

Cash Flow Statement

Balance Sheet and Income Statement

- A balance sheet shows the financial position of the a firm as at the last day of the accounting period.
- An income statement focuses on financial performance (profit or loss) due to the operating activities of a firm during the period.
- Revenues recorded in income statement do not reflect cash inflows as the debtors may pay later.
- Some of the expenses shown in income statement may be non-cash expenses (depreciation, amortisation etc.) and some may not be paid in full (goods purchased on credit, salaries payable etc).

- Thus, the period's profit or loss does not bear direct relationship to the cash flows associated with the period's operations.
- It does not evidently provide information about the investing and financing activities of the firm during the accounting period.

Cash flow statement

- Cash flow statement is a statement which indicates **sources of cash inflows and transactions of cash outflows** of a firm during an accounting period.
- **The activities/transactions which generate cash inflows** are known as **sources of cash**.
- **Activities which cause cash outflows** are known as **uses of cash**.
- It is appropriately termed as “**Where Got Where Gone Statement**”.

Sources of Cash (I)	Uses of Cash (II)
Business operations/operating activities (Sale of goods on cash)	Purchase of long-term assets (plant and machinery, land and building, office equipment and furniture)
Non-business/operating activities (interest/dividend received)	Redemption of preference shares and debentures
Sale of long-term assets (plant, building and equipment)	Repurchase of equity shares
Issue of additional long-term securities (equity, preference shares and debentures)	Repayment of long-term borrowings
Additional long-term borrowings (banks and financial institutions)	Cash dividends paid to shareholders (preference and equity)

- Net Increase (Decrease) in Cash I - II

Sources and Uses of Cash (Another Perspective)

<i>Sources of Cash</i>	<i>Uses of Cash</i>
<ul style="list-style-type: none">■ Increase in liabilities and owners' equity■ Decrease in assets (other than cash)	<ul style="list-style-type: none">■ Decrease in liabilities and owners' equity■ Increase in assets (other than cash)

Illustration: Classify each of these transactions by type of cash flow activity.

1. Issued 1,00,000 shares of Rs. 5 par value common stock for Rs. 800,000 cash. (Financing)
2. Borrowed Rs. 2,00,000, signing a 5-year note bearing 8% interest. (Financing)
3. Purchased two semi-trailer trucks for Rs. 6,70,000 cash. (Investing)
4. Paid employees Rs. 2,00,000 for salaries and wages. (Operating)
5. Collected Rs. 1,20,000 cash for services provided. (Operating)

PREPARATION OF CASH FLOW STATEMENT

- The balance sheet and income statement are prepared from the ledger account balances of a company.
- The cash flow statement (CFS) is derived from these two financial statements.
- The CFS explains factors which have caused changes in assets, liabilities and shareholders' funds between the opening and closing dates of the accounting period.
- The CFS can be prepared by
 - (i) finding the difference in amounts among the various items (say, changes in long-term liabilities, long-term assets) between the comparative balance sheets and
 - (ii) analysing the causes of difference.

Determine the cash from operations by Direct Method and Indirect Method

Income statement for the year ended 31-03-20X2

Sales	5,00,000
Less	
Cost of goods sold	3,50,000
Administrative & selling overheads	55,000
Depreciation	7,000
Interest paid	3,000
Loss on sale of asset	2,000
Profit before tax	83,000
Tax	(30,000)
Profit after tax	53,000

Balance sheet as on 31st March

	20X2	20X1
Assets		
Non-current assets		
Property, plant and equipment	75,000	65,000
Investment	12,000	10,000
Current assets		
Inventories	12,000	13,000
Trade receivables	10,000	7,000
Cash & cash equivalents	6,000	5,000
Total	1,15,000	1,00,000

	20X2	20X1
Equity and Liabilities		
Shareholders' funds	60,000	50,000
Non-current liabilities	33,000	35,000
Current liabilities		
Trade payables	12,000	8,000
Payables for expenses	10,000	7,000
Total	1,15,000	1,00,000

Solution:

Cash receipts from sales and trade receivables

Sales	5,00,000
Add: Opening trade receipts	7,000
Less: Closing trade receipts	(10,000)
Cash receipts	4,97,000

Payments to trade payables for purchases

Cost of goods sold	3,50,000
Add: Closing inventories	12,000
Less: Opening inventories	(13,000)
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Purchases	3,49,000
Add: Opening trade payables	8,000
Less: Closing trade payables	(12,000)
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Payables to creditors	3,45,000
Overheads	55,000
Add: Opening payables for expenses	7,000
Less: Closing payables for expenses	(10,000)
	52,000

Cash flow from operations by Direct Method

Cash sales	4,97,000
Less	
Cash purchases	3,45,000
Overheads	52,000
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Cash profit	1,00,000
Tax	30,000
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Cash profit after tax	70,000

Cash flow from operations by Indirect Method

Profit after tax	53,000
Add/(Less):	
Depreciation	7,000
Loss on asset	2,000
Interest paid	3,000
Decrease in inventory	1,000
Increase in trade receivables	(3,000)
Increase in trade payables	4,000
Increase in payables for expenses	3,000
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Total	70,000

<i>Part A: Changes in Balance Sheet Items</i>				
	<i>Mar.31</i>	<i>Mar.31</i>	<i>Increase</i>	<i>Decreases</i>
	<i>20X1</i>	<i>20X0</i>		
Owners' equity and liabilities				
Share capital				
Equity capital	150	150	—	—
Reserves & Surplus	112	106	6	—
Secured loans				
Term loans	70	58	12	
Cash credit	73	73	—	—
Unsecured loans				
Bank credit	25	25	—	—
Inter corporate deposit	44	—	44	—
Deferred tax liabilities	14	0	14	—
Current liabilities & provisions				
Current liabilities	75	60	15	—
Provisions	30	21	9	—
Total	<u>593</u>	<u>493</u>		

Assets

Fixed assets (net)	330	322	8	—
Investments	24	10	14	—
Current asset, loans & advances				
Cash & bank	10	6	4	—
Debtors	114	68	46	—
Inventories	105	72	33	—
Advances	5	10	—	5
Miscellaneous expenditure & losses	5	5	—	—
Total	<u>593</u>	<u>493</u>		

Rs. in crores

<i>Sources</i>		<i>Uses</i>	
Increase in reserves and surplus	6	Increase in fixed assets (net)	8
Increase in term loans	12	Increase in investments	14
Increase in inter-corporate deposit	44	Increase in debtors	46
Increase in deferred tax liability	14	Increase in inventories	33
Increase in current liability	15	Increase in provisions	9
Decrease in advances (given)	5		
Total sources	<u>105</u>	Total uses	<u>101</u>
		Net addition to cash	<u>4</u>

- The net addition to cash is Rs. 4 crores and it tallies with the Rs. 4 crores change shown on the balance sheet.