



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 7

Sub: ACCOUNTANCY

Class 12

Chapter: Unit 6: Cash of Flow Statement Date: 08/02/2021

Topic: Meaning, Objective and Preparation of Cash Flow Statement

Meaning of Cash Flow Statement

It is the statement that shows flow of cash and bank balances during the period under report under the heads Operating, Investing and Financing Activities.

Objectives of Cash Flow Statement

1. To show cash generated i.e. inflow from Operating, Investing and Financing Activities by the enterprise.
2. To show cash used i.e. outflow under each Operating, Investing and Financing Activities by the enterprise.
3. To show net change in cash and bank balances i.e. the differences between inflow and outflow under three activities between the two balance sheet dates.

Classification of Activities

Cash Flow Statement is prepared to show cash flow from business transactions during the period classified into:

(i) Operating Activities

(ii) Investing Activities

(iii) Financing Activities

Operating Activities: It is the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities. Therefore, cash flow under the operating activity results from the transactions and events that determine the net profit or loss.

Investing Activities: Investing Activities are the acquisition and disposal of long term assets and other investments not included in cash balance. These activities include purchase and sale of long term assets like machinery, land and building, long term investment etc.

Financing Activities: Financing Activities are the activities which result in change in size and composition of the owners capital and borrowing of the enterprise. Thus, increase in share capital, redemption of

preference shares, issue of debentures, redemption of debentures, repayment of loan etc., are shown under financing activities.

Operating Activities

Cash Inflow	Cash Outflow
1. Cash sales 2. Cash received from trade receivable 3. Income Tax Refund	1. Cash purchases 2. Payment to trade payable 3. Operating Expenses 4. Income Tax paid

Investing Activities

Cash Inflow	Cash Outflow
1. Sale of fixed assets 2. Sale of Investments 3. Interest received on investments 4. Dividend received from investments	1. Purchase of fixed assets 2. Purchase of Investments 3. Loans and advances to third parties

Financing Activities

Cash Inflow	Cash Outflow
1. Issue of shares in cash 2. Issue of debentures in cash 3. Proceeds from long-term borrowing 4. Proceeds from short-term borrowing	1. Repayment of long-term borrowing 2. Repayment of short-term borrowing 3. Redemption of Preference Shares 4. Redemption of Debentures 5. Payment of dividend 6. Payment of interest

Format of Cash Flow Statement

As per AS-3 format of Cash Flow Statement as follows:

Calculation of Net Profit Before Tax (NPBT)

Net profit as per Statement of Profit & Loss	****
Add: Transfer to reserve	****
Add: Proposed and Interim Dividend	****
Add: Provision for Tax	****
NPBT	****

Cash Flow Statement for the year ended

Particulars	Amount(Rs)	Amount(Rs)
I. Cash Flows from Operating Activities: Net Profit Before Tax (NPBT) (Note 1) Add: Items to be added: Goodwill amortization Depreciation of assets Loss on sale of assets Abnormal losses Interest on loan and debentures Share Issue Expenses Less: Items to be deducted: Profit on sale of assets Abnormal gains Operating Profit before working capital changes Add: Increase in current liabilities & decrease in current assets Less: Increase in current assets & decrease in current liabilities Cash Generated from Operation Less: Tax Paid Cash Flows from Operating Activities		
II. Cash Flows from Investing Activities: Sale of fixed assets Sale of Investments Interest received on investment Less: Purchase of fixed assets Less: Purchase of Investments Cash Flows from Investing Activities		
III. Cash Flows from Financing Activities: Issue of shares (Equity & Preference) Issue of debentures Loan taken Less: Redemption of Preference Shares Less: Redemption of Debentures Less: Payment of dividend Less: Interest on loan and debentures Less: Share issue expenses Cash Flows from Financing Activities		
IV. Net increase or decrease in cash and bank balances (I+II+III) V. Add: Cash & Bank balances at the beginning of the year		

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