

## LESSON-34 CASH FLOW STATEMENT

### SUMMARY

Cash is mainly generated from operating activities which is buying assets and discharging liabilities. Cash is also raised from the issue of shares and debentures or loans but adequate cash should be made available for use in time and no cash should remain idle. For this another tool of analysis is used which is cash flow statement.

### MEANING AND OBJECTIVES

Cash Flow Statement deals with flow of cash which includes cash equivalents as well as cash. This statement is an additional information to the users of Financial Statements. The statement shows the incoming and outgoing of cash.

*a Cash-Flow statement may be defined as a summary of receipts and disbursements of cash for a particular period of time. It also explains reasons for the changes in cash position of the firm. Cash flows are cash inflows and outflows.*

### OBJECTIVES

- Cash flow statement aims at highlighting the cash generated from operating activities.
- Cash flow statement **helps in planning the schedule for repayment of loan** schedule and replacement of fixed assets, etc.
- Cash is the centre of all financial decisions. It is used as the basis for the projection of future investing and financing plans of the enterprise.
- Cash flow statement helps to ascertain the liquid position of the firm in a better manner. Banks and financial institutions mostly prefer cash flow statement to analyse liquidity of the borrowing firm.
- Cash flow Statement helps in efficient and effective management of cash.
- The management generally looks into cash flow statements to understand the internally generated cash which is best utilised for payment of dividends.
- Cash Flow Statement based on AS-3 (revised) presents separately cash generated and used in operating, investing and financing activities.
- It is very **useful in the evaluation of cash position** of a firm.

### Some facts about cash flow statement

- Only listed companies are required to prepare and present Cash flow statement.
- The Accounting period for the Cash Flow Statement is the same for which Profit and Loss Account and Balance Sheet are prepared.
- Cash flow items are as (a) Cash flow from operating activities : (b) Cash flow from investing activities (c) Cash flow from financing activities.
- Operating activities include revenue producing activities which are not investing and financing activities.
- There are two methods of calculating cash flow from operating activities namely Direct method and Indirect method. SEBI (Securities Exchange Board of India) Guidelines recommend for only direct method.
- Extra ordinary Items : The Cash flow associated with extra ordinary items should be classified as arising from operating, investing and financing activities. For example, the amount received from Insurance Company on account of Loss of Stock or loss from earthquake should be reported as cash flow from operating activities.

### PREPARATION OF CASH FLOW STATEMENT

### (i) Operating Activities

Cash flow from operating activities are primarily derived from the principal revenue generating activities of the enterprise. A few items of cash flows from operating activities are :

- Cash receipt from the sale of goods and rendering services.
- Cash receipts from royalties, fee, Commissions and other revenue.
- Cash payments to suppliers for goods and services.
- Cash payment to employees
- Cash payment or refund of Income tax.

### TREATMENT OF SPECIAL ITEMS

- **Payment of Interim Dividend**
- **Proposed Dividend**
- **Share Capital**
- **Purchase or sale of fixed Assets**
- **Provision for Taxation**

### ACTIVITY

Visit the office of a joint stock company and study the cash flow statement prepared by the company. Prepare a list of already possible items (two each) that may increase and decrease the fund from

- Operating activities
- Investing activities
- Financing activities