back to the profits for the purpose of calculating cash provided from operating activities.
3. No adjustment is necessary if the cash provided from operating activities is calculated on the basis of revised figure of net profit.

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**Notes**

**Cash Flow Statement**

## Proposed dividend

The dividend is always declared in the general meeting after the preparation of Balance Sheet. It is therefore, a non-operating item which should not be permitted to affect the calculation of cash generated by operating activities. Thus, the amount of proposed dividends would be added back to current years profit and payments made during the year in respect of dividends would be shown as an outflow of cash.

## Share Capital

The increase in share capital is regarded as inflow of cash only when there is a increase in share capital. For example, if a company issues 10000 equity shares of Rs.10 each for cash only, Rs. 100,000 would be shown as inflow of cash from financing activities. Similarly, the redemption of preference share is an outflow of cash. But where the share capital is issued to finance the purchase of fixed assets or the debentures are converted into equity shares there is no cash flow. Further, the issue of bonus shares does not cause any cash flows.

## Purchase or sale of fixed Assets

The figures appearing in the comparative balance sheets at two dates in respect of fixed assets might indicate whether a particular fixed asset has been purchased or sold during the year. This would enable to determine the inflows or outflows of cash. For example, If the plant and machinery appears at Rs 60,000 in the current year and Rs.50,000 in the previous year, the only conclusion, in the absence of any other information is that there is a purchase of fixed assets for Rs.10000 during the year. Hence, Rs.10000 would be shown as outflow of cash.

## Provision for Taxation

It is a non-operating expenses or an item of appropriation in the Income statement/Profit and Loss Account and therefore should not be allowed to reduce the cash provided from operating activities. Hence, if the profit is given after tax and the amount of the provision for tax made during the year is given, the same would be added back to the current year profit figure.

In the cash flow statement, the tax paid would be recorded separately as an outflow of cash. The item of provision for taxation, would not be treated as current assets.

Sometimes, the only information available about provision for taxation is two figures appearing in the opening balance sheet and closing balance

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**Notes**

**Cash Flow Statement**

sheet. In such a case the figure in the opening balance sheet is treated as an outflow of cash while the figure in the closing balance sheet is treated as a non-cash and non-operating expense and thus is added back to net Income figure to find out the cash provided from operating activities.

## Illustration 5

The comparative balance sheets of Bansal Private Limited at two different dates provide the following information.

2006 2007

Assets Amount (Rs) Amount (Rs) Plant and machinery 1350000 1440000

It is informed that depreciation amounting to Rs. 60,000 has been provided during the year. Find the changes that have taken place in the asset and also state their effect on cash flows.

## Solution :

In order to identify the transaction affecting the asset account, the proper procedure is to prepare the plant and machinery account as shown below:

## Plant and machinery Account

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| Balance b/d | 1350000 | Depreciation (given) | 60,000 |
| Bank A/c | 150000 | Balance c/d | 1440000 |
| (New machine purchased) |  |  |  |
|  | 1500000 |  | 1500000 |

**Note**

* In the absence of specific information, it may be presumed that the additional machinery was purchased for Rs.1,50,000.
* The amount spent on the plant and machinery represents a reduction in the cash and its equivalent. It is, therefore, an example of outflow of cash.

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**Cash Flow Statement**

## Illustration 6

In the comparative balance sheet of Wilson Pvt., the position of Building Account is given as under.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | 2006Amount Rs. | 2007Amount Rs. | Assets | 2006Amount Rs. | 2007Amount Rs. |
| Accumulated depreciation (Building) | 700000 | 790000 | Building | 3840000 | 3910000 |

## Additional Information

A part of the building of Rs.74,000 was sold for Rs.60,000. The accumulated depreciation on building sold was Rs.20,000 Analyse the transaction.

## Solution

The different transactions affecting the building account are to be identified by preparing the following accounts :

## Building Account

Dr Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| Balance b/dProfit and loss Account (gain on sale)Bank A/c Purchase (outflow) | 38400006000144000 | Cash (Inflow)Accumulated Depreciation A/cBalance c/d | 60000200003910000 |
| 3990000 | 3990000 |

## Accumulated Depreciation Account

Dr Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| Building A/c Balance c/d | 20000790000 | Balance b/dProfit and Loss A/c | 700000110000 |
| 810000 | 810000 |

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**Notes**

**Cash Flow Statement**

## Note

* The gain on sale of building (i.e. Rs 6000) would be deducted from the reported Income (or profit)
* Purchase of building for Rs.144,000 is identified from the balancing figure in the Building account as an outflow of cash.
* Rs.110,000 a charge to Profit and Loss Account is non-cash expenses and would be added back to the reported net income (profit)

## Illustration 7

The following information is given to you about the provision for taxation for 2006 and 2007 of M/s Gill Private (Pvt) Limited (Ltd.).

|  |  |  |
| --- | --- | --- |
| Liabilities | 2006 | 2007 |
| Provision for taxation | Rs15000 | Rs20000 |

Net Income for the year 2006 is Rs.50,000

How would you deal with this item assuming it as non-current liability?

## Solution

Provision for the year 2006 is an outflow of cash. Provision for the 2007 shall be dealt with as follows

Rs.

|  |  |
| --- | --- |
| Net Income for the 2007 | 50,000 |
| Add provision for Taxation for 2007 | 20000 |
| Cash provided from operating activities | 70,000 |

## Illustration 8

The following relevant Information is obtained from the book of Venugopalan Limited (Ltd.).

|  |  |  |
| --- | --- | --- |
| Liabilities | 2006 | 2007 |
| Provision for Taxation | Rs50000 | Rs70000 |

The amount of tax paid during 2007 amounted to Rs.40000. How would you deal with this item presuming to be non current? You are also given net profit after taxation was Rs.80000.

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**Cash Flow Statement**

## Solution

To solve this problem, one should find out the amount of provision for tax charged to Profit and Loss Account in the year 2007.

## Provision for Taxation Account

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | AmountRs. | Particulars | Amount Rs. |
| Bank (payment) | 40,000 | Balance b/d | 50000 |
| Balance c/d | 70000 | Profit and loss A/c | 60000 |
|  |  | (Balances Figure) |  |
|  | 110000 |  | 110,000 |

1. Rs. 40000 is an outflow of cash
2. Cash provided from operating activities will be calculated as

Net Income after taxation 80000

Add: Provision for taxation treated as non-cash expense 60,000

140,000

## Illustration 9

The following comparative balance sheets contain the relevant information about provision for taxation.

|  |  |  |
| --- | --- | --- |
| Labilities | 2006Rs. | 2007Rs. |
| Provision for Taxation | 20000 | 30000 |

You are informed that Rs. 50,000 was charged to Profit and Loss Account for the year 2007. Ascertain how much cash was used.

## Solution

**Provision for Taxation Account**

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount Rs | Particulars | Amount Rs |
| Bank (Balancing figure) Balance c/d | 4000030000 | Balance b/dProfit and Loss Account | 2000050000 |
| 70000 | 70000 |

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**Notes**

**Cash Flow Statement**

## Note :

* Rs. 40,000 would be shown as an outflow of cash
* Rs. 50,000 would be treated as non cash expense and added back to net Income figure to compute cash provided from operations.

## Illustration 10

From the summarised cash account of ABC Limited (Ltd.) prepare cash flow statement for the year ended 31st December 2006 in accordance with AS-3 (Revised) using the direct method and indirect method. The company does not have any cash equivalents :

## Summarised Cash A/c

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount (Rs. 000) | Particulars | Amount (Rs. 000) |
| Balance on 1.1.2006 | 50 | Payment to Suppliers | 2000 |
| Issue of equity shares | 300 | Purchase of fixed assets | 200 |
| Receipts from customers | 2800 | Overhead expenses | 200 |
| Sale of fixed assets | 100 | Wages and salaries | 100 |
|  |  | Taxation | 250 |
|  |  | Dividend | 50 |
|  |  | Repayment of Bank Loan | 300 |
|  |  | Balance on 31.12.2006 | 150 |
|  | 3250 |  | 3250 |

Additional information : Net profit before tax for the year 2006 was Rs 500000.

## Solution :

**Cash flow statement of ABC Ltd**

**for the year ended 31st December 2006 (Indirect method)**

|  |  |  |
| --- | --- | --- |
|  | Rs 000 | Rs 000 |
| A. Cash flow from operating activities |  |  |
| Net profit before tax | 500 |  |
| Income tax paid | (250) |  |
| Net cash from operating activities |  | 250 |

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**Notes**

**Cash Flow Statement**

|  |  |  |
| --- | --- | --- |
| B. Cash flow from investing activities |  |  |
| Purchase of fixed assets | (200) |  |
| Sale of fixed assets | 100 |  |
| Net cash used in investing activities |  | (100) |
| C. Cash flow from financing activities : |  |  |
| Issue of equity shares | 300 |  |
| Repayment of bank loan | (300) |  |
| Dividend paid | (50) |  |
| Net cash used in financing activities |  | (50) |
| Net increase in cash (A+B+C) |  | 100 |
| (Net cash inflow from activities) |  |  |

**Cash Flow Statement (Direct Method) of ABC Ltd. for the year ended 31st December 2006**

|  |  |  |
| --- | --- | --- |
|  | Rs 000 | Rs 000 |
| A. Cash flows from operating activities |  |  |
| Cash receipts from customers | 2800 |  |
| Cash payments to suppliers | (2000) |  |
| Cash paid for wages and salaries | (100) |  |
| Cash paid for overhead expenses | (200) |  |
| Income tax paid | (250) |  |
| Net cash from operating activities |  | 250 |
| B. Cash flows from investing activities |  |  |
| Purchase of fixed assets for cash | (200) |  |
| Proceeds from sale of fixed assets | 100 |  |
| Net cash used in investing activities |  | (100) |
| C. Cash flows from financing activities |  |  |
| Proceeds from issue of equity shares | 300 |  |
| Payment of bank loan | (300) |  |
| Dividend paid | (50) |  |
| Net cash used in financing activities |  | (50) |
| Net increase in cash (A+B+C) |  | 100 |
| i.e. Net cash from activities |  |  |
| Cash at the beginning |  |  50  |
| Cash at the end |  | 150 |

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**Notes**

**Cash Flow Statement**

**Illustration 11**

From the following Information, you are required to prepare the cash flow statement of Classic Ltd. for the year ended 31st March (both methods) :

## Balance Sheets as at 31st March

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | 2005Rs. | 2006Rs. | Assets | 2005Rs. | 2006Rs. |
| Share Capital | 70,000 | 70,000 | Fixed Assets | 50,000 | 91,000 |
| Secured Loans | - | 40,000 | Inventory | 15000 | 40,000 |
| Creditors | 14,000 | 39,000 | Debtors | 5,000 | 20,000 |
| Tax payable | 1,000 | 3,000 | Cash | 20,000 | 7,000 |
| Profit & Loss A/c | 7,000 | 10,000 | Prepaid expenses | 2,000 | 4,000 |
|  | 92,000 | 162,000 |  | 92,000 | 1,62,000 |

**Profit and loss Account**

**for the year ended 31st March 06**

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Armount Rs. | Particulars | Amount Rs. |
| Opening Stock | 15,000 | Sales | 100,000 |
| Purchases | 98,000 | Closing Inventory | 40,000 |
| Gross profit c/d | 27000 |  |  |
|  | 1,40,000 |  | 1,40,000 |
| General Expenses | 11,000 | Gross profit c/d | 27000 |
| Depreciation | 8,000 |  |  |
| Provision for tax | 4,000 |  |  |
| Net Profit c/d | 4,000 |  |  |
|  | 27,000 |  | 27,000 |
| Dividend (interim) | 1,000 | balance b/d | 7,000 |
| balance c/d | 10000 | Net profit b/d | 4,000 |
|  | 11,000 |  | 11,000 |

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## Solution

**Cash Flow Statement**

**Cash Flow Statement (Direct Method) for the year ended, March 31, 2006**



|  |  |
| --- | --- |
| Particular | Amount Rs |
| 1. Cash flow from operating Activities

Cash receipts from Debtors (see Debtors A/c) Cash payment for :Cash paid to suppliers (see creditors A/c) (73,000) General expenses (13,000)Cash from operating activities Taxes paidNet Cash from operating activities1. Cash flow from Investing Activities

Purchase of fixed Assets (49,000)Net cash used in investing Activities1. Cash flow from financing Activities

Proceeds from Raising secured loans 40,000Dividend paid (1,000)Net cash from Financing ActivitiesNet Decrease in cash (– 3000 – 49000 + 39000) [A + B + C] | 85,000(86,000)(1,000)(2000)(3,000)(49,000)39,000(13,000) |

## Notes

**Working Notes :**

**Debtors A/c**

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| Balance b/d | 5,000 | Cash A/c (Received) | 85000 |
|  |  | (Bal. Fig.) |  |
| Sales A/c (Credit) | 1,00,000 | Balance c/d | 20,000 |
|  | 1,05,000 |  | 1,05,000 |

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**Notes**

**Cash Flow Statement**

## Creditors A/c

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| Cash A/c | 73,000 | Balance b/d | 14,000 |
| (Bal. Fig.) |  |  |  |
| Balance c/d | 39,000 | Purchases A/c | 98,000 |
|  | 1,12,000 |  | 1,12,000 |

## Fixed Assets A/c

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount Rs |  | Amount Rs |
| Balance b/dPurchase of fixed asset | 50,00049,000 | Depreciation Balance c/d | 8,00091,000 |
| 99,000 | 99,000 |

**Cash flow Statement (Indirect Method) For the year ended march, 31, 2006**

|  |  |
| --- | --- |
| Particulars | Rs. |
| (A) Cash flow from Operating Activities : Net profit as per Profit and Loss A/cAdd : Provision for Tax (See provision for Tax Account) Net profit be fore TaxAdd : DepreciationOperating profit before working Capital ChangesAdd : Decrease in Current Assets or Increase in Current liabilities Increase in CreditorsLess : Increase in current assets or Decrease in Current liabilities Increase in DebtorsIncrease in Inventory Increase in prepaid expensesCash from Operating Activities Taxes paidNet cash from Operating Activities | 25000(15000)(25000)(2,000) | 4,000 |
| 4,000 |
| 8,000 |
| 8,000 |
| 16,000 |
| (17000) |
| (1,000) |
| (2,000) |
| (3,000) |

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**Notes**

**Cash Flow Statement**

|  |  |
| --- | --- |
| 1. Cash flow from Investing Activities :

Purchase of Fixed Assets (See fixed assets) (49000)Net cash used in Investing Activities1. Cash Flow from financing Activities

Proceeds from Raising Secured loan 4000Dividend paid (1000)Net Cash flow from Financing Activities 39000 | (49000) |
| Net Decrease in Cash a Cash equivalent | (13000) |

**Working Notes :**

1. **Fixed Assets A/c**

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| Balance b/d | 50,000 | Depreciation A/c (Given) | 8,000 |
| Cash A/c (Purchases) | 49,000 | Balance C/d | 91,000 |
| (Bal. fig.) |  |  |  |
|  | 99,000 |  | 99,000 |

1. **Provision for Tax Account (Tax Payable A/c)**

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| Cash A/c (Tax paid) (Bal Fig) | 2,000 | Balance C/d (Given) | 1,000 |
| Balance c/d (Given) | 3,000 | Profit & loss A/c (Provision made during the year) | 4,000 |
|  | 5,000 |  | 5,000 |

## Limitations of cash flow statement

Though it is true that cash flow statement is very useful now-a-days and serves many purposes. But it is necessary to take certain precautions while making use of this important tool. The reason is that misleading conclusions might be found by not properly relating net income figure to the cash flow. Some of the significant limitations of Cash Flow Statement are given below:

* + It is very difficult to precisely define the term ‘cash’
	+ There are controversies over a number of items like cheques, stamps, postal orders etc. to be included in cash or not.

MODULE - 6A

*Analysis of Financial Statements*

**Notes**

**Cash Flow Statement**

* As the present business moves from the cash basis to accrual basis, the prepaid and credit transactions might be represented an increase in working capital and it would be misleading to equate net income to cash flow because a number of non cash items would affect the net income.

 **INTEXT QUESTIONS 30.4**

Fill in the blanks with suitable word/words

1. Provision for taxation is expenses.
2. Increases in share capital is ...........................
3. purchase of fixed assets is ...........................
4. Decrease in share capital is ...........................

(v) Sale a fixed assets is ...........................

(vi) Issue of debentures is ...........................

**WHAT YOU HAVE LEARNT**

* Cash flow statement deals with flow of cash which includes cash equivalent as well as cash.
* Cash flow statement is a summary of cash receipts and disbursements during a certain period.
* Cash flow statement is prepared as per AS-3 (Revised).
* There are two methods for preparing cash flow statement : (i) Direct method (ii) Indirect method.
* Cash flow statement shows three categories of cash inflows and outflows i.e. (i) Operating activities (ii) Investing activities (iii) Financing activities
* Operating activities are the revenue generating activities of the enterprise.
* Investing activities constitute the acquisition and disposal of long term assets and other investments not included in cash and its equivalents.
* Financing activities are activities that result in change in the size and composition of the share capital and borrowings of the enterprise.
* The cash flows from extraordinary items are to be stated separately as arising from operating, investing and financing activities.

# MODULE - 6A

**Cash Flow Statement**

*Analysis of Financial Statements*

 **TERMINAL QUESTIONS**



## Notes

1. What do you mean by Cash Flow Statement? State main objectives of cash flow statement.
2. Define cash as per AS-3 (revised). How the various activities are classified as per AS-3 revised while preparing cash flow statement.
3. Give three examples of operating activities.
4. Give two examples of investing activities.
5. Presented below is the comparative balance sheets of Anjali Ltd. as on 31st March 2007

|  |  |  |
| --- | --- | --- |
| Details | 2007Amount (Rs) | 2006Amount (Rs) |
| Cash | 40000 | 57000 |
| Account Receivables | 77000 | 64000 |
| Inventory | 132000 | 140000 |
| Prepaid expenses | 12140 | 16540 |
| Land | 125000 | 150000 |
| Equipment | 200000 | 175000 |
| Accumulated Depreciation (Equipment) | (60000) | (42000) |
| Building | 250000 | 250000 |
| Accumulated Depreciation (Building) | (75000) | (50000) |
|  | 701140 | 760540 |
| Account payables | 33000 | 45000 |
| Bond payables | 235000 | 265000 |
| Equity share capital (Rs 10 per share) | 280000 | 250000 |
| Retained earnings | 153140 | 200540 |
|  | 701140 | 760540 |

MODULE - 6A

*Analysis of Financial Statements*

**Notes**

**Cash Flow Statement**

 **ANSWERS TO INTEXT QUESTIONS**

|  |  |
| --- | --- |
| **Intext Questions 30.1** |  |
| (i) Cash equivalents | (ii) | financial |
| (iii) Cash inflow, cash outflow | (iv) | Cash equivalent |
| **Intext Questions 30.2** |  |  |
| (i) listed | (ii) | indirect |
| (iii) investing | (iv) | Direct |
| **Intext Questions 30.3** |  |  |
| (i) Operating activities | (ii) | Financing activities |
| (iii) Investing activities | (iv) | Investing activities |
| (v) Investing activities**Intext Questions 30.4** |  |  |
| (i) Non operating | (ii) | Cash inflow |
| (iii) Cash outflow | (iv) | Cash outflow |
| (v) Cash inflow | (vi) | Cash inflow |

**Activity**

Visit the office of a joint stock company and study the cash flow statement prepared by the company. Prepare a list of already possible items (two each) that may increase and decrease the fund from

* 1. Operating activities
	2. Investing activities
	3. Financing activities

|  |  |  |
| --- | --- | --- |
| Activity |  |  |
| Operating | 1. | 1. |
|  | 2. | 2. |
| Investing | 1. | 1. |
|  | 2. | 2. |
| Financing | 1. | 1. |
|  | 2. | 2. |