

SUMMARY SHEET



*Cash Flow
Statement*





EduTap Hall of Fame



RBI Grade B 2020 - 21

198 Selections Out of 257



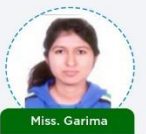
SEBI Grade A 2020

63 Selections Out of 80



NABARD Grade A 2020

65 Selections Out of 69

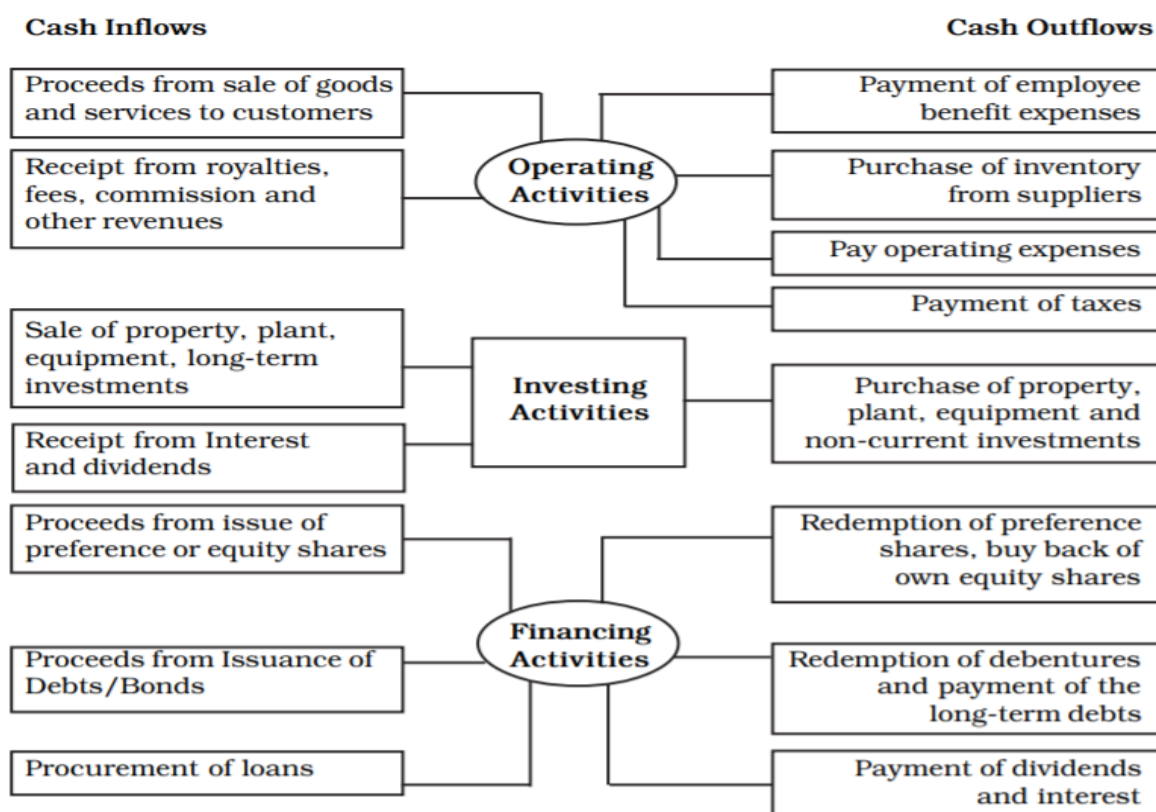


Important Points

1. This Summary Sheet shall only be used for Quick Revision after you have read the Complete Notes
2. For Building Concepts along with examples/concept checks you should rely only on Complete Notes
3. It would be useful to go through this Summary sheet just before the exam or before any Mock Test
4. Questions in the exam are concept based and reading only summary sheets shall not be sufficient to answer all the questions

1 Summary Points

- **Cash Flow Statement:** Shows **inflows and outflows of the cash and cash equivalents** based on changes in balance sheet accounts and income statement for a particular period. It helps to know about the sources and uses of cash and cash equivalents of an enterprise over a period from various activities of an enterprise
- Revised **AS-3 (Accounting Standard-3 issued by The Institute of Chartered Accountants of India (ICAI))** has been made mandatory for **all listed companies** to prepare and present a cash flow statement
- **Classification of Activities for Preparation of Cash Flow Statement:**
 1. **Operating activities**
 2. **Investing activities**
 3. **Financing activities**
- **Operating Activities:** The activities that constitute the **primary or main activities of an enterprise** which generates principal revenue for an enterprise
- **Investing activities:** Transactions related to long-term investments or purchase or sale of long-term fixed assets of an enterprise are investing activities
- **Financing activities:** Relate to long-term funds or capital of an enterprise that result in changes in the size and composition of the owners' capital (including preference share capital in case of a company) and borrowings of the enterprise
- **Types of Cash inflow and outflow activities involved in Operating, Investing and Financing activities**



- Cash flow statement is derived by netting cash inflows / outflows from all the three activities (operating, investing and financing) respectively and adding to the cash and cash equivalents to the beginning of the period. That is,

With these three classifications, Cash Flow Statement is shown in Exhibit 6.2.

**Cash Flow Statement
(Main heads only)**

(A) Cash flows from operating activities	xxx
(B) Cash flows from investing activities	xxx
(C) Cash flows from financing activities	xxx
	<hr/>
Net increase (decrease) in cash and cash equivalents (A + B + C)	xxx
+ Cash and cash equivalents at the beginning	xxx
	<hr/>
= Cash and cash equivalents at the end	xxxx

- Changes incurred related to operating, investing and financing activities in balance sheets of a firm in a particular period would result in following changes in cash flows:
1. **Increase in current assets apart from cash will decrease the cash**
 2. **Decrease in current assets apart from cash will increase the cash**
 3. **Increase in current liabilities apart from cash will increase the cash**
 4. **Decrease in current liabilities apart from cash will decrease the cash**
- **Methodology to follow to compute cash flows resulting out of Operating Activities**

**Cash Flows from Operating Activities
(Indirect Method)**

<i>Net Profit/Loss before Tax and Extraordinary Items</i>	
+ Deductions already made in Statement of Profit and Loss on account of Non-cash items such as Depreciation, Goodwill to be Written-off.	xxx
+ Deductions already made in Statement of Profit and Loss on Account of Non-operating items such as Interest.	xxx
- Additions (incomes) made in Statement of Profit and Loss on Account of Non-operating items such as Dividend received, Profit on sale of Fixed Assets.	xxx
<i>Operating Profit before Working Capital changes</i>	xxx
+ Increase in Current liabilities	xxx
+ Decrease in Current assets	xxx
- Increase in Current assets	xxx

- Decrease in Current Liabilities	XXX
Cash Flows from Operating Activities before Tax and Extraordinary Items	XXX
- Income Tax Paid	XXX
+/- Effects of Extraordinary Items	XXX
Net Cash from Operating Activities	XXX

➤ **Example:**

Tax Consultants Inc. Comparative Balance Sheets			
Assets	Dec. 31, 2003	Jan. 1, 2003	Change (Increase/Decrease)
Cash	\$49,000	\$-0-	\$49,000 Increase
Accounts receivable	36,000	-0-	36,000 Increase
Total	\$85,000	-0-	
Liabilities and Stockholders' Equity			
Accounts payable	\$5,000	\$-0-	\$5,000 Increase
Common stock (\$1 par)	60,000	-0-	60,000 Increase
Retained earnings	20,000	-0-	20,000 Increase
Total	\$85,000	\$-0-	

The income statement and additional information for tax consultants Inc. are as follows:

Tax Consultants Inc. Income Statement For the year ended Dec. 31, 2003	
Revenues	\$125,000
Operating expenses	85,000
Income before income taxes	40,000
Income tax expenses	6,000
Net income	\$34,000

Additional Information:
Examination of selected data indicates that a dividend of \$14,000 was paid during the year.

Solution:

Let us First Calculate the Cash Flow from Operating Activities

<u>Head</u>	<u>Amount</u>	
Now Net Profit after Tax	34000	
Tax	6000	
Net Profit Before Tax	40,000	
Depreciation	0	
Increase in Accounts Payable	5000	
Increase in Accounts Receivable	(36000)	
Cash Generated by Operating Activities	40,000+5,000-36000 = 9000	
Income Tax paid	6000	

Net Cash Generated by Operating Activities	9000 - 6000 = 3,000	
Now we will Calculate Cash Generated from Financing Activities		
Money raised by Issuing Equity	60,000	
Dividend Paid	(14,000)	
Net Cash Generated by Financing Activities	46,000	
Now we will Calculate Cash Generated from Investing Activities		
Now we will Calculate Cash Generated from Financing Activities	0	
Now we will Calculate Net Increase in Cash		
Net Increase in Cash	49000	

Since there was no cash on 1st January, so net cash on 31st December would be = 0 + 49000 = 49000