



Accountancy Notes PDF
On
Cash Flow Statement

Cash Flow Statement

Cash flow statement is a statement showing the changes in financial position of a business concern during different intervals of time in terms of cash and cash equivalents. The Revised Accounting Standard-3 has made it mandatory for all listed companies to prepare and present a cash flow statement along with other financial statements on an annual basis.

Cash Flows

Cash flows are inflows and outflows of cash and cash equivalent. It implies movement in and movement out of cash and cash equivalents. Receipt of cash from a non-cash item is termed as 'cash inflow', while cash payment in respect of such an item is termed as 'cash outflow'.

Cash

Cash comprises cash in hand and demand deposits with the bank. Cash Equivalents Cash equivalents are 'short-term highly liquid investments that are readily convertible into known amounts of cash and which are subjected to an insignificant risk of change in value'.

Objectives of Cash Flow Statement

- Useful in short-term financial planning.
- Useful in efficient cash management.
- Helpful in formulation of business policies.
- Assists in preparation of cash budget.
- Used for assessment of cash flow from various activities, viz operating, investing and financing activities.

Limitations of the Cash Flow Statement

- It is based on the historical cost principle
- Additionally, it is based on secondary data
- No adherence to basic accounting principles
- A cash flow statement is not a substitute for the income statement
- It ignores all the non-cash transactions

Classification of Business Activities Accounting Standard-3 (Revised) requires that the changes resulting in inflows and outflows of cash and cash equivalents will be classified into following three activities:

- Cash flow from operating activities.
- Cash flow from investing activities.
- Cash flow from financing activities.

Cash Flow from Operating Activities

The cash flow from operating activities covers the enterprise's key revenue-generating activities as well as other non-investment and non-financing activities.

Operating Activities

Cash inflow	Cash outflow
Cash sales	Cash purchases
Cash received from debtors	Payment made to the creditors
Cash received from commission and fees	Cash operating expenses
Royalty	Payment of wages
	Income tax

For a Finance Company

Cash inflow	Cash outflow
Cash received for interests and dividends	Cash paid for interests
Sale of securities	Purchase of securities
Cash sales	Cash purchases
Cash received from debtors	Payment made to the creditors
Cash received from commission and fees	Cash operating expenses
Royalty	Payment of wages
	Income tax

For an Insurance Company

Cash inflow	Cash outflow
Premiums and claims received	Premium and claims paid
Cash received for interests and dividends	Cash paid for interests
Sale of securities	Purchase of securities
Cash sales	Cash purchases
Cash received from debtors	Payment made to the creditors
Cash received from commission and fees	Cash operating expenses
Royalty	Payment of wages
	Income tax

For a Real Estate or Infrastructure Company

Cash inflow	Cash outflow
Rent Received	Rent paid
Premiums and claims received	Premium and claims paid
Cash received for interests and dividends	Cash paid for interests
Sale of securities	Purchase of securities
Cash sales	Cash purchases
Cash received from debtors	Payment made to the creditors
Cash received from commission and fees	Cash operating expenses
Royalty	Payment of wages
	Income tax

Cash Flow from Investing Activities

Investing activities (as specified by AS-3 or the Accounting Standards-3) are the purchase and disposition of long-term assets and other investments that are not included in cash equivalents. The following is a map of cash flow from investment activities:

Investing Activities

Cash inflow	Cash outflow
Sale of fixed assets	Purchase of fixed assets
Sale of investments	Purchase of investments
Interest received	
Dividends received	
Rent received	

Cash Flow from Financing Activities

Financing operations, according to AS-3, are those that result in a change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) from other sources. The following is a chart or table of cash flow generated by financing activities:

Financing Activities

Cash inflow

Issue of shares in cash
Issue of debentures in cash
Proceeds from long term borrowings
Securities premium received
Increase in the balance of bank
overdraft or cash credit account

Cash outflow

Payment of loans
Redemption of preference shares and
debentures
Buy-back of equity shares
Payment of dividends
Payment of interest
Premium paid on redemption of preference
shares and debentures
The decrease in the balance of bank
overdraft or cash credit accounts.

[Follow on Facebook](#)

[Follow on Instagram](#)

[Join us on Telegram](#)

