

BCOM 4th SEMESTER

MANGEMENT ACCOUNTING

Unit 4(Honours)/ Unit 3 (Program)

CASH FLOW STATEMENT

GENERAL ACCEPTED ACCOUNTING PRINCIPLE (GAAP)
RECOGNISED FOLLOWING FINANCIAL STATEMENTS:

- (I) BALANCE SHEET
- (II) INCOME STATEMENT/ STATEMENT OF PROFIT AND LOSS
- (III) CASH FLOW STATEMENT

MEANING OF CASH FLOW STATEMENT

- ❖ **A cash flow statement presents information about the cash flows associated with the company's main operation and those associated with its investing and financing activities of a specific period.**
- ❖ **A cash flow statement function in conjunction with both the income statements (performance dimension) and the Balance Sheet.**

OBJECTIVES OF CASH FLOW STATEMENTS

- 1. Highlighting cash flows from different activities.**
- 2. Short term planning.**
- 3. Cash flows information helps to understand liquidity.**
- 4. Efficient cash management.**
- 5. Prediction of sickness.**
- 6. Comparison with Budget.**
- 7. Control Cash position.**

Uses OF CASH FLOW STATEMENT

The statement of cash flow is used by investor and creditor to:

- ❖ Evaluate management's abilities to manage cash now and in the future.**
- ❖ Assess the company's ability to pay dividends and to pay creditors.**
- ❖ Convert actual net income reported on income statement to a cash basis figure.**
- ❖ Cash flows information are essential input for economic decision.**

LIMITATION OF CASH FLOW STATEMENTS

- 1) Does not show the liquidity position of the firm**
- 2) It is not a substitute of income statement**
- 3) Does not show the financial position of the firm**

CLASSIFICATION OF BUSINESS ACTIVITIES: INFLOWS & OUTFLOWS

OPERATING ACTIVITIES : Transaction that affect the net income.

Inflow:

- i. **Cash Sales**
- ii. **Received from debtors**
- iii. **Commission and fees**
- iv. **Royalties**

Outflow:

- i. **Cash purchase**
- ii. **Payments to creditors**
- iii. **Cash operating expenses**
- iv. **Payments of wages**
- v. **Manufacturing expenses**
- vi. **Income tax**

INVESTING ACTIVITIES : Transaction which affect investments in fixed assets like property, plant etc.

Inflow:

- i. Dividends received
- ii. Interest received
- iii. sale of fixed assets
- iv. Sale of investment

Outflow:

- i. Purchase of fixed assets
- ii. Purchase of investment

FINANCING ACTIVITIES: Transaction which affect equity and debt of the business

Inflow:

- i. Issue of equity shares
- ii. Issue of preference shares
- iii. Issue of debenture
- iv. Long term loan taken

Outflow:

- i. Redemption of debenture
- ii. Redemption of preference shares
- iii. Buyback of equity shares

- iv. Dividend paid
- v. Interest paid

METHODS OF CASH FLOW STATEMENTS

The statement of cash flow is prepared as per AS-3 by using :

- i. Direct method
- ii. Indirect method

The majority of publicly traded firms use indirect method.

PRACITAL PROBLEM

CASH FLOW STATEMENT AS PER AS 3

(INDIRECT METHOD)

<u>1.Cash Flow From Operating Activities:</u>			
Fund from operation :			
Add: Decrease in Current assets		*	
Add: Increase in Current Liabilities	*		
	*		
	—		
		*	
		—	
Less: Increase Current assets		*	
Less: Decrease in Current Liabilities	*		
	*		
	—		
		*	
Less: Income Tax Paid		*	
		*	
		—	
<u>Cash flow from operating activities</u>			**
<u>2.Cash Flow From Investing Activities:</u>			
Dividend received			
Sale of fixed Assets	*		
Sale of Investment	*		
	*		
	—		
Less: Purchase of Fixed Assets		*	
Less: Purchase of Investment	*		
	*		
	—		
<u>Cash Flow From Investing Activities</u>		*	**
<u>3.Cash Flow From Financin Activities</u>			
Issue of Eq. Share			
Issue of Pref. Share	*		
Issue of Debenture	*		
Long term Loan taken	*		
	*		
	—		
Less: Buy-Back of Eq. Share		*	

Less: Redemption of Pref. Share	*		
Less: Redemption of Debenture	*		
Less: Dividend paid (final and	*		
Interim Eq. and Pref. Share)	*		
Less: Interest on Debenture and Long			
Term Loan	—		
		*	
<u>Cash Flow From Financing Activities</u>			**
Net Cash Inflow/(Outflow)			**/(*)
<u>Add:</u> Opening Cash and Bank Balance			**
Closing Cash and Bank Balance			**

Calculation of Fund from Operation

PROFIT AND LOSS ADJUSTMENT ACCOUNT

PARTICULARSE	AMT	PARTCULARSE	AMT
To Depreciation	*	By Balance b/d (Op.bal of P/L)	*
To Loss on Sale of Fixed Assets	*	By Profit on Sale of Fixed Assets	*
To Goodwill (write off)	*	By Dividend Received	*
To Reserve (Transfer)	*	By Fund from Operation (Balancing Figure)	*
To Interest on Loan	*		
To Interest on Debenture	*		
To Premium on redemption On Pref. Sh./ Debenture	*		
To Preliminary Expense (write off)	*		
To Provision for Tax	*		
To Interim Dividend	*		
To Proposed Dividend	*		
To Balance c/d (Cl. Bal of P/L)	*		
	***		***

Problem no 1.

From the following information prepare a cash flow statement

as per AS 3 Balance Sheet of MNC Ltd.

Particulars	31 st March, 2018 Amt.(Rs.)	31 st March, 2019 Amt.(Rs.)
Equity & Liabilities:		
Eq. Share Capital	200000	300000
Pref. Share Capital	200000	150000
10% Debenture	100000	200000
Reserve	70000	100000
Profit & Loss Account	100000	150000
Creditors	60000	50000
Bills Payable	30000	50000
Total	<u>760000</u>	<u>1000000</u>
Assets:		
Goodwill	20000	10000
Land & Building	200000	300000
Plant & Machinery	310000	375000
Stock	80000	100000
Debtors	70000	100000
Bills Receivable	40000	35000
Cash at Bank	40000	80000
Total	<u>760000</u>	<u>1000000</u>

Adjustment:

- (i) Depreciation charged on plant & Machinery Rs. 50000.
- (ii) An old machine WDV Rs. 40000, sold at Rs. 30000
- (iii) Pref. Share are redeemed at 10% premium
- (iv) Tax Paid Rs 50000
- (v) Dividend paid Rs. 60000

Solution. 1.

Calculation of Fund from Operation:

PROFIT AND LOSS ADJUSTMENT ACCOUNT

PARTICULARSE	AMT	PARTCULARSE	AMT
To Depreciation	50000	By Balance b/d (Op.bal of P/L)	100000
To Loss on Sale of Fixed Assets	10000		
To Goodwill (write off)	10000		
To Reserve (Transfer)	30000	By Fund from Operation (Balancing Figure)	280000
To Interest on Debenture (100000 X 10%) + (100000 X 10% X 6/12)	15000		
To Premium on redemption On Pref. Sh. (50000 X 10%)	5000		
To Provision for Tax	50000		
To Proposed Dividend	60000		
To Balance c/d (Cl. Bal of P/L)	150000		
	<u>380000</u>		<u>380000</u>

Plant & Machinery Account/

PARTICULARSE	AMT	PARTCULARSE	AMT
To Balance b/d	310000	By Depreciation A/c	50000
To Bank A/c (Purchase) (Bal. figure)	155000	By Bank (Sale) A/c	30000
		By Profit & Loss A/c	10000
		By Balance C/d	375000
	<u>465000</u>		<u>465000</u>

CASH FLOW STATEMENT AS PER AS 3

(INDIRECT METHOD)

<u>1.Cash Flow From Operating Activities:</u>			
Fund from operation :			
Add: Decrease in Current assets		280000	
Bill Receivable	5000		
Add: Increase in Current Liabilities			
Bills Payable	<u>20000</u>		
		<u>25000</u>	
		305000	
Less: Increase Current assets			
Stock	20000		
Debtors	30000		
Less: Decrease in Current Liabilities:			
Creditors	<u>10000</u>		
		<u>60000</u>	
		245000	
Less: Income Tax Paid		<u>50000</u>	
<u>Cash flow from operating activities</u>			195000

<u>2.Cash Flow From Investing Activities:</u>			
Sale of fixed Assets:			
Plant & Machinery		30000	
Less: Purchase of Fixed Assets:			
Land & Building	100000		
Plant & Machinery	<u>155000</u>		
		<u>255000</u>	
<u>Cash Flow From Investing Activities</u>			(225000)
<u>3.Cash Flow From Financing Activities</u>			
Issue of Eq. Share	100000		
Issue of Debenture	<u>100000</u>		
		200000	
Less: Redemption of Pref. Share	55000		
Less: Dividend paid	60000		
Less: Interest on Debenture	<u>15000</u>		
		<u>130000</u>	
<u>Cash Flow From Financing Activities</u>			<u>70000</u>
Net Cash Inflow			40000
Add: Opening Cash and Bank Balance			<u>40000</u>
Closing Cash and Bank Balance			<u>80000</u>

Note: The above note is prepared by Prof. S Ghosh of Commerce Department of Raniganj Girls' College, with the help of books of Financial Accounting of Amitabha Basu & Dey and Dutta.