



## CHAPTER – 11

### Quick Revision Notes

#### CASH FLOW STATEMENT

##### Formats

##### Cash Flow Statement (Indirect Method)

##### Calculation of Profit before tax

Profit earned during the year	= xxx
Add: Transfer to Reserves	= xxx
Add: Dividend Paid	= xxx
Add: Tax made during the year	= xxx
Net profit before tax	= xxx

##### Cash Flow Statement

Particulars	Amount(Rs.)	Amount(Rs.)
<u>(A) Cash flow from Operating Activities</u>		
Net profit before tax		
Add: Non operating expenses		
Depreciation		
Goodwill W/O		
Preliminary expenses W/O		
Discount on issue of shares/debentures W/O		
Underwriting commission W/O		
Loss on sale of fixed assets & Investment		
Interest paid on borrowings		
Premium on redemption on shares/debentures		
Less: Non Operating incomes		
Dividend received		
Interest received		
Profit on sale of fixed assets & investment		
Operating profit before changes in working capital		
Add: Increase in current liabilities(Other than bank overdraft, provision for tax & proposed dividend) and Decrease in Current assets (other than cash, bank and marketable securities)		
Less: Decrease in current liabilities(Other than bank overdraft, provision for tax & proposed dividend) and Increase in Current assets (other than cash, bank and marketable securities)		
Operating profit before tax		
Less: tax paid		
Cash flow from Operating Activities		



<u>(B) Cash Flow from Investing Activities</u> Add: Sale of fixed assets & Investment Dividend received Interest received on investment Less: Purchase of Fixed assets & Investment Purchase of Goodwill Cash flow from or used in Investing Activities		
<u>(C) Cash flow from Financing Activities</u> Add: Issue of share capital & Debentures(along with securities premium ) Loans and Public deposits raised Less: Buy back of equity shares Redemption of Preference shares & Debentures Interest paid on borrowings Dividend paid Interim dividend paid Loans & Public deposits repaid Cash flow from used in Financing Activities		
Net increase in cash ( A+B+C) Add: Opening balance of cash & equivalents Closing balance of cash & equivalents		

### GUIDELINES FOR THE PREPARATION OF CASH FLOW STATEMENT

Items	In Case Of Increase	In Case Of Decrease
<b>1. Land</b>	Cash used in Investing Activities.	Cash from Investing Activities. Note. Since Depreciation on Land is not possible.
<b>2. Building</b>	Cash used in Investing Activities.	Small Decrease may be treated as Depreciation else it will be treated as <i>NOTE:</i> (i) Decrease up to 5% will be treated as small Decrease.  (ii) In Examination problems a suitable note should be given.
<b>3. Plant and Machinery</b>	Cash used in Investing Activities.	Decrease in Plant & Machinery is treated as Depreciation and it will be added back to current year's profit for calculating cash flow from Operating Activities.
<b>4. Copyright, Trade-Mark, Patent, Goodwill</b>	Cash used in Investing Activities.	Treated as amortization and added back to current year's profit to calculate 'Cash Flow from Operating Activities'.



<b>5. Long-Term Investments</b>	Cash used in Investing Activities.	Cash from Investing Activities.
<b>6. Short-Term Investments</b>	It is a part of Cash and Cash Equivalents.	
<b>7. Underwriting Commission</b>	Cash used in Financing Activities.	Decrease in under-writing commission will be added back to current year's profit to calculate 'Cash Flow from Operating Activities'.
<b>8. Discount on Issue of Shares/Debentures</b>	The increase in discount should be deducted from the face value of shares / Debentures and only net proceeds shall be treated as cash flow from Financing Activities.	Decrease in Discount on issue of Shares/Debentures will be added back to current year's profit to calculate 'Cash from Operating Activities'. <b>Note:</b> No treatment if Securities Premium has been used for writing off Discount on Issue of Shares/Debentures.
<b>9. Current Assets Other than Cash and Cash Equivalents.</b>	Increase in Current Assets other than Cash and Cash Equivalent will be deducted from 'Operating Profit before Working Capital Changes' to arrive at 'Cash Generated from Operation'.	Decrease in Current Assets other than Cash and Cash Equivalents will be added in 'Operating Profit before Working Capital Changes' to arrive at 'Cash Generated from Operations'.
<b>10. Cash and Cash Equivalents</b>	As per Para 7 of AS-3 (Revised) Cash flows exclude movement between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and Financing Activities.	
<b>11. Equity-Share Capital</b>	Cash from Financing Activities	It means Buy Back of Shares and treated as cash used in Financing Activities.
<b>12. Preference Shares</b>	Cash from Financing Activities	It means Redemption of Shares and treated as cash used in Financing Activities.
<b>13. Debentures</b>	Cash from Financing Activities	It means Redemption of Debentures and treated as cash used in Financing Activities.
<b>14. Securities Premium</b>	The increase in Securities Premium will be added to	No treatment is required, it should be ensured that amount of decrease in Securities Premium
	the face value of Debentures/Shares issued and the total amount will be treated as Cash flow from Financing Activities	has been utilized for the purpose for which it can be utilized by the Section 78 and Section 77A under the Companies Act 1956 and the amount of decrease in securities premium has not been included in current year's profits.



<b>15. Profit and Loss A/c</b>	Profit earned during the year.	Loss suffered during the year.
<b>16. General Reserve</b>	It will be added to current year's profit for calculating 'Cash Flow from Operating Activities'.	It will be deducted from current year's profit for calculating 'Cash Flow from Operating Activities'.
<b>17. Provisions for Doubtful Debts</b>	<b>(i) When all debtors are good</b>	
	The increase in Doubtful Debts Will be added back to current Year's profit to arrive at 'Operating Profit before Working Capital Changes'.	The decrease in Doubtful Debts Will be added back to current Year's profit to arrive at 'Operating Profit before Working Capital Changes'.
	<b>(ii) When debtors are not good</b>	
	The increase in Doubtful Debts Will be deducted from 'Operating Profit before Working Capital Changes' to arrive at 'Cash Generated From Operating Activities'.	The decrease in Doubtful Debts Will be deducted from 'Operating Profit before Working Capital Changes' to arrive at 'Cash Generated From Operating Activities'.
<b>18. Current Liabilities other than Bank-Overdraft</b>	Increase in Current Liabilities will be added back to 'Operating Profit before Working Capital Changes' to arrive at 'Cash Generated from Operations'.	Decrease in Current Liabilities will be deducted from 'Operating Profit before Working Capital Changes' to arrive at 'Cash Generated from Operations'.
<b>19. Bank-Overdraft</b>	It is a part of Cash Equivalent and can be treated as negative balance of Cash Equivalent.	
<b>20. Provision For Tax</b>	<b>(i) Current Year's Provision:</b> Add back to Current year's profit to arrive at Net profit before tax and extra-ordinary items.	
	<b>(ii) Previous year's Provision:</b> It is deducted from 'Cash Generated from Operations' to arrive at 'Net Cash flow from Operating Activities'.	
<b>21. Proposed Dividend</b>	<b>(i) Current Year's Dividend:</b> Add back to Current year's profit to arrive at Net profit before tax and extra-ordinary items.	
	<b>(ii) Previous Year's Dividend:</b> It is cash used in Financing Activities.	

**Important Note:**

Cash & Cash Equivalent includes Cash, Bank, Short term Investments, Marketable Securities, Treasury bills and bank overdraft.