

Cash Flow Statement

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Introduction

- ❑ Cash Flow Statement provides with a basis to assess the ability of the enterprise to generate cash and cash equivalents and its needs to utilise those cash flows.
- ❑ It helps in assessing liquidity and solvency of the enterprise.
- ❑ This statements exhibits the inflow and outflow of cash and cash equivalents during a specified period of time.

Applicability

- ❑ Enterprises whose equity or debt securities are listed on any recognised stock exchange in India.
- ❑ Enterprises which are in process of listing their equity or debt as evidenced by the Board of Directors resolution in this regard.
- ❑ Banks including co-operative banks.
- ❑ Financial institutions.
- ❑ Enterprises carrying on insurance business
- ❑ All enterprises which have a turnover of more than Rs. 50 crore immediately preceding financial year.
- ❑ Enterprises having borrowings, including public deposits more than Rs. 10 crore at any time during the accounting period.
- ❑ **Note: As per Companies act, 2013 CFS is mandatory for all companies except small private companies, dormant companies and one person companies.**

Definitions

- ❑ **Cash** comprises cash on hand and demand deposits with banks.
- ❑ **Cash equivalents** are short term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value.
- ❑ **Cash flows** are inflows and outflows of cash and cash equivalents.
- ❑ **Operating activities** are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.
- ❑ **Investing activities** are the acquisition and disposal of long term assets and other investment not included in cash equivalents.
- ❑ **Financing activities** are activities that result in changes in size and composition of the owner's capital (including share capital in case of company) and borrowings of the enterprise.

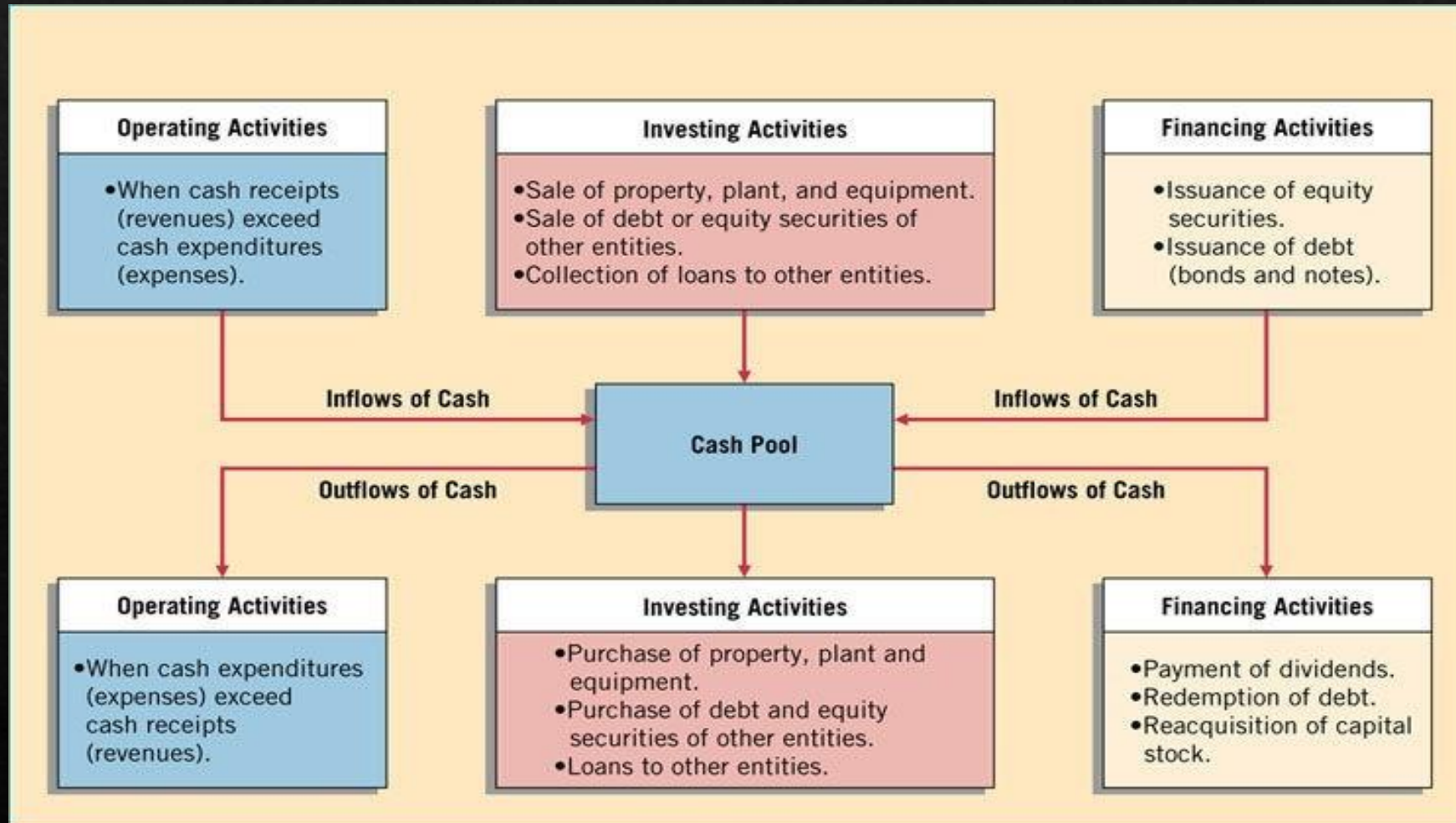
Cash Flow Statement

- ❑ A statement of cash flow is a financial statement that summarizes the cash inflows and outflows of a company for a period.

- ❑ The cash flow statement provides information about:
 - Cash Receipts (cash inflows)
 - Uses of Cash (cash outflows)
 - During a Period of Time

- ❑ The Cash Flow Statement should report cash flows during the period classified by
 - Operating activities,
 - Investing activities and
 - Financing activities.

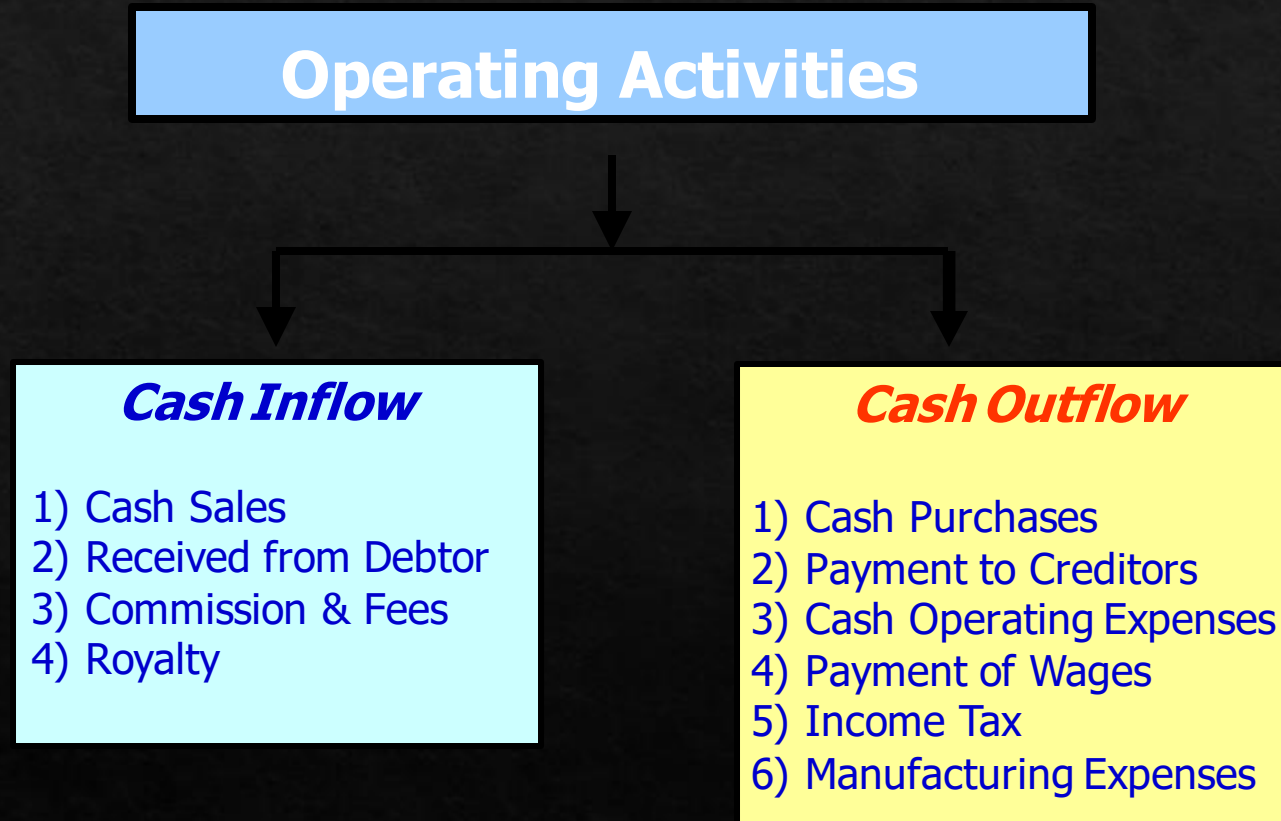
Cash Inflows and Outflows



Operating Activities

- These are **principal revenue producing** activities of the enterprise.
- These are results of those transactions and events that enter into determines of net profit or loss.
- Examples:
 - Cash receipt from **sale of goods** and the **rendering of services**.
 - Cash receipt from royalties, fees, commissions and other revenue.
 - Cash payment to and on behalf of employees.
 - Cash payments or refund of income taxes unless they can be specifically identified with financing and investing activities.

Classification of Business Activities : Inflow and Outflow of Cash

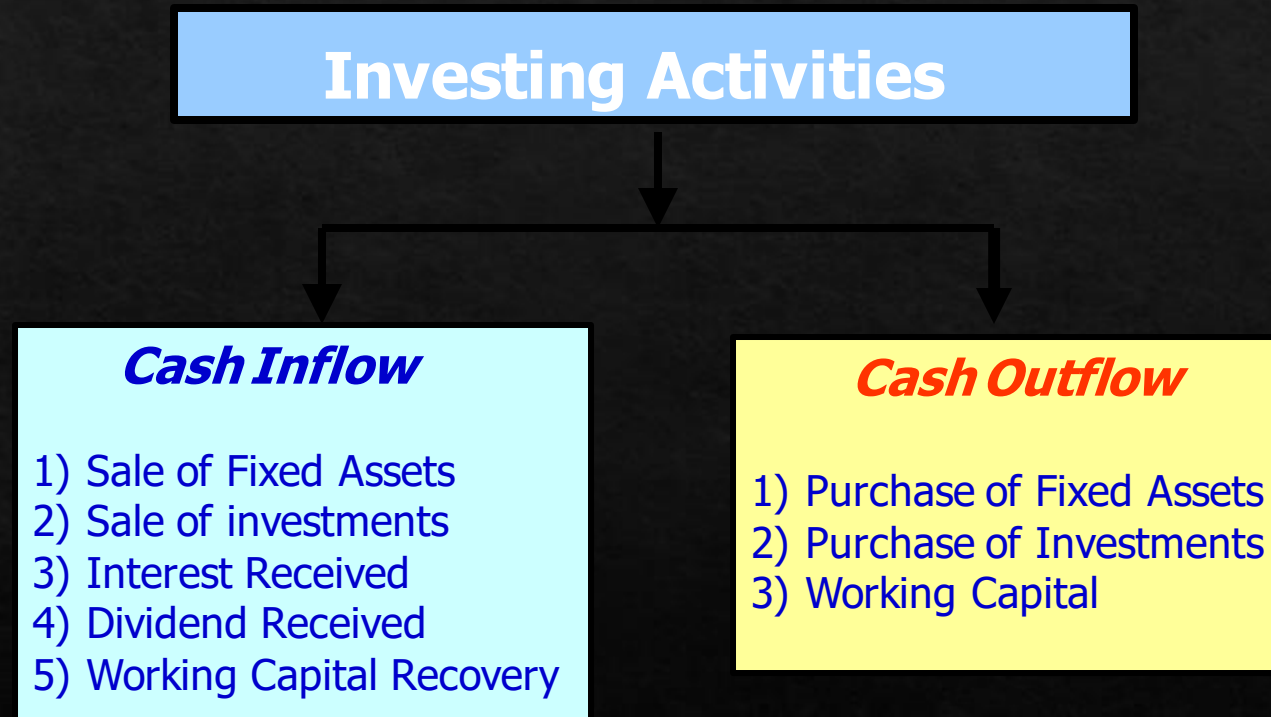


Cash effects the transaction on Net Income

Investing Activities

- ❑ Investing activities are **acquisition and disposal of long term assets** and **other investments** not included in cash equivalent.
- ❑ The separate disclosure of cash flows from investing activities are important because;
 - It represents the extent to which expenditure have been made.
 - For resources intended to generate future income and cash flows.
 - **Examples:**
 - Cash payment to acquire fixed asset.
 - Cash receipts from disposal of fixed assets.
 - Cash payment to acquire share, debt instruments of other enterprises and interest in joint venture.
 - Cash receipt from disposal of share, debt instruments of other enterprises and interest in joint venture.

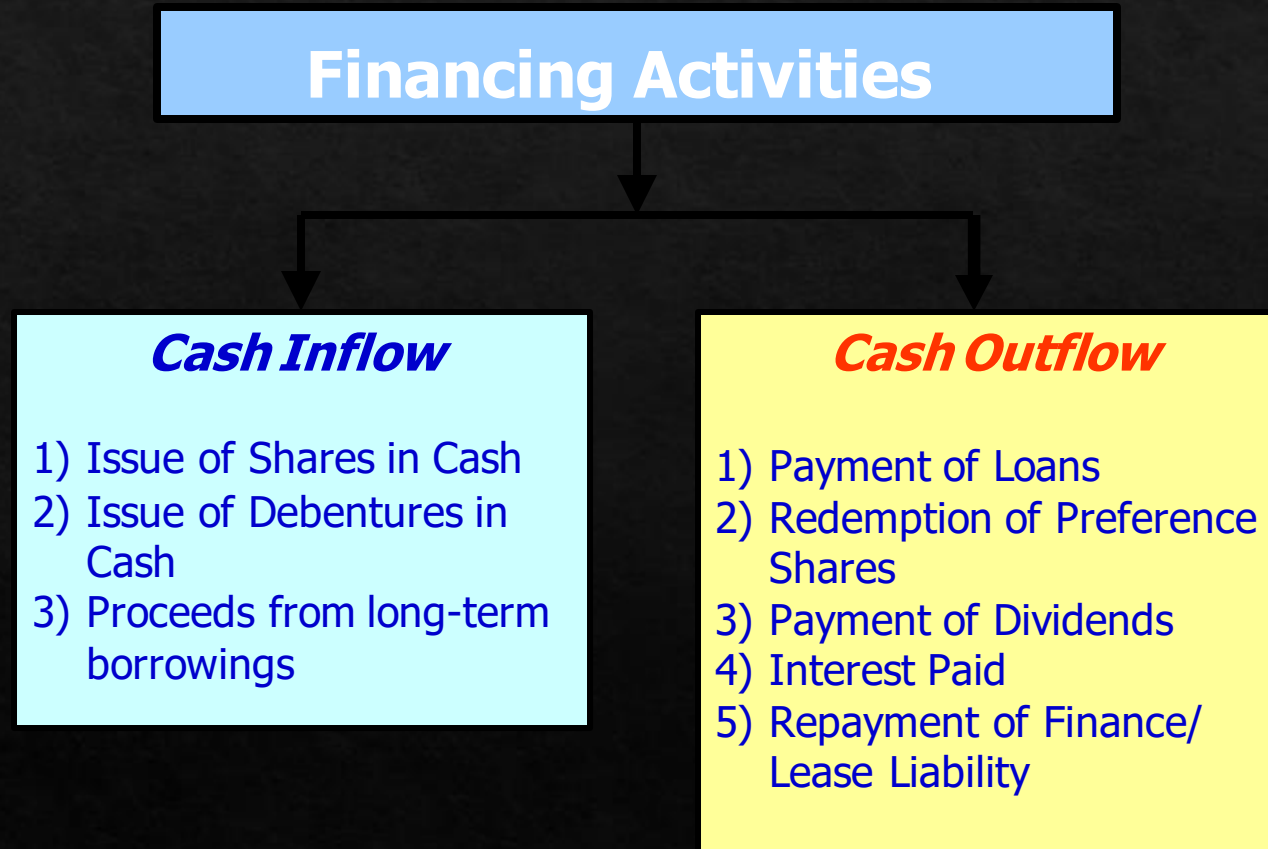
Classification of Business Activities : Inflow and Outflow of Cash



Financing Activities

- ❑ Those activities that results in **changes in size and composition of owners capital** and **borrowings** of the enterprise.
- ❑ it is useful in predicting claims on future cash flows by providers of funds to the enterprise.
- ❑ Examples:
 - Cash proceeds from issue of shares or other similar instruments.
 - Cash proceeds from issuing bonds, debentures, loans and other short or long term borrowings.
 - Cash repayments of borrowed funds.

Classification of Business Activities : Inflow and Outflow of Cash



Preparing a Statement of Cash Flows

Order of Presentation:

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



Direct Method

Indirect Method

Preparing a Statement of Cash Flows

- ❑ Use net operating income as the starting point to get net operating cash flow
- ❑ Add back any non-cash expense (Example - Depreciation)

Net Cash Flow = Cash Inflow - Cash Outflow

Net Operating Cash Flow = Income after Taxes + Depreciation

Cash Flow from Operating Activities : Direct Method

Cash Flow from Operating Activities	Amount (Rs.)	Amount (Rs.)
Cash Receipts from :		
Sales	XXX	
Commission & Fees Interest Received	XXX XXX	
		XXX
Cash Payment for :		
Purchases	XXX	
Payments to and for employees Operating Expenses	XXX XXX XXX	
Interest Payments Direct Taxes Paid		XXX
		XXX
Net Cash Flow from Operating Activities		

Cash Flow from Operating Activities : Indirect Method

Cash Flow from Operating Activities	Amount (Rs.)	Amount (Rs.)
Net Profit before Tax		XXX
Adjustment for :		
Depreciation	XXX	
Loss on Sale of Fixed Assets Loss on revaluation	XXX	
Operating Profit before Working Capital Changes	XXX	XXX
Adjustment* for :		XXX
Trade and other Receivables		
Inventories or Stocks	XXX	
Trade Payments or (Creditors and B/P)	XXX	XXX
Cash Generated from Operations		XXX
Interest Paid Taxes Paid	XXX	XXX
Net Cash Flow from Operating Activities	XXX	
		XXX

Format of Cash Flow Statement

Cash flows from operating activities		
Net income		XXX
Adjustments for:		
Depreciation on machinery	XXX	
Provision for loss on account receivables	XXX	
Gain on sale of fixed asset	(XXX)	
		XXX
Increase in trade receivables	(XXX)	
Foreign exchange	XXX	
Dividend received	(XXX)	
		XXX
Cash generated from operating activities (A)		XXX
Cash flows from investing activities		
Purchase of fixed asset	(XXX)	
Sale of investment	XXX	
Net cash from investing activities (B)		(XXX)
Cash flows from financing activities		
Proceeds from issue of share capital	XXX	
Proceeds from long term borrowings	XXX	
Interest paid	(XXX)	
Net cash from financing activities (C)		XXX
Net increase in cash and cash equivalents (A+B+C)		XXX
Cash and cash equivalents at beginning of the period		XXX
Cash and cash equivalents at end of the period		XXX

Objectives of Cash Flow Statement

- ❑ Highlighting cash flow from **different activities**
- ❑ **Short-term Planning**
- ❑ Cash Flow information helps to **understand liquidity**
- ❑ Efficient **cash management**
- ❑ Prediction of **sickness**
- ❑ Comparison with **budget**
- ❑ **Cash position**

Distinction between Cash flow Statement and Funds Flow Statement

Basis Of Difference	Cash Flow	Funds Flow
Basis of Accounting	It recognizes Cash basis Of accounting	It is based upon accrual Basis of accounting I.e Working capital
Significance	It is useful for short-Term financial planning	It is useful for long-term Financial planning
Schedule of Changes in Working Capital	Such a schedule is not Prepared for preparing Cash flow statement	Schedule of changes in Working capital is Prepared separately
Causes of Variation	It studies only the Causes of cash variation	It studies causes of Ch-ange in working capital

Limitation of Cash Flow Statement

- ❑ Does not show the **liquidity position** of the firm
- ❑ It is not a substitute of **income statement**
- ❑ Does not show the **financial position** of the firm in totality