CHAPTER – 11

Quick Revision Notes

CASH FLOW STATEMENT

Formats

Cash Flow Statement (Indirect Method)

Calculation of Profit before tax

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount(Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit earned during the year</td>
<td>= xxx</td>
</tr>
<tr>
<td>Add: Transfer to Reserves</td>
<td>= xxx</td>
</tr>
<tr>
<td>Add: Dividend Paid</td>
<td>= xxx</td>
</tr>
<tr>
<td>Add: Tax made during the year</td>
<td>= xxx</td>
</tr>
<tr>
<td>Net profit before tax</td>
<td>= xxx</td>
</tr>
</tbody>
</table>

Cash Flow Statement

(A) Cash flow from Operating Activities

Net profit before tax
Add: Non operating expenses
  Depreciation
  Goodwill W/O
  Preliminary expenses W/O
Discount on issue of shares/debentures W/O
Underwriting commission W/O
Loss on sale of fixed assets & Investment
Interest paid on borrowings
Premium on redemption on shares/debentures
Less: Non Operating incomes
Dividend received
Interest received
Profit on sale of fixed assets & investment

Operating profit before changes in working capital

Add: Increase in current liabilities(Other than bank overdraft, provision for tax & proposed dividend) and Decrease in Current assets (other than cash, bank and marketable securities)

Less: Decrease in current liabilities(Other than bank overdraft, provision for tax & proposed dividend) and Increase in Current assets (other than cash, bank and marketable securities)

Operating profit before tax
Less: tax paid
Cash flow from Operating Activities
(B) Cash Flow from Investing Activities
Add: Sale of fixed assets & Investment
Dividend received
Interest received on investment
Less: Purchase of Fixed assets & Investment
Purchase of Goodwill
Cash flow from or used in Investing Activities

(C) Cash Flow from Financing Activities
Add: Issue of share capital & Debentures(along with securities premium)
Loans and Public deposits raised
Less: Buy back of equity shares
Redemption of Preference shares & Debentures
Interest paid on borrowings
Dividend paid
Interim dividend paid
Loans & Public deposits repaid
Cash flow from used in Financing Activities

Net increase in cash (A+B+C)
Add: Opening balance of cash & equivalents
Closing balance of cash & equivalents

<table>
<thead>
<tr>
<th>GUIDELINES FOR THE PREPARATION OF CASH FLOW STATEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Items</strong></td>
</tr>
<tr>
<td>1. Land</td>
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<tr>
<td>2. Building</td>
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<td></td>
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<tr>
<td>3. Plant and Machinery</td>
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<tr>
<td>4. Copyright, Trade-Mark, Patent, Goodwill</td>
</tr>
<tr>
<td>5. Long-Term Investments</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>6. Short-Term Investments</td>
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<tr>
<td>7. Underwriting Commission</td>
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<tr>
<td>8. Discount on Issue of Shares/Debentures</td>
</tr>
<tr>
<td>9. Current Assets Other than Cash and Cash Equivalents.</td>
</tr>
<tr>
<td>10. Cash and Cash Equivalents</td>
</tr>
<tr>
<td>11. Equity-Share Capital</td>
</tr>
<tr>
<td>12. Preference Shares</td>
</tr>
<tr>
<td>13. Debentures</td>
</tr>
<tr>
<td>14. Securities Premium</td>
</tr>
</tbody>
</table>
### 15. Profit and Loss A/c
- **Profit earned during the year.**
- **Loss suffered during the year.**

### 16. General Reserve
- It will be added to current year’s profit for calculating ‘Cash Flow from Operating Activities’.
- It will be deducted from current year’s profit for calculating ‘Cash Flow from Operating Activities’.

### 17. Provisions for Doubtful Debts
**When all debtors are good**
- The increase in Doubtful Debts will be added back to current year’s profit to arrive at ‘Operating Profit before Working Capital Changes’.
- The decrease in Doubtful Debts will be added back to current year’s profit to arrive at ‘Operating Profit before Working Capital Changes’.

**When debtors are not good**
- The increase in Doubtful Debts will be deducted from ‘Operating Profit before Working Capital Changes’ to arrive at ‘Cash Generated From Operating Activities’.
- The decrease in Doubtful Debts will be deducted from ‘Operating Profit before Working Capital Changes’ to arrive at ‘Cash Generated From Operating Activities’.

### 18. Current Liabilities other than Bank-Overdraft
- Increase in Current Liabilities will be added back to ‘Operating Profit before Working Capital Changes’ to arrive at ‘Cash Generated from Operations’.
- Decrease in Current Liabilities will be deducted from ‘Operating Profit before Working Capital Changes’ to arrive at ‘Cash Generated from Operations’.

### 19. Bank-Overdraft
- It is a part of Cash Equivalent and can be treated as negative balance of Cash Equivalent.

### 20. Provision For Tax
**Current Year’s Provision:** Add back to current year’s profit to arrive at Net profit before tax and extra-ordinary items.

**Previous year’s Provision:** It is deducted from ‘Cash Generated from Operations’ to arrive at ‘Net Cash flow from Operating Activities’.

### 21. Proposed Dividend
**Current Year’s Dividend:** Add back to current year’s profit to arrive at Net profit before tax and extra-ordinary items.

**Previous Year’s Dividend:** It is cash used in Financing Activities.

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**Important Note:**
Cash & Cash Equivalent includes Cash, Bank, Short term Investments, Marketable Securities, Treasury bills and bank overdraft.