- Important Definitions as per Accounting Standard-3 (Revised)
- Preparation of Cash Flow Statement as per AS-3 (Revised)

MEANING OF CASH FLOW AND CASH FLOW STATEMENT

Balance Sheet (or Position Statement) and Statement of Profit and Loss (or Income Statement) of a company do not give information about inflows and outflows of cash during an accounting period. It is Cash Flow Statement which gives information of cash flows of an enterprise for the accounting period.

Cash Flow is movement of Cash and Cash Equivalents, *i.e.*, inflow and outflow of Cash and Cash Equivalents. Transactions that lead to increase in Cash and Cash Equivalents are classified, *i.e.*, shown as inflow and transactions that lead to its decrease are classified, *i.e.*, shown as outflow.

Cash and Cash Equivalents includes cash on hand, balance with bank, short-term investments and marketable securities. Thus,

Cash and Cash Equivalents = Cash on Hand + Balance with Bank + Marketable Securities + Short-term Investments.

Cash Flow Statement, prepared as per Accounting Standard–3 [AS–3 (Revised)] Cash Flow Statement, is a statement that shows inflows and outflows of Cash and Cash Equivalents during the period under report, from:

1. Operating Activities;
2. Investing Activities; and
3. Financing Activities.

- *Inflows of Cash* : All transactions that lead to increase in Cash and Cash Equivalents are classified as inflows of cash.
- *Outflows of Cash* : All transactions that lead to a decrease in Cash and Cash Equivalents are classified as outflows of cash.

Operating/...

- To show *net change* in Cash and Cash ... between the ... and outflow under the three activities

IMPORTANCE OR USES OF CASH FLOW STATEMENT

1. **Facilitates to Ascertain Net Cash Flow:** Cash Flow Statement shows inflows (sources) and outflows (applications) of Cash and Cash Equivalents for a period. It facilitates to determine Cash Flow from Operating, Investing and Financing Activities and Net changes in Cash and Cash Equivalents.
2. **Facilitates Planning:** Projected Cash Flow Statement helps management to plan its future operating, investing and financing requirements of an enterprise.
3. **Cash Flow Statement helps in understanding Liquidity and Solvency:** Solvency means ability of an enterprise to meet its liabilities as they become due. Financial institutions, like banks, prefer Cash Flow Statement to assess the capability of the enterprise to pay its liabilities towards interest and principal in time.
4. **Efficient Cash Management:** Cash Flow Statement provides information on surplus or deficit of cash. An enterprise, therefore, is in a position to plan investment of the surplus and can arrange credit in case of deficit.
5. **Comparative Study:** A comparison of the Cash Flow Statement for the year with the budget shows the extent to which cash generated and applied met the plan. It is, therefore, useful for the management to prepare the cash budgets.
6. **Reasons for Cash Position:** Cash Flow Statement explains the reasons for lower and higher cash balances with the enterprise. Sometimes, an enterprise has lower cash balance in spite of higher profits or has higher cash balance in spite of lower profits. Reasons for such situations are known from Cash Flow Statement.
7. **Test for the Management Decisions:** It is an accepted rule that fixed assets are purchased from long-term funds and long-term borrowings are repaid from cash generated from operating activities. Cash Flow Statement shows whether the decisions of the management are in accordance with the established principle.
8. **Preparation of Projected Cash Flow Statement:** On the basis of the Cash Flow Statement for the current year, the enterprise can prepare a projected Cash Flow Statement which is useful for decision-making.

LIMITATIONS OF CASH FLOW STATEMENT

In spite of various uses of Cash Flow Statement, it has the following limitations:

1. **Non-cash Transactions are not Reported:** Cash Flow Statement shows only inflows and outflows of Cash and Cash Equivalents. It does not show non-cash transactions such as purchase of building by the issue of shares or debentures to the vendors or issue of bonus shares. This limitation can be overcome by disclosing it as a footnote to Cash Flow Statement.
2. **Not a Substitute for Income Statement:** This statement is not a substitute of incom Statement (Statement of Profit and Loss) which shows both cash and non-casl transactions leading to determination of profit or loss. Income Statement shows ne income of the firm whereas Cash Flow Statement shows inflow or outflow of Cas and Cash Equivalents which is not net profit or loss of the enterprise.
3. **Not a Substitute for Balance Sheet:** It is not a substitute for Balance Sheet (Positic Statement) because it does not disclose the financial position (*i.e.*, Total Equity, No Current Liabilities, Current Liabilities, Non-Current Assets and Current Assets).
4. **Historical in Nature:** It rearranges the available information in the Income Stateme (Statement of Profit and Loss) and the Balance Sheet. Thus, it is historical in natu
5. **Ignores Fundamental Accounting Concept, *i.e.*, Accrual Concept:** It is prepared cash basis and hence ignores Accrual Concept of accounting.

IMPORTANT DEFINITIONS AS PER ACCOUNTING STANDARD-3 (REVISED)

1. **Cash:** Cash comprises of cash on hand and demand deposits with banks.
2. **Cash Equivalents:** Cash Equivalents are short-term, highly liquid investments tha readily convertible into known amount of cash and which are subject to an insignif risk of change in value.

   Two Conditions should be satisfied by an Investment to Qualify as a Cash Equivalent:

   (*i*) It has a short maturity period of, say, three months or less from the da acquisition, *i.e.*, purchase.

   (*ii*) It is subject to an insignificant risk of change in value.

   Examples of cash equivalents are: (*a*) treasury bills, (*b*) commercial papers, (*c*) r market funds and (*d*) investment in Preference Shares redeemable within three m if there is insignificant risk of change in its value.

IMPORTANT NOTE

Classification of Business Activities as p... Inflow and Outflow of Cash

Operating Activities

Cash Inflow

(i) Cash Sales
(ii) Cash received from Trade Receivables
(iii) Royalty, Fee, Trade Commission received
(iv) Income Tax Refund*

Cash Outflow

(i) Cash Purchases
(ii) Payment to Trade Payables
(iii) Cash paid for Operating Expenses
(iv) Operating Expenses (*e.g.*, Salaries and Wages)
(v) Income Tax paid*

*Income Tax paid is generally shown as net of Income Tax Refund, *i.e.*, Income Tax Paid *less* Income Tax Refund.

Investing Activities

Cash Inflow

(i) Sale of Fixed Assets
(ii) Sale of Investments*
(iii) Interest received on investments*
(iv) Dividend received on investments*
(v) Rent received from property held as investment

Cash Outflow

(i) Purchase of Fixed Assets
(ii) Purchase of Investments*
(iii) Loans and Advances to Third Parties
(iv) Income Tax paid, if related to Investing Activities

*Investments do not include Short-term Investments and Marketable Securities.

Financing Activities

Cash Inflow

(i) Issue of Shares for Cash
(ii) Issue of Debentures for Cash
(iii) Proceeds from Long-term Borrowings
(iv) Proceeds from Short-term Borrowings (Bank Overdraft, Cash Credit)

Cash Outflow

(i) Repayment of Long-term Borrowings
(ii) Repayment of Short-term Borrowings (Bank Overdraft, Cash Credit)
(iii) Redemption of Preference Shares

...ow Statement and interpret the results thereof:

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Dabur Tower, Kaushambi, Sahibabad, Ghaziabad – 201 010 (U.P.), India
Tel: 0120 – 39412525, 3982000, Fax: 0120 – 4374935, Website: www.dabur.com

(₹ in Lakhs)

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		17,421	17,407
(b) Reserves and Surplus	1	1,19,946	99,753
2. Non-Current Liabilities			
(a) Long-term Borrowings		114	551
(b) Long-term Provisions		43,177	36,000
3. Current Liabilities			
(a) Short-term Borrowings		27,667	24,650
(b) Trade Payables		58,511	49,486
(c) Other Current Liabilities		5,501	3,777
(d) Short-term Provisions	2	6,430	9,167
Total		2,78,767	2,40,791
II. ASSETS			
1. Non-Current Assets			
(a) *Fixed Assets:*			
(i) Tangible Assets		57,819	49,253
(ii) Intangible Assets		714	503
(iii) Capital Work-in-Progress		1,158	437
(b) Non-current Investments		15,948	10,211
(c) Long-term Loans and Advances		39,987	32,361
(d) Other Non-current Assets		5,383	8,294
2. Current Assets			
(a) Current Investments		39,324	41,738
(b) Inventories		52,857	46,059
(c) Trade Receivables		22,417	20,246
(d) Cash and Bank Balances		23,825	19,241
(e) Short-term Loans and Advances		14,113	9,134
(f) Other Current Assets		5,222	3,314
Total		2,78,767	2,40,791

Notes to Accounts

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
1. Reserves and Surplus		
Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,19,946	99,753
2. Short-term Provisions		
Provision for Tax	6,430	9,167

ote: Proposed Dividend for the year ended 31st March, 2018 is ₹ 9,633 lakhs against Proposed Dividend of ₹ 5,304 lakhs for the year ended 31st March, 2017.

l information,

(₹ in Lakhs)
31st March, 2017 (₹)
17,407
99,753
551
36,000
24,650
49,486
3,777
9,167
,40,791

Additional Information:

	31st March, 2018 (₹ in Lakhs)
1. Depreciation includes the followings:	
Depreciation on Tangible Fixed Assets	681
Amortisation of Intangible Fixed Assets	191
Total	872

	31st March, 2018 (₹ in Lakhs)
2. Other Income Includes:	
Interest Income	4,513
Profit on Sale of Assets	65
Total	4,578

3. Loss on Sale of Tangible Assets is ₹ 37 Lakhs.
4. Gain on Sale of Intangible Assets is ₹ 65 Lakhs.
5. Other Expenses includes interest payment on Long-term Borrowings ₹ 1,410 Lakhs.
6. Sale of Tangible Assets and Intangible Assets during the year is ₹ 245 Lakhs and ₹ 600 Lakhs respectively.

Solution:

Introduction

CASH FLOW STATEMENT
for the year ended 31st March, 2018

Particulars		(₹ in Lakhs) For the year ended 31st March, 2018
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		31,927
Add: Depreciation and Amortisation	872	
Loss on Sale of Fixed (Tangible) Assets	37	
Long-term Provisions	7,177	
Interest on Long-term Borrowings	1,410	9,496
		41,423
Less: Interest Received	4,513	
Gain on Sale of Intangible Assets	65	4,578
Operating Profit before Working Capital Changes		36,845
Increase in Inventories	(6,798)	
Increase in Other Current Assets	(1,908)	
Increase in Trade Receivables	(2,171)	
Increase in Short-term Loans and Advances	(4,979)	
Increase in Trade Payables	9,025	
Increase in Other Current Liabilities	1,724	
Increase (Decrease) in Working Capital		(5,107)
Cash Generated from Operating Activities		31,738
Less: Tax Paid		9,167
Cash Flow from Operating Activities		22,571
B. Cash Flow from Investing Activities		
Acquisition of Tangible Assets		(9,529)
Acquisition of Intangible Assets		(937)
Increase in Capital Work-in-Progress		(721)
Long-term Loans and Advances		(7,626)
Sale of Tangible Assets		245
Sale of Intangible Assets		600
Purchases of Non-current Investment		(5,737)
Decrease in Other Non-current Assets		2,911
Interest Received		4,513
Cash Used in Investing Activities		(16,281)
C. Cash Flow from Financing Activities		
Proceeds from Share Capital		14
Repayment of Long-term Borrowings		(437)
Payment of Dividend		(5,304)
Interest Paid on Long-term Borrowings		(1,410)
Increase in Short-term Borrowings		3,017
Cash Used in Financing Activities		(4,120)
Net Increase in Cash and Bank Balances (A + B + C)		2,170
Cash and Bank Balances Opening [₹ 41,738 (Current Investments) + ₹ 19,241 Cash and Bank Balances)]		60,979
Cash and Bank Balances Closing [₹ 39,324 (Current Investments) + ₹ 23,825 Cash and Bank Balances)]		63,149

Working Notes:

1. *Calculation of Net Profit before Tax:*

	(₹ in Lakhs)
Difference between Closing and Opening Surplus, *i.e.*, Balance in Statement of Profit and Loss	20,193
Add: Dividend Paid (Proposed Divided for the year ended 31st March, 2017)	5,304
Provision for Tax	6,430
Net Profit before Tax	31,927

2. *Dr.* FIXED (TANGIBLE) ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	49,253	By Bank A/c	245
To Bank A/c (Balancing Figure)	9,529	By Depreciation A/c	681
		By Statement of Profit and Loss (Loss)	37
		By Balance *c/d*	57,819
	58,782		58,782

3. *Dr.* FIXED (INTANGIBLE) ASSETS ACCOUNT *Cr.*

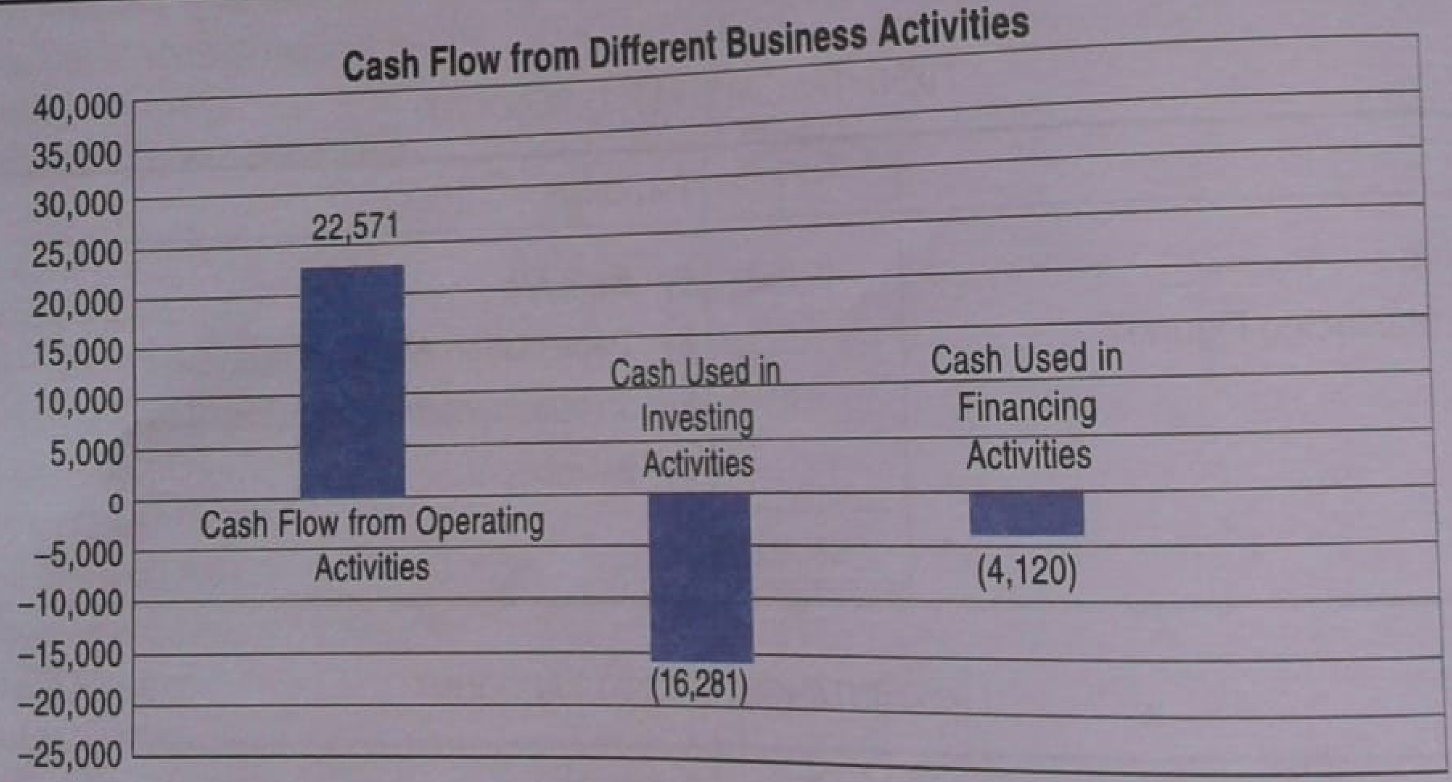
Particulars	₹	Particulars	₹
To Balance *b/d*	503	By Bank A/c	600
To Statement of Profit and Loss (Gain)	65	By Amortisation A/c	191
To Bank A/c (Balancing Figure)	937	By Balance *c/d*	714
	1,505		1,505

4. Current Investments are taken as Marketable Securities, hence, part of Cash and Bank Balances.

CASH FLOW UNER DIFFERENT BUSINESS ACTIVITIES

Particulars	₹
Cash Flow from Operating Activities	22,571
Cash Used in Investing Activities	(16,281)
Cash Used in Financing Activities	(4,120)

(*iii*)



VIVA QUESTIONS

LITTLE STAR HIGH SCHOOL

Serial No.

NAME

ROLL NO. CLASS SEC SUBJECT

EXAMINATION INVIGILATOR'S SIGNATURE

MARKS OBTAINED

TOTAL MARKS

XII COM

ACCOUNTS

CHAPTER: PARTNERSHIP FUNDAMENTAL

Q.1. Why is Profit & Loss Appropriation Account prepared?

Q.2. Give difference between Charge against Profit and Appropriation of Profit.

Q.3. Give any four points of difference between Fixed capital & Fluctuating capital.

Q.4. In the absence of Partnership deed, explain the rules relating to the following:

a) Sharing of Profit / Losses.

b) Interest on capital

c) Remuneration to Partners

d) Interest on Loan

e) Interest on Drawings

This answer book contains 4 pages

Q5. Name the items which will be debited to Profit & Loss Appropriation a/c.

Q6. Name the items which will be credited to Profit & Loss Appropriation a/c.

Q7. Pass the closing journal entries for the following transactions:

a) Interest on Capital
b) Partners' Salary
c) Partners' Commission
d) Transfer to Reserve
e) Interest on Drawings.

Q8. Pass adjustment journal entries for the following items when the capital a/cs are prepared under Fixed Capital Method—

a) Interest on Capital
b) Partners' Salary
c) Interest on Drawings
d) Drawings

Q9. Why partners are charged Interest on Drawings?

Write on both sides of the paper

Q10 State the closing entries for:

c) Rent paid to partner

d) Interest on loan allowed to partner.

Q11 List two instances when a partners' Fixed capital may change.

Q12. What is guaranteed partnership?

Q13 Differentiate between - Interest on capital allowed to partners and Interest on Drawings charged to partners.

Q14 Discuss the rate of Interest on Drawings:

a) Drawings are made at the begining of each month

b) middle of each month

c) at the end of each month

f) at the begining of each quarter

g) at the end of each quarter.

Q15 Why Interest on Capital ? allowed to Partners.

Q16 Differentiate between —

Drawings Account and Current Account of a partner.