SUPER SUMMARY OF AS-3

CASH FLOW STATEMENTS

Purpose:
• To provide information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement. • Classification of cash flows into operating, investing and financing activities.

What is CFS?	A Statement showing the inflows and outflows of cash and cash equivalents is a Cash Flow Statement.
Scope	An enterprise should prepare a cash flow statement and present the same along with the financial statements for each period.
Cash **Cash Equivalents** **Cash Flows**	Cash comprises cash in hand and demand deposits with banks. Cash equivalents are • Short term [say 3 months], • Highly liquid investments • That are readily convertible into known amounts of cash and, • Which are subject to insignificant risk of changes in value. Cash flows are inflows and outflows of cash and cash equivalents.
Operating Activities **Investing Activities** **Financing Activities**	Operating activities are the principal revenue-producing activities of the enterprise. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities are activities that result in changes in the size and composition of the owner's capital (including preference share capital in the case of a company) and borrowings of the enterprise.
Presentation of CFS	• The cash flow statement should report cash flows during the period. • The cash flows have to be classified into operating, investing and financing activities.
Cash Flow from OA	The principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. **EXAMPLES:** • Cash receipts from sale of goods and rendering of services

	- Cash receipts from customers, fees, commission, and other revenue. - Cash payments to suppliers for goods and services. - Cash payments to and on behalf of employees.
Cash Flow from IA	The acquisition and disposal of long-term assets and other investments not included in cash equivalents. **EXAMPLES:** - Cash payments to acquire fixed assets [including intangibles]. - Cash receipts from disposal of fixed assets [including intangibles]. - Interest & dividend received.
Cash Flow from FA	The activities that results in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise. **EXAMPLES:** - Proceeds from issue of share capital, debentures. - Proceeds from long term borrowings. - Repayment of long term borrowings.
Notes	It is important to identify the nature of the enterprise. Then only we can conclude whether an activity is an operating or financing or investing.
Special Areas-1	Unrealized gains and losses arising from changes in foreign exchange rates are not cash flows.
Special Areas-2 "Taxes on Income"	- Taxes on income cash flows should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. - Tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transactions. - So taxes paid are usually shown as operating activities. If it is possible to identity tax related to financing and investing, shows it separately. - Interest and dividend received will be shown net of TDS and hence taxes paid will also be shown excluding TDS.
Others	**Foreign Currency Cash Flows** The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the period. **Extraordinary Items** The cash flow associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed. **Interest and Dividends** Cash flow arising from interest paid, interest and dividends received in the ***case of a financial enterprise should be classified as cash flows arising from operating activities***.

	In the ***case of other enterprises***, cash flows arising from interest paid should be ***classified as cash flows from financing activities*** while interest and dividends received should be ***classified as cash flows from investing activities***. *Dividends paid should be classified as cash flows from financing activities.*
Acquisitions and Disposals of Subsidiaries & other Business Units	a) The aggregate cash flow arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and **classified as investing activities**. b) The cash flows from disposal and acquisition should **not be netted off**. c) An enterprise should disclose following:- ➢ The total purchase or disposal consideration; and ➢ The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.
Non-cash Transactions	a) The acquisition of assets by assuming directly related liabilities. b) The acquisition of an enterprise by means of issues of shares; c) The conversion of debt to equity. d) Issue of bonus shares.

DIRECT METHOD:

A) Cash Flow from Operating Activities		
Cash receipt from cash sales and customers	XXX	
Cash payment to creditors and others suppliers	(XXX)	
Cash payment for overheads	(XXX)	
	XXX	
Less: Tax Paid	**(XXX)**	
Net Cash flow from operating activities		XXX

INDIRECT METHOD:

Net Profit (Before Tax and extraordinary items)	XXX	
Adjustments:		
a. Non Cash items		
b. Items treated separately		
Operating profit before working capital changes	XXX	
Add: Decrease in current assets/Increase in current liability	XXX	
Less: Increase in current assets/Decrease in current liability	XXX	
Cash generated from operations	XXX	
Less: Income Taxes paid	XXX	
Cash flow before extraordinary items	XXX	
Add/Less: Extraordinary items	XXX	
Net cash from operating activities		XXX

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AS-6 HAS BEEN DELETED AND CHANGES IN OTHER AS

The Central Government, in consultation with NACAS, makes Companies (Accounting Standards) Amendments Rules, 2016 in which, there are changes in AS-2, AS-4, AS-10, AS-13, AS-14, AS-21, AS-29. AS-6 has been deleted. **WAITING FOR OFFICIAL NOTIFICATION.**