



Q3. State the uses of cash flow statement?

Solution:

Uses of the cash flow statement:

1. It is useful for short-term financial planning about inflow and outflow of cash.
2. It analyses the reason for the change in cash and cash equivalent balances of a company.
3. It determines and assesses liquidity and solvency positions of a company.
4. It examines and reviews the trends of receipts and payments of cash from various activities of a company and thereby helps in drafting various policy measures and short-term planning.
5. It helps in the segregation of cash flows from operating, investing and financing activities of the business.
6. It assists in decision making regarding profit distribution with reference to the availability of cash.

Q4. What are the objectives of preparing cash flow statement?

Solution: Important objectives for preparing the cash flow statement:

1. It ascertains the gross inflows and outflows of cash and cash equivalents from various activities.
2. It evaluates various reasons responsible for the change in the cash balances during an accounting year.
3. It analyses and understands the liquidity and solvency of a company, thereby representing the true liquidity position to creditors and investors.
4. It helps to find the availability and requirement of cash in the near future.

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