

SREERAM COACHING POINT

Accounting Standard No. 3

Cash Flow Statements

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What is a Cash flow statement?

A Statement showing the inflows and outflows of cash and cash equivalents is a Cash flow statement

What are Cash equivalents?

These are

- 1) Short term [say 3 months]**
- 2) Highly liquid investments**
- 3) Readily convertible into known amounts of cash and**
- 4) Which are subject to insignificant risk of changes in value**

Presentation of Cash flow statement

The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

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What are Operating Activities?

The principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

Examples:

- 1) Cash receipts from sale of goods and rendering of services**
- 2) Cash payments to suppliers for goods and services**
- 3) Cash payments to and on behalf of employees.**

What are investing Activities?

The acquisition and disposal of long-term assets and other investments not included in cash equivalents

Examples:

- Cash payments related to Fixed Assets (including intangibles).**
- Cash receipts from disposal of fixed assets (including intangibles)**
- c) Cash advances and loans made or cash receipts from repayment of advances and loans to third parties**

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What are Financing Activities?

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:

- **Cash proceeds from issuing shares, debentures, loans etc. or other similar instruments.**
- b) Cash repayments of amount borrowed.**

Note:

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

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Special Areas

Unrealized gains and losses arising from changes in foreign exchange rates are not cash flows.

Taxes on Income

- 1. 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.**
- 2. tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transactions.**
- 3. So taxes paid are usually shown as operating activities**
- 4. If it is possible to identify tax related to financing and investing, show it separately.**
- 5. Interest and dividend received will be shown net of TDS and hence taxes paid will also be shown excluding TDS.**

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Direct Method

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

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Indirect Method

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