

Cash flow statement....As the name itself indicates the statement which only deals with inflow and outflow of cash (and cash equivalents) during the accounting year. Our work is to classify those inflows and outflows into three activities namely operating, investing and financing activities.

Cash from Operating Activities include cash generated from production and related activities i.e. cash generated in the normal course of business....

Some of inflows and outflows include:

- Receipts from sale of goods
- Operating expenses (Cash related)
- Payments for purchase of goods and services
- Commissions and royalties received etc.

Cash from Investing Activities include cash flows from long term investments and sale or acquisition or generation (Capital work-in-progress) of long term assets....

Some of inflows and outflows include:

- Receipts from sale of long term assets and investments
- Payments for acquisition of long term investments and assets
- Interest and Dividends received
- Loans and advances to third parties etc.

Cash from Financing Activities include cash flows which result from change in the capital and borrowings of the company....

Some of inflows and outflows include:

- Redemption of preference share capital and debentures
- Receipts from issue of equity shares, preference shares, loans, debentures etc.
- Interest and dividend payments etc.

Preparation of cash flow statement (Direct method):

It is the easiest method. The only difference between direct and indirect method is procedure of arriving at cash from Operating Activities. In direct method you will directly consider cash related items and exclude any non-cash items while arriving at cash from Operating Activities. Simply you are preparing cash P&L a/c. anyhow while preparing cash flows from Investing and Financing you will add any receipts and deduct any payments directly.

Preparation of cash flow statement (Indirect method):

While starting with operating activities, you will consider Net profit before taxes

How to arrive at net profit before taxes:

Operating Activities:

Difference between P&L a/c balances of two years in the B/S

Add:

- Transfer to reserves
- Provision for dividend
- Provision for tax

Then you will arrive at net profit before taxes. After arriving at this figure.....

Add:

- Any miscellaneous expenditure written off during the year (preliminary expenses, premium on redemption etc.)
- Loss on sale of fixed assets/ long term investments (since non – operating expenses)
- Depreciation provided during the year (since non – cash item)
- Any foreign exchange loss (since non – cash item)
- Dividend or Interest paid (since non – operating expenses) etc.

Less:

- Profit on sale of fixed assets/ long term investments
- Any foreign exchange gain
- Dividend or interest received etc.

Now you will arrive at operating profit before working capital changes, extraordinary items and taxes.....Then Adjustments for working capital changes:

Add:

- Decrease in current assets
- Increase in current liabilities

Less:

- Increase in current assets
- Decrease in current liabilities

Now you will arrive at ***“Cash generated from Operations”***.

Less: Any taxes paid during the year

You will arrive at ***“Cash from Operating Activities before Extraordinary Items”***

Add: Refund of Taxes, Insurance claim received etc.

Less: Voluntary Separation Scheme etc. (should be shown at the end because of its nature)

Now you will arrive at ***“Net Cash from Operating Activities”***. (A)

Investing Activities:

Add:

Receipts from sale of Long term Assets/Investments

Interest/Dividend received

Less:

Purchase of Long term Assets/Investments

Expenditure on Capital Work in Progress

Loans given to any third parties

Now you will arrive at **"Net Cash from Investing Activities"**. (B)

Financing Activities:

Add:

Share Capital/loans/debentures issued

Less:

Interest/Dividend paid

Redemption of Preference/Debentures/Loans

Now you will arrive at **"Net Cash from Financing Activities"**. (C)

Net Cash received/paid during the year (A) + (B) +(C)

Opening balance of cash and cash equivalents

Closing Balance of Cash and Cash equivalents

NOTE 1:

You will add Provision for dividend and Provision for tax only when they are Non-Current Liabilities. If you assume them as current liabilities then you should show these under Working Capital Changes....

NOTE 2:

Verify whether such expenses had been written off against the securities premium available. If the Securities Premium a/c balance has decreased compared to previous year then you should not add these expenses....

NOTE 3:

Any extraordinary items should be shown under appropriate activity separately. These items include:

- Insurance claim received
- Refund of tax
- Winnings from law suit etc.

NOTE 4:

If there is any foreign exchange gain or loss a reconciliation statement to be prepared reconciling the Cash and Cash equivalents balances, as there is no inflow or outflow of cash....