

B.Com. Part- III
(Sub. Financial Management)



Accounting Standard (AS) -3

Cash Flow Statements

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Applicability

- Enterprises whose equity or debt securities are listed on any recognised stock exchange in India.
- Enterprises which are in process of listing their equity or debt as evidenced by the Board of Directors resolution in this regard.
- Banks including co-operative banks.
- Financial institutions.
- Enterprises carrying on insurance business
- All enterprises which have a turnover of more than Rs. 50 crore in immediately preceding financial year.
- Enterprises having borrowings, including public deposits more than Rs. 10 crore at any time during the accounting period.
- **Note: As per Companies act, 2013 CFS is mandatory for all companies except small private companies, dormant companies and one person companies.**

Introduction

- Cash Flow Statement provides with a basis to assess the ability of the enterprise to generate cash and cash equivalents and its needs to utilise those cash flows.
- It helps in assessing liquidity and solvency of the enterprise.
- This statements exhibits the inflow and outflow of cash and cash equivalents during a specified period of time.

Definitions

- **Cash** comprises cash on hand and demand deposits with banks.
- **Cash equivalents** are short term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value.
- **Cash flows** are inflows and outflows of cash and cash equivalents.
- **Operating activities** are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.
- **Investing activities** are the acquisition and disposal of long term assets and other investment not included in cash equivalents.
- **Financing activities** are activities that result in changes in size and composition of the owner's capital (including share capital in case of company) and borrowings of the enterprise.

Cash and Cash Equivalents

- Cash equivalents :

- which are **readily convertibles** into known amount of cash
- or
- having **maturity** less than **three months**
- subject to **insignificant risk** of change in its value
- held for meeting short term obligations.

Examples: Treasury bills, Marketable securities, Commercial papers etc.

Presentation of Cash Flow Statement

- The Cash Flow Statement should report cash flows during the period classified by
 - Operating activities,
 - Investing activities and
 - Financing activities.

Operating Activities

- These are **principal revenue producing** activities of the enterprise.
- These are results of those transactions and events that enter into determines of net profit or loss.
- Examples:
 - Cash receipt from **sale of goods** and the **rendering of services**.
 - Cash receipt from royalties, fees, commissions and other revenue.
 - Cash payment to and on behalf of employees.
 - Cash payments or refund of income taxes unless they can be specifically identified with financing and investing activities.

Investing Activities

- Investing activities are **acquisition and disposal of long term assets** and **other investments** not included in cash equivalent.
- The separate disclosure of cash flows from investing activities are important because:
 - It represents the extent to which expenditure have been made.
 - For resources intended to generate future income and cash flows.
 - **Examples:**
 - Cash payment to acquire fixed asset.
 - Cash receipts from disposal of fixed assets.
 - Cash payment to acquire share, debt instruments of other enterprises and interest in joint venture.
 - Cash receipt from disposal of share, debt instruments of other enterprises and interest in joint venture.

Financing Activities

- Those activities that results in **changes in size and composition** of **owners capital** and **borrowings** of the enterprise.
- it is useful in predicting claims on future cash flows by providers of funds to the enterprise.
- Examples:
 - Cash proceeds from issue of shares or other similar instruments.
 - Cash proceeds from issuing bonds, debentures, loans and other short or long term borrowings.
 - Cash repayments of borrowed funds.

Reporting Cash Flow

- Operating Activities:
 - **Direct method:** Major classes of gross receipts and cash payment are disclosed.
 - **Indirect method:** Net profit or loss is adjusted for the effect of transactions of non cash nature
- Investing and Financing Activities:
 - An enterprise should report separately major classes of gross cash receipts and gross cash payments.

Foreign Currency Cash Flows

- Cash flows arising from transactions in a foreign currency should be recorded in:
 - Enterprise's reporting currency by applying exchange rate at the date of cash flows.
 - A rate that approx. the actual rate may be used if the result is substantially the same as would arise if the rate at the date of cash flows used.
- The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the period.

Extraordinary Items

- It means **gains or losses** included in a company's financial statements, which are **infrequent and unusual in nature**.
- The cash flows associated with extraordinary items should be classified as arising from:
 - Operating,
 - Investing and
 - Financing activities

Interest and Dividends

- Interest and Dividend received and paid should each be disclosed separately.
- Interest paid and interest and dividends received are usually classified as
 - operating activity for a financial enterprises.
 - Investing and financing activity for others.
- Dividends paid should be classified as financing activity for all enterprises.

Taxes on Income

- Cash flow arising from taxes on income should be separately disclosed unless;
 - they can be specifically identified with investing or financing activity.
 - Example: Gain on sale of fixed asset is a gains arising from investing activity.

Non Cash Transactions

- Transactions that do not require use of cash and cash equivalent should be:
 - Excluded from cash flow statement.
 - Disclosed elsewhere in financial statements.
- For example:
 - Conversion of Debt into Equity.
 - Acquisition of asset by means of issuing shares etc.

Acquisition/ Disposals of Subsidiaries, Associates and Joint Venture

- The aggregate cash flows arising should be:
 - Presented separately
 - Classified as investing activity
- Also an enterprise should disclose, in aggregate:
 - The total purchase or disposal consideration.
 - The portion of purchase or disposal consideration discharged by means of cash and cash equivalents.

Other Disclosures

- An enterprise should disclose, together with commentary by management:
 - The amount of significant cash and cash equivalent balance held are not available for use by it.
 - Additional information may be relevant to users in understanding the financial position and liquidity of an enterprise.

Thank You