CASH FLOW STATEMENT

- statement showing inflow & outflow of cash & cash equivivalent as per AS-3.
- Cash & cash equivalent: cash in hand, demand deposits with bank, short term investments (highly liquid, readily convertible into known amt of cash, maturity period of 3 months & ↓, insignificant risk of change in value)

OPERATING ACTIVITY :-

Principally revenue produc activity & act which are not investing & financing

- purchase of RM
- sale of goods & services
- payment to employees
- Loan to employees, advances to creditors
- taxes of income (except in normal invst or financing)
- all activities in normal course of business

INVESTING ACTIVITY :

act pertaining to long term asset which generate income in future

- purchase & sale of FA
- purchase & sale of long term Inv
- Joint inventure
- invst - subsidiaries, associates, debenture, preference shares
- loan given & interest earned on loan
- TDS on interest, dividend received
- Long term asset or inv

FINANCING ACTIVITY :

all items pertaining to share capital & borrowings, changing the size and composition of capital & borrowing.

- Issue, redemption of eq share, preference shares
- Premium of redemption of capital
- Loan taken, repaid & interest paid
- dividend paid, corporate dividend tax
- Long term liability

INDIRECT METHOD :- (OPERATIBNG ACTIVITES)

start with net profit to cash.

Net profit transferred to B/s	XX
(+) non cash expenses	X
(+) non operating expenses	X
(-) non operating income	(X)
(+) Transfer to reserve	X
(-) Transfer from reserve	(X)
Operating profit before wc change	XX
(-) ↑ in CA (stock purch/manu) (COF)	(X)
(+) ↓ in CA (debtors payment recd) [CIF]	X
(+) ↑ in CL (loan taken) (CIF)	X
(-) ↓ in CL (loan repaid) (COF)	(X)
Cash generated from operations	XX
(-) Tax paid	(X)
(+) Tax refund	X
Cash generated b4 extra ordinary items	X
(+) extra ordinary income	X
(-) extra ordinary expenses	(X)
Net cash flow from operating activity.	XXX

Cash Flow Format

I] Cash flow statement from operating activity. (direct OR indirect method)	XX
II] Cash flow from investing activity.	XX
III] Cash flow from financing activity.	XX
Net change in cash & cash equivalent. [1+2+3]	XX
(+) Opening cash & cash equivalent	XX
= Closing cash & cash equivalent balance	XX

DIRECT METHOD : OPERATING ACTIVITY

• only cash item no P&L item.

Cash inflow: Cash sales.	X
Adv / cash received from debtors / BR	X
Bad debts recovered	X
Cash outflow: Cash Purchases	(X)
Cash paid to creditors / BP	(X)
Cash paid to prodn exp	(X)
admin & SD exp	(X)
Cash generated from opn	XX
(+)(-) Taxes paid / refund	X
Cash flow b4 EO items	XX
(+)(-) extra ordinary items.	X
Net cash flow from opn activity	XX

IMP POINTS

1] Always start with balance sheet. post tax, dividend, fixed assets & depreciation.

2] Always prepare various accounts like Tax Provision A/c. (necessary under AS-3)

3] Always post after closing the accounts.

4] Assume last yr tax is paid in CY.

5] Proposed dividend, FA, dep (acc)