

Cash Flow Statement

- Cash is the life blood to a business enterprise.
- It is very necessary for a business to maintain the balance of cash and cash equivalent.
- For this purpose a statement is prepared called as cash flow statement.
- It is a statement of changes in the financial position of firm on cash basis.
- Such a statement helps to determine the net effects of the various business transactions on cash and takes into accounts the receipts and payments of cash.
- It helps to summarise the causes of changes in cash position of a business enterprise between two balance sheets of two different consecutive years.

Procedure for Preparing Cash Flow Statement

- Cash flow statement is prepared by involving the two factors i.e. inflow of cash and outflow of cash.
- The format of cash flow statement is as below:

Cash Flow Statement

Cash Inflows	Amount (₹)	Cash Outflows	Amount (₹)
Cash balance in the beginning	-	Redemption of	
Issue of Shares	-	Preference Shares	-
Issue of Debentures	-	Redemption of	
Sale of Assets	-	Debentures	-
Raising of loans	-	Repayment of loans	-
Collection from debtors	-	Purchase of Assets	-
Dividend received	-	Payment of dividend	-
Dividend payable	-	Payment of tax	-
Refund of tax	-	Cash lost in operations	-
Cash from operations	-	Cash balance at the end	-
	XX		XX

Calculation of Cash from operations/Cash lost in operations:

- Cash from operations or cash lost in operations can be studied by taking two different situations:

1. When all transactions are cash transactions:

- In such situation net profit or net loss as shown in Profit & Loss A/C will be taken as cash from operations or cash lost in operations.

Cash from operations = Net Profit

Cash lost in operations = Net Loss

2. When all transactions are not cash transactions:

Particulars	Amount (₹)
Net Profit/Net Loss (as given) <u>Add:</u> 1. Non-operating cash or cash equivalent items which have been already debited to Profit & Loss A/C: a. Depreciation b. Transfer to reserve c. Fictitious and Intangible Assets written off d. Loss on sale of Fixed Assets 2. Decrease in current Assets 3. Increase in current liabilities Total (A)	

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Particulars	Amount (₹)
<u>Less:</u> 1. Non-operating cash or cash equivalent items which have been already credited to Profit & Loss A/C: a. Appreciation of fixed assets b. Profit on sale of fixed assets 2. Increase in Current Assets 3. Decrease in Current Liabilities Total (B) Cash from operations / Cash Lost from operations = Total (A)- Total (B)	

Question: The Profit & Loss A/C and the Balance Sheet of Rakesh & Company as given below:

Profit & Loss A/C for the year ending 31st March, 2019

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Materials consumed	2,00,000	By Sales	3,75,000
To Wages	40,000		
To Expenses	80,000		
To Depreciation	8,000		
To Patents Amortized	1,000		
To Gross Profit c/d	46,000		
	<u>3,75,000</u>		<u>3,75,000</u>
To Dividend Payable	10,000	By Gross Profit b/d	46,000
To Net Profit c/d	36,000		
	<u>46,000</u>		

Balance Sheet as on 31st March

Liabilities	2018	2019	Assets	2018	2019
Capital	90,000	1,30,000	Plant (Gross)	1,60,000	1,65,000
Reserves	60,000	96,000	Less: Dep.	30,000	38,000
Long-term loans	70,000	50,000	Plant (Net)	1,30,000	1,27,000
Dividend Payable	8,000	10,000	Patents	00	29,000
Bills Payable	40,000	30,000	Stock	80,000	90,000
Outstanding			Sundry Debtors	60,000	55,000
Liabilities	32,000	19,000	Prepaid Expenses	10,000	12,000
			Cash	20,000	22,000
	3,00,000	3,35,000		3,00,000	3,35,000

Calculate and Prepare:

- a. Cash from operations.
- b. Cash Flow Statement for the year ending 31st March, 2019.

Question: The following is the balance sheets of Reliance Ltd. as on 31st March, 2018 and 31st March, 2019. Prepare Cash flow statement.

Balance Sheet as on 31st March

Liabilities	2018 (₹)	2019 (₹)	Assets	2018 (₹)	2019 (₹)
Equity Share Capital	2,00,000	2,50,000	Goodwill	30,000	20,000
12% Preference Share Capital	50,000	40,000	Building	1,00,000	80,000
General Reserve	35,000	55,000	Plant	40,000	70,000
Profit & Loss A/C	15,000	17,000	Debtors	1,20,000	1,60,000
Creditors	23,000	5,000	Stock	18,000	20,000
	3,23,000	3,67,000	Cash	15,000	17,000
				3,23,000	3,67,000

Depreciation charged on Plant was ₹ 30,000 and on building ₹ 50,000.