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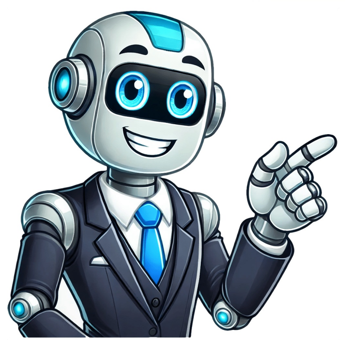

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Ask questions, collaborate, give feedback, and share experiences and expertise across industries to grow or transition your career. You'll build lasting connections that support you wherever life takes you next. Learn More about the HBS Online Learning Model CBSE NotesCBSE Notes AccountancyNCERT Solutions Accountancy 1. Cash Flow Statement Cash flow statement is a statement showing the changes in financial position of a business concern during different intervals of time in terms of cash and cash equivalents. The Revised Accounting Standard-3 has made it mandatory for all listed companies to prepare and present a cash flow statement along with other financial statements on annual basis. 2. Cash Flows Cash flows are inflows and outflows of cash and cash equivalent. It implies movement in and movement out of cash and cash equivalents. Receipt of cash from a non-cash item is termed as 'cash inflow', while cash payment in respect of such item is termed as 'cash outflow'. Cash Cash comprises of cash in hand and demand deposits with the bank. Cash Equivalents Cash equivalents are 'short-term highly liquid investments that are j readily convertible into known amount of cash and which are subjected to an insignificant risk of change in value'. 3. Objectives of Cash Flow Statement (i) Useful in short-term financial planning. (ii) Useful inefficient cash management. (iii) Helpful in formulation of business policies. (iv) Assists in preparation of cash budget. (v) Used for assessment of cash flow from various activities, viz operating, investing and financing activities. 4. Limitations of Cash Flow Statement (i) Based on historical cost principle. (ii) Based on secondary data. (iii) Ignores non-cash transactions. (iv) No adherence of basic accounting principles. (v) Cash flow statement is not a substitute for income statement. 5. Classification of Business Activities Accounting Standard-3 (Revised) requires that the changes resulting in inflows and outflows of cash and cash equivalents will be classified into following three activities: (i) Cash flow from operating activities. (ii) Cash flow from investing activities. (iii) Cash flow from financing activities. 6. Cash Flow from Operating Activities Operating activities are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities. 7. Cash Flow from Investing Activities As per AS-3, investing activities are the acquisition and disposal of the long-term assets and other investments, not included in cash equivalents. Cash flow from investing activities are exhibited as follows: 8. Cash Flow from Financing Activities Financing activities are the activities which result in change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) of the enterprise from other sources. Cash flow arising from financing activities are exhibited as follows: 9. Format of Cash Flow Statement Whether you're a working professional, business owner, entrepreneur, or investor, knowing how to read and understand a cash flow statement can enable you to extract important data about the financial health of a company. If you're an investor, this information can help you better understand whether you should invest in a company. If you're a business owner or entrepreneur, it can help you understand business performance and adjust key initiatives or strategies. If you're a manager, it can help you more effectively manage budgets, oversee your team, and develop closer relationships with leadership—ultimately allowing you to play a larger role within your organization. Not everyone has finance or accounting expertise. For non-finance professionals, understanding the concepts behind a cash flow statement and other financial documents can be challenging. To facilitate this understanding, here's everything you need to know about how to read and understand a cash flow statement. Free Resource: Financial Statement Templates Access your interactive balance sheet, income statement, and cash flow statement templates today. DOWNLOAD NOW What is a Cash Flow Statement? The purpose of a cash flow statement is to provide a detailed picture of what happened to a business's cash during a specified period, known as the accounting period. It demonstrates an organization's ability to operate in the short and long term, based on how much cash is flowing into and out of the business. The cash flow statement is typically broken into three sections: Operating activities Investing activities Financing activities Operating activities detail cash flow that's generated once the company delivers its regular goods or services, and includes both revenue and expenses. Investing activities include cash flow from purchasing or selling assets—think physical property, such as real estate or vehicles, and non-physical property, like patents—using free cash, not debt. Financing activities detail cash flow from both debt and equity financing. Based on the cash flow statement, you can see how much cash different types of activities generate, then make business decisions based on your analysis of financial statements. Ideally, a company's cash from operating income should routinely exceed its net income, because a positive cash flow speaks to a company's ability to remain solvent and grow its operations. It's important to note that cash flow is different from profit, which is why a cash flow statement is often interpreted together with other financial documents, such as a balance sheet and income statement. How Cash Flow Is Calculated Now that you understand what comprises a cash flow statement and why it's important for financial analysis, here's a look at two common methods used to calculate and prepare the operating activities section of cash flow statements. Cash Flow Statement Direct Method The first method used to calculate the operation section is called the direct method, which is based on the transactional information that impacted cash during the period. To calculate the operation section using the direct method, take all cash collections from operating activities, and subtract all of the cash disbursements from the operating activities. Cash Flow Statement Indirect Method The second way to prepare the operating section of the statement of cash flows is called the indirect method. This method depends on the accrual accounting method in which the accountant records revenues and expenses at times other than when cash was paid or received—meaning that these accrual entries and adjustments cause the cash flow from operating activities to differ from net income. Instead of organizing transactional data like the direct method, the accountant starts with the net income number found from the income statement and makes adjustments to undo the impact of the accruals that were made during the period. Essentially, the accountant will convert net income to actual cash flow by de-accruing it through a process of identifying any non-cash expenses for the period from the income statement. The most common and consistent of these are depreciation, the reduction in the value of an asset over time, and amortization, the spreading of payments over multiple periods. Related: Financial Terminology: 20 Financial Terms to Know How to Interpret a Cash Flow Statement Whenever you review any financial statement, you should consider it from a business perspective. Financial documents are designed to provide insight into the financial health and status of an organization. For example, cash flow statements can reveal what phase a business is in: whether it's a rapidly growing startup or a mature and profitable company. It can also reveal whether a company is going through transition or in a state of decline. Using this information, an investor might decide that a company with uneven cash flow is too risky to invest in; or they might decide that a company with positive cash flow is primed for growth. Similarly, a department head might look at a cash flow statement to understand how their particular department is contributing to the health and wellbeing of the company and use that insight to adjust their department's activities. Cash flow might also impact internal decisions, such as budgeting, or the decision to hire (or fire) employees. Cash flow is typically depicted as being positive (the business is taking in more cash than it's expending) or negative (the business is spending more cash than it's receiving). Related: How Learning About Finance Can Jumpstart Your Career No Matter Your Industry Positive Cash Flow Positive cash flow indicates that a company has more money flowing into the business than out of it over a specified period. This is an ideal situation to be in because having an excess of cash allows the company to reinvest in itself and its shareholders, settle debt payments, and find new ways to grow the business. Positive cash flow does not necessarily translate to profit, however. Your business can be profitable without being cash flow-positive, and you can have positive cash flow without actually making a profit. Negative Cash Flow Having negative cash flow means your cash outflow is higher than your cash inflow during a period, but it doesn't necessarily mean profit is lost. Instead, negative cash flow may be caused by expenditure and income mismatch, which should be addressed as soon as possible. Negative cash flow may also be caused by a company's decision to expand the business and invest in future growth, so it's important to analyze changes in cash flow from one period to another, which can indicate how a company is performing overall. Cash Flow Statement Example Here's an example of a cash flow statement generated by a fictional company, which shows the kind of information typically included and how it's organized. Go to the alternative version. This cash flow statement shows Company A started the year with approximately $10.75 billion in cash and equivalents. Cash flow is broken out into cash flow from operating activities, investing activities, and financing activities. The business brought in $53.66 billion through its regular operating activities. Meanwhile, it spent approximately $33.77 billion in investment activities, and a further $16.3 billion in financing activities, for a total cash outflow of $50.1 billion. The result is the business ended the year with a positive cash flow of $3.5 billion, and total cash of $14.26 billion. The Importance of Cash Flow Cash flow statements are one of the most critical financial documents that an organization prepares, offering valuable insight into the health of the business. By learning how to read a cash flow statement and other financial documents, you can acquire the financial accounting skills needed to make smarter business and investment decisions, regardless of your position. Are you interested in gaining a toolkit for making smart financial decisions and the confidence to clearly communicate those decisions to key internal and external stakeholders? Explore our online finance and accounting courses and download our course flowchart to determine which best aligns with your goals. If you want to dive into creating a cash flow statement, download our free financial statement templates to start practicing. Data Tables Company A - Statement of Cash Flows (Alternative Version) Year Ended September 28, 2019 (In millions) Cash and cash equivalents, beginning of the year: $10,746 OPERATING ACTIVITIES Activity Amount Net Income 37,037 Adjustments to Reconcile Net Income to Cash Generated by Operating Activities: Depreciation and Amortization 6,757 Deferred Income Tax Expense 1,141 Other 2,253 Changes in Operating Assets and Liabilities: Accounts Receivable, Net (2,172) Inventories (973) Vendor Non-Trade Receivables 223 Other Current and Non-Current Assets 1,080 Accounts Payable 2,340 Deferred Revenue 1,459 Other Current and Non-Current Liabilities 4,521 Cash Generated by Operating Activities 53,666 INVESTING ACTIVITIES Activity Amount Purchases of Marketable Securities (148,489) Proceeds from Maturities of Marketable Securities 20,317 Proceeds from Sales of Marketable Securities 104,130 Payments Made in Connection with Business Acquisitions, Net of Cash Acquired (496) Payments for Acquisition of Intangible Assets (911) Other (160) Cash Used in Investing Activities (33,774) FINANCING ACTIVITIES Activity Amount Dividends and Dividend Equivalent Rights Paid (10,564) Repurchase of Common Stock (22,860) Proceeds from Issuance of Long-Term Debt, Net 16,896 Other 149 Cash Used in Financing Activities (16,379) Increase / Decrease in Cash and Cash Equivalents: 3,513 Cash and Cash Equivalents, End of Year: $14,259 Go back to the article. QuantumScape Stock Surges as Firm Touts Solid-State Battery Breakthrough Jun 25, 2025 FedEx Stock Sinks After Shipping Giant Does Not Provide Full-Year Outlook Jun 25, 2025 Tesla EU Sales Tumble for Fifth Straight Month Jun 25, 2025 Markets News, June 24, 2025: Stocks Surge, Oil Prices Continue Sliding on Middle East Cease-Fire; Nasdaq 100 Hits Record, S&P 500 Nears New High Updated Jun 24, 2025 What Analysts Think of Nike Stock Ahead of Earnings Updated Jun 24, 2025 What Analysts Think of Micron Stock Ahead of Earnings Updated Jun 24, 2025 Amazon Scales Up Same-Day Delivery in Rural Areas, Where Walmart Has an Edge Updated Jun 24, 2025 Fed Cuts Coming? Lock In a 4.50% Return—Guaranteed Until 2026 or Even 2027 Updated Jun 24, 2025 S&P 500 Gains and Losses Today: Coinbase Shares Soar; Oil and Defense Stocks Drop Jun 24, 2025 Top CDs Today, June 24, 2025 - The New Rate Leader Is 4.55%, Down From 4.60% Jun 24, 2025 Ambarella's Stock Pops 20% as the Chip Designer Reportedly Mulls a Sale Jun 24, 2025 Nearly 40% of Workers Report Dipping Into Their Retirement Savings Early Jun 24, 2025 Why More Americans Are Opting Out of College Updated Jun 24, 2025 Why the A.I. Revolution is Just Getting Started Updated Jun 24, 2025 1. What is a Cash Flow Statement?Besides the two financial statements that indicate a company's position and operational activities, there's a third statement called the cash flow statement. It reveals how cash and cash equivalents move into and out of the company.2. Objectives of Cash Flow Statement: The goals of a cash flow statement are:To give useful details about the cash movements (money coming in and going out) of a business during a specific time, categorizing them into operating, investing, and financing activities.To evaluate how well the business can generate cash and its plans for using that cash flow.3. Benefits of Cash Flow Statement: It helps users understand how a business's financial health, including its ability to handle cash flow changes and adapt to opportunities.It assesses how well a business generates cash, allowing comparisons between different companies' future cash flows.It makes it easier to compare how different companies report their performance by using the same rules for accounting.It assists in managing cash flow to match changing conditions, verifies past cash flow predictions, and shows how profitability and cash flow relate, especially with changing prices.4. Cash and Cash EquivalentsCash, according to AS-3, includes money held and money in demand deposits with banks. Cash equivalents refer to short-term, highly liquid investments easily convertible into known cash amounts with minimal risk of value change. Typically, such investments mature in three months or less from acquisition.5. Cash FlowsCash flows refer to the movement of cash into and out of a business because of non-cash items. When cash is received from a non-cash item, it's called cash inflow, and when cash is paid for such items, it's termed as cash outflow.6. Classification of Activities for the Preparation of Cash Flow StatementCash Flow Statement Preparation Activities are typically categorized into three types, outlining how cash moves within a company:Cash from Operating Activities- Operating activities are the primary or core activities of a business.Cash inflows from operating activities:Money received from selling goods and providing services.Money received from royalties, fees, commissions, and other sources of income.Cash outflows from operating activities:Money is paid to suppliers for goods and services.Money is paid to employees directly or on their behalf.Money paid to an insurance company for premiums, claims, annuities, and other policy benefits.Money is paid for income taxes unless these expenses can be directly linked to financing and investing activities.Cash from Investing Activities involves transactions related to acquiring and selling long-term assets and investments not classified as cash equivalents. This includes purchasing and selling items like machinery, buildings, and land, as well as long-term investments. Here's a breakdown:Cash Outflows from Investing Activities:Payments are made in cash to purchase fixed assets, including intangibles and research and development costs that are capitalized.Cash is used to acquire shares, warrants, or debt instruments of other companies, excluding those bought for trading purposes.Advancing cash or loans to third parties, excluding financial enterprises' transactions considered as operating activities.Cash Inflows from Investing Activities:Cash received from selling fixed assets, including intangibles.Receipts in cash from repayment of loans or advances extended to third parties, except in cases involving financial enterprises.Cash obtained from selling shares, warrants, or debt instruments of other companies, except those held for trading.Interest income is received in cash from loans and advances.Dividends received from investments in other companies.Cash from Financing Activities refers to transactions involving long-term capital or funds within a business. This includes activities like receiving cash from issuing equity shares, debentures, or long-term bank loans, as well as repaying loans and paying interest and dividends. Here's a simplified breakdown:Cash Inflows from financing activities:Cash received from issuing shares (both equity and preference).Cash received from issuing debentures, loans, bonds, and other short or long-term borrowings.Cash Outflows from financing activities:Cash payments are made to repay borrowed amounts.Interest payments on debentures and long-term loans.Dividend payments on equity and preference shares.7. Treatment of Items:Extraordinary items are rare occurrences, like losses due to theft, earthquakes, or floods, which are not part of regular business activities. Their cash flows should be separately disclosed in financial statements under operating, investing, or financing activities.In financial firms focused on lending and borrowing, interest paid, interest received, and dividends received are treated as operating activities. Dividend payments are categorized as financing activities. Non-financial firms typically classify interest and dividend payments as financing activities and receipts as investing activities.Income taxes, such as income tax or capital gains tax, are usually included under operating activities unless directly linked to financing or investing activities.Non-cash transactions, like acquiring machinery through share issuance or redeeming bonds with shares instead of cash, are excluded from cash flow statements because they involve no cash or equivalents.8. Ascertaining cash flow from operating activities:Indirect Method: The indirect method for calculating cash flow from operating activities starts with the net profit or loss. This is because the income statement includes all operational activities of a business but is prepared on an accrual basis, not cash. It also accounts for non-operational items like interest paid and non-cash items such as depreciation. Adjustments are necessary to derive the cash flow from operations.Direct Method: The direct method reveals primary categories of cash received and paid out.9. Ascertaining cash flow from investing and financing activities:When creating the cash flow statement, it's important to list all significant amounts of money received and paid out separately. These include gross cash receipts and payments, as well as net cash flows related to investing and financing activities. These should be clearly categorized under 'Cash Flow from Investing Activities' and 'Cash Flow from Financing Activities' headings.10. Preparation of Cash Flow Statement: Here are the points simplified:When preparing a cash flow statement, list all inflows and outflows in detail, including the net cash flow.Calculate the total net cash flow (or use) and show it as 'Net Increase/Decrease in cash and Cash Equivalents'. Add this to the 'cash and cash equivalents at the beginning' to find the 'cash and cash equivalents at the end'.This final figure matches the total cash in hand, cash at the bank, and cash equivalents shown in the balance sheet.If cash flows from operating activities are calculated indirectly and shown that way in the cash flow statement, it's called an 'Indirect method cash flow statement'.If cash flows from operating activities are calculated directly for the cash flow statement, it's termed a 'Direct method Cash Flow Statement'.Usually, companies use the indirect method unless specified otherwise for preparing the cash flow statement.5 Important Topics of Cash Flow Statement Class 12 Notes Chapter 6 AccountancyS. NoImportant Topics for Chapter 6 Cash Flow Statement1Structure of Cash Flow Statements2Classification of Cash Flows3Operating Activities4Investing Activities5Financing ActivitiesImportance of Chapter 6 Cash Flow Statement Class 12 NotesCash Flow Statement Notes Chapter 6 is crucial for understanding how well a company manages its cash and liquidity.They help investors and creditors make informed decisions about a company's financial stability.These notes show how efficiently a company generates and uses cash from its operations, aiding in operational efficiency assessment.They assist in predicting future cash flows and planning for financial needs.Cash Flow Statement Notes enable comparison with industry standards and competitors' financial performance.Tips for Learning the Class 12 Accountancy Chapter 6 Cash Flow Statement NotesFirst, understand the basic ideas and parts of cash flow statements well.Practice using examples to figure out cash flows from different activities like operations, investments, and financing.Know the differences between the direct and indirect ways to make cash flow statements and when to use each.Use pictures, graphs, and other visuals to help you see how cash moves in the statement, which makes it easier to understand.Relate what you're learning to real-life situations or things happening now to see how cash flow analysis works in the real world.Review your notes regularly to ensure you remember everything and are ready for your exams.ConclusionCBSE Class 12 Accountancy Revision Notes for Chapter 6 on Cash Flow Statement help students understand how businesses handle their cash. These notes simplify topics such as cash flow from operations, investments, and financing activities, which are crucial for exam preparation. Vedantu provides these notes for FREE, ensuring students can access reliable study materials aligned with the CBSE curriculum. Using Cash Flow Statement Notes PDF; students can enhance understanding and confidence when tackling questions on cash flow analysis in exams.Chapter-wise Revision Notes Links for 12 Accountancy Part IIChapter-wise Revision Notes Links for 12 Accountancy Part I Important Study Materials For Class 12 Accountancy Financial statement Part of a series onAccounting Constant purchasing powerHistorical costManagementTax Major typesAuditBudgetCostForensicFinancialFundGovernmentalManagementSocialTax Key conceptsAccounting periodAccrualConstant purchasing powerEconomic entityFair valueGoing concernHistorical costMatching principleMaterialityRevenue recognitionUnit of account Selected accountsAssetsCashCost of goods soldDepreciation / Amortization (business)EquityExpensesGoodwillLiabilitiesProfitRevenue Accounting standardsGenerally-accepted principlesGenerally-accepted auditing standardsConvergenceInternational Financial Reporting StandardsInternational Standards on AuditingManagement Accounting Principles Financial statementsAnnual reportBalance sheetCash-flowEquityIncomeManagement discussionFinancial statement analysis BookkeepingBank reconciliationDebits and creditsDouble-entry systemFIFO and LIFOJournalLedger / General ledgerTrial balance AuditingFinancialInternalFirmsReportSarbanes–Oxley Act People and organizationsAccountantsAccounting organizationsLuca Pacioli DevelopmentHistoryResearchPositive accountingSarbanes–Oxley Act MisconductCreativeEarnings managementError accountHollywoodOff-balance-sheetTwo sets of books vte In financial accounting, a cash flow statement, also known as statement of cash flows,[1] is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7) is the International Accounting Standard that deals with cash flow statements. People and groups interested in cash flow statements include: Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses Potential lenders or creditors, who want a clear picture of a company's ability to repay Potential investors, who need to judge whether the company is financially sound Potential employees or contractors, who need to know whether the company will be able to afford compensation Company Directors, who are responsible for the governance of the company, and are responsible for ensuring that the company does not trade while insolvent Shareholders of the company. Statement of Cash Flow - Simple Examplefor the period 1 Jan 2006 to 31 Dec 2006 Cash flow from operations $5,000 Cash flow from investing ($1,000) Cash flow from financing ($2,000) Net cash flow $2,000 Parentheses indicate negative values The cash flow statement shows the sources of a company's cash flow and how it was used over a specific time period.[2] It is an important indicator of a company's financial health, because a company can report a profit on its income statement, but at the same time have insufficient cash to operate.[3][4] The cash flow statement reveals the quality of a company's earnings (i.e. how much came from cash flow as opposed to accounting treatment), and the firm's capacity to pay interest and dividends.[5] The cash flow statement differs from the balance sheet and income statement in that it excludes non-cash transactions required by accrual basis accounting, such as depreciation, deferred income taxes, write-offs on bad debts and sales on credit where receivables have not yet been collected.[6] The cash flow statement is intended to:[7][8][9] provide information on a firm's liquidity, solvency and financial flexibility (the ability to change cash flows in future circumstances) help predict future cash flows and borrowing needs improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods. The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.[10] Cash basis financial statements were very common before accrual basis financial statements. The "flow of funds" statements of the past were cash flow statements. In 1863, the Dowlais Iron Company had recovered from a business slump, but had no cash to invest for a new blast furnace, despite having made a profit. To explain why there were no funds to invest, the manager made a new financial statement that was called a comparison balance sheet, which showed that the company was holding too much inventory. This new financial statement was the genesis of the cash flow statement that is used today.[11] In the United States in 1973, the Financial Accounting Standards Board (FASB) defined rules that made it mandatory under Generally Accepted Accounting Principles (US GAAP) to report sources and uses of funds, but the definition of "funds" was not clear. Net working capital might be cash or might be the difference between current assets and current liabilities. From the late 1970 to the mid-1980s, the FASB discussed the usefulness of predicting future cash flows.[12] In 1987, FASB Statement No. 95 (FAS 95) mandated that firms provide cash flow statements.[13] In 1992, the International Accounting Standards Board (IASB) issued International Accounting Standard 7 (IAS 7), Cash Flow Statement, which became effective in 1994, mandating that firms provide cash flow statements.[14] US GAAP and IAS 7 rules for cash flow statements are similar, but some of the differences are: IAS 7 requires that the cash flow statement include changes in both cash and cash equivalents. US GAAP permits using cash alone or cash and cash equivalents.[10] IAS 7 permits bank borrowings (overdraft) in certain countries to be included in cash equivalents rather than being considered a part of financing activities.[15] IAS 7 allows interest paid to be included in operating activities or financing activities. US GAAP requires that interest paid be included in operating activities.[16] US GAAP (FAS 95) requires that when the direct method is used to present the operating activities of the cash flow statement, a supplemental schedule must also present a cash flow statement using the indirect method. The International Accounting Standards Committee (IASC) strongly recommends the direct method but allows either method. The IASC considers the indirect method less clear to users of financial statements. Cash flow statements are most commonly prepared using the indirect method, which is not especially useful in projecting future cash flows. International Accounting Standard 3 specifies the cash flows and adjustments to be included under each of the major activity categories. Operating activities include the production, sales and delivery of the company's product as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising, and shipping the product. Operating cash flows include:[16][4] Receipts for the sale of loans, debt or equity instruments in a trading portfolio Interest received on loans Payments to suppliers for goods and services Payments to employees or on behalf of employees Interest payments (alternatively, this can be reported under financing activities in IAS 3) Purchases of merchandise Items which are added back to (or subtracted from, as appropriate) net income (which is found on the Income Statement) to arrive at cash flows from operations generally include:[17] Depreciation (loss of tangible asset value over time) Deferred tax Amortization (loss of intangible asset value over time) Any gains or losses associated with the sale of a non-current asset, because associated cash flows do not belong in the operating section (unrealized gains/losses are also added back from the income statement) Dividends received general reserves Examples of investing activities are:[18] Purchase or sale of an asset Loans made to suppliers Payments related to mergers and acquisitions Financing activities include inflows and outflows of cash between investors and the company, such as:[19] Dividends paid Sale or repurchase of the company's stock Net borrowings Repayment of debt principal, including capital leases Other activities which impact the company's long-term liabilities and equity Under IAS 7, non-cash investing and financing activities are disclosed in footnotes to the financial statements. Under US General Accepted Accounting Principles (GAAP), non-cash activities may be disclosed in a footnote or within the cash flow statement itself. Non-cash financing activities may include:[16] Leasing to purchase an asset Converting debt to equity Exchanging non-cash assets or liabilities for other non-cash assets or liabilities Issuing share Payment of dividend taxes in exchange for assets The direct method of preparing a cash flow statement results in a more easily understood report.[20] The indirect method is almost universally used, because FAS 95 requires a supplementary report similar to the indirect method if a company chooses to use the direct method. The direct method for creating a cash flow statement reports major classes of gross cash receipts and payments. Under IAS 7, dividends received may be reported under operating activities or under investing activities. If taxes paid are directly linked to operating activities, they are reported under operating activities; if the taxes are directly linked to investing activities or financing activities, they are reported under investing or financing activities. Generally Accepted Accounting Principles (GAAP) vary from International Financial Reporting Standards in that under GAAP rules, dividends received from a company's investing activities is reported as an "operating activity," not an "investing activity."[21] Sample cash flow statement using the direct method[22] Cash flows from (used in) operating activities Cash receipts from customers 9,500 Cash paid to suppliers and employees (2,000) Cash generated from operations (sum) 7,500 Interest paid (2,000) Income taxes paid (3,000) Net cash flows from operating activities 2,500 Cash flows from (used in) investing activities Proceeds from the sale of equipment 7,500 Dividends received 3,000 Net cash flows from investing activities 10,500 Cash flows from (used in) financing activities Dividends paid (2,500) Net cash flows used in financing activities (2,500) . Net increase in cash and cash equivalents 10,500 Cash and cash equivalents, beginning of year 1,000 Cash and cash equivalents, end of year $11,500 The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts from all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (or loss) into cash flow by using a series of additions and deductions.[23] *Non-cash expenses must be added back to NI. Such expenses may be represented on the balance sheet as decreases in long term asset accounts. Thus decreases in fixed assets increase NI. To Find Cash Flowsfrom Operating Activitiesusing the Balance Sheet and Net Income For Increases in Net Inc Adj Current Assets (Non-Cash) Decrease Current Liabilities Increase For All Non-Cash... *Expenses (Decreases in Fixed Assets) Increase The following rules can be followed to calculate Cash Flows from Operating Activities when given only a two-year comparative balance sheet and the Net Income figure. Cash Flows from Operating Activities can be found by adjusting Net Income relative to the change in beginning and ending balances of Current Assets, Current Liabilities, and sometimes Long Term Assets. When comparing the change in long term assets over a year, the accountant must be certain that these changes were caused entirely by their devaluation rather than purchases or sales (i.e. they must be operating items not providing or using cash) or if they are non-operating items.[24] Decrease in non-cash current assets are added to net income Increase in non-cash current asset are subtracted from net income Increase in current liabilities are added to net income Decrease in current liabilities are subtracted from net income Expenses with no cash outflows are added back to net income (depreciation and/or amortization expense are the only operating items that have no effect on cash flows in the period) Revenues with no cash inflows are subtracted from net income Non operating losses are added back to net income Non operating gains are subtracted from net income The intricacies of this procedure might be seen as, Net Cash Flows from Operating Activities = Net Income + Rule Items {\displaystyle {\text{Net Cash Flows from Operating Activities}}={\text{ Net Income}}+{\text{Rule Items}}} For example, consider a company that has a net income of $100 this year, and its A/R increased by $25 since the beginning of the year. If the balances of all other current assets, long term assets and current liabilities did not change over the year, the cash flows could be determined by the rules above as $100 – $25 = Cash Flows from Operating Activities = $75. The logic is that, if the company made $100 that year (net income), and they are using the accrual accounting system (not cash based) then any income they generated that year which has not yet been paid for in cash should be subtracted from the net income figure in order to find cash flows from operating activities. And the increase in A/R meant that $25 of sales occurred on credit and have not yet been paid for in cash. In the case of finding Cash Flows when there is a change in a fixed asset account, say the Buildings and Equipment account decreases, the change is added back to Net Income. The reasoning behind this is that because Net Income is calculated by, Net Income = Rev - Cogs - Depreciation Exp - Other Exp then the Net Income figure will be decreased by the building's depreciation that year. This depreciation is not associated with an exchange of cash, therefore the depreciation is added back into net income to remove the non-cash activity. Finding the Cash Flows from Financing Activities is much more intuitive and needs little explanation. Generally, the things to account for are financing activities: Include as outflows, reductions of long term notes payable (as would represent the cash repayment of debt on the balance sheet) Or as inflows, the issuance of new notes payable Include as outflows, all dividends paid by the entity to outside parties Or as inflows, dividend payments received from outside parties Include as outflows, the purchase of notes stocks or bonds Or as inflows, the receipt of payments on such financing vehicles.[citation needed] In the case of more advanced accounting situations, such as when dealing with subsidiaries, the accountant must Exclude intra-company dividend payments. Exclude intra-company bond interest.[citation needed] A traditional equation for this might look something like, Net Cash Flows from Financing Activities = [Dividends received from 3 r d parties] − [Dividends paid to 3 r d parties] − [Dividends paid to NCI but not intracompany dividend payments] {\displaystyle {\begin{alignedat}{2}{\text{Net Cash Flows from Financing Activities}}=&\left[{\text{Dividends received from }}3^{\rm {rd}}{\text{ parties}}\right]\\&-\left[{\text{Dividends paid to }}3^{\rm {rd}}{\text{ parties}}\right]\\&-[{\text{Dividends paid to NCI but not}}\\&{\text{intracompany dividend payments}}]\end{alignedat}}} Example: cash flow of XYZ:[25][26][27] XYZ co. Ltd. Cash Flow Statement(all numbers in millions of Rs.) Period ending 31 Mar 2010 31 Mar 2009 31 Mar 2008 Net income 21,538 24,589 17,046 Operating activities, cash flows provided by or used in: Depreciation and amortization 2,790 2,592 2,747 Adjustments to net income 4,617 621 2,910 Decrease (increase) in accounts receivable 12,503 17,236 -- Increase (decrease) in liabilities (A/P, taxes payable) 131,622 19,822 37,856 Decrease (increase) in inventories -- -- -- Increase (decrease) in other operating activities (173,057) (33,061) (62,963) Net cash flow from operating activities 13 31,799 (2,404) Investing activities, cash flows provided by or used in: Capital expenditures (4,035) (3,724) (3,011) Investments (201,777) (71,710) (75,649) Other cash flows from investing activities 1,606 17,009 (571) Net cash flows from investing activities (204,206) (58,425) (79,231) Financing activities, cash flows provided by or used in: Dividends paid (9,826) (9,188) (8,375) Sale (repurchase) of stock (5,327) (12,090) 133 Increase (decrease) in debt 101,122 26,651 21,204 Other cash flows from financing activities 120,461 27,910 70,349 Net cash flows from financing activities 206,430 33,283 83,311 Effect of exchange rate changes 645 (1,840) 731 Net increase (decrease) in cash and cash equivalents 2,882 4,817 2,407 Cash flow Income statement Balance sheet Statement of changes in equity ^ Helfert, Erich A. 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Fundamental Accounting Principles (18th ed.). New York: McGraw-Hill Companies. pp. 630–633. ISBN 0-07-299653-6. ^ Yahoo finance report on Citigroup ^ "Citigroup finance report". Archived from the original on 2008-06-21. Retrieved 2004-11-10. ^ Bodie, p. 455. Retrieved from " By going through these CBSE Class 12 Accountancy Notes Chapter 11 Cash Flow Statement, students can recall all the concepts quickly. Cash Flow Statement Notes Class 12 Accountancy Chapter 11 The Income Statement and the Balance Sheet (Position Statement) are the two important and basic financial statements prepared by every business enterprise. Income Statement shows the profit or loss incurred by the enterprise for the accounting period and the Balance Sheet discloses the financial condition or position at a particular date. But many of those who study these statements are, for different reasons, also interested in knowing the inflow and outflow of cash. Hence, many companies presented along with the final accounts, a statement called 'Cash Flow Statement' which shows inflows and outflows of the cash and cash equivalent. In June 1995, the Securities and Exchange Board of India, (SEBI) amended clause 32 of the Listing Agreement requiring every listed company to give along with its balance sheet and profit and loss account, a Cash Flow Statement prepared in the prescribed format showing separately cash flows from operating activities, investing activities and financing activities. Meaning of Cash Flow Statement A Cash Flow Statement is a statement that shows inflow (receipts) and outflow (payments) of cash and its equivalents in an enterprise during a specified period of time. Accounting Standard (AS-3) Revised issued by the Institute of Chartered Accountant of India on Cash Flow Statement in March 1997 has defined Cash Flow Statement as "a statement which shows inflows (receipts) and outflows (payment) of cash and its equivalents in an enterprise during a specified period of time." According to the revised accounting standard 3, an enterprise should prepare a cash flow statement and should present it for each period for which financial statements are presented. The terms, Cash, Cash Equivalents, and Cash Flows explained below: Cash: It comprises cash in hand and demand deposits with banks. Cash Equivalents: They are short term highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of change in value. An investment normally qualifies as a cash equivalent only when it has a short maturity, of say three months or less from the date of acquisition. Cash equivalent is held for the purpose of meeting short-term cash commitments rather than for investment or another purpose. Cash Flows are inflows and outflows of cash and cash equivalents. An inflow increases the total cash and cash equivalents at the disposal of the enterprise whereas an outflow decreases them. As per AS 3, Cash Flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing, or financing activities. Objectives of Cash Flow Statement The basic objective of the Cash Flow Statement is to highlight the change in the cash position including the sources from which cash was obtained by the enterprise and specific uses to which cash was applied. The Cash Flow Statement serves a number of objectives which are following: 1. Depict Inflows and Outflows of Cash: The cash Flow Statement gives information about cash inflows and cash outflows of an enterprise during a particular period from operating activities, investing activities, and financing activities. It is an effective tool for managing cash. 2. Cash Flow information helps in Planning: Cash Flow Statements provide information for planning for short-range cash needs of the enterprise. It helps in the formulation of financial policies. 3. Helping in understanding the Liquidity of the Enterprise: Cash Flow Statement helps the enterprise to assess whether it would meet its current obligations or not. It also helps the lending institutions like banks etc to ascertain the liquidity of the enterprise. 4. Help in preparing Cash Budget: A cash Flow Statement helps the management of the firm in preparing a Cash Budget. 5. Analysis Management of Cash: CashFlow Statement reveals good and bad points relating to the management of Cash. According to AS-3 (Revised) the objectives of the Cash How Statement are as follows: " Information about the cash flow of an enterprise is useful in providing users of financial statements with a basis of assessing the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize these cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation. The statement deals with the provision of information about the historical changes in cash and cash equivalent of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities." Advantages of Cash Flow Statement A Cash Flow Statement is a useful financial statement and provides the following benefits: (a) It enables the management to identify the magnitude and directions of changes in cash. (b) It enables the users to evaluate the changes in the economic resources of an enterprise. (c) It enables the users to evaluate the changes in financial structure. ' (d) It enables the users to evaluate the changes in net assets of enterprises. (e) It enables the users to evaluate the enterprise's ability to alter the amounts and timings of cash flows in order to adapt to changing circumstances and opportunities. (f) It is useful in assessing the ability of the enterprise to generate Cash and Cash Equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises. (g) As a tool of planning, the Projected Cash Flow Statement enables the management to plan its future investments, operating, and financial activities such as repayment of long-term loans and interest thereon, modernization or expansion of the plant, payment of cash dividend, etc. (h) It helps in efficient cash management. The management can know the adequacy or otherwise of cash and can plan for the effective use of surplus cash or can make the necessary arrangement in case of inadequacy of Cash. (i) It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events. Classification of Cash Flows A Cash Flow Statement shows the inflow and outflow of cash and cash equivalents from various activities of a company during a specific period. As per AS-3, these activities can be classified into three categories which are following: Operating activities Investing activities Financing activities 1. Operating Activities: Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. Cash flows from operating activities generally result from the transactions and other events that enter into the determination of net profit or loss. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise to pay dividends, repay loans and make investments without resources to extent source of financing. Examples of Cash Flows from operating activities are: Cash Inflows from Operating Activities: Cash receipts from the sale of goods and rendering of services. Cash receipts from royalties, fees, commissions, and other revenues. Cash receipts relating to future contracts, forward contracts, option contracts, and swap contracts when the contracts are held for dealing or trading purpose. Cash receipts as income tax refunds unless they can be specifically identified with financing and investing activities. Cash Outflows from Operating Activities: Cash payments to suppliers of goods and services. Cash payments to and on behalf of employees for wages, salaries, etc. Cash payments of income tax unless they can be specified as financing or investing activities. Cash payments for future contracts, forward contracts, etc. Cash Payments for interest etc. 2. Investing Activities: As per AS-3 investing activities are the acquisition and disposal of long-term assets (such as land, building, plant, machinery, etc.) and other investment not included in cash equivalents. It is important to make a separate disclosure of cash flows arising from investing activities because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Cash Inflows from Investing Activities: Cash receipts from disposal of fixed assets. Cash receipts from disposal of shares, warrants, or debt instruments of other enterprises and interest in joint ventures other than cash equivalents. Cash receipts from the repayment of advances and loans made to third, parties (other than advances and loans of the financial enterprise.) Interest received in cash from loans and advances. Dividend received from investment in other enterprises. Cash Outflows from Investing Activities: Cash payments to acquire fixed assets. Cash payment, relating to capitalized research and development costs. Cash payment, to acquire shares, warrants, etc. other than cash equivalent. Cash advances and loans made to a third party (other than advances and loans made by a financial enterprise wherein it is operating activities.) 3. Financing Activities: As per AS-3, financing activities are activities that result in changes in the size and composition of the owner's capital (including preference share capital in the case of a company) and borrowings of the enterprise. The separate disclosure of cash flows from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise. Cash Inflows from Financing Activities: Cash proceeds from issuing shares or other similar instruments. Cash proceeds from issuing debentures, loans, bonds, and other short or long-term borrowings. Cash Outflows from Financing Activities: Cash repayments of the amounts borrowed. Payment of dividend, Interest, etc. Redemption of Preference Shares. Classification of Business Activities as per AS-3, showing Inflow and Outflow of Cash. Treatment of Important Items: 1. Extraordinary Items: Extraordinary items are not the regular phenomenon for example loss due to theft or fire or flood, winning of a lawsuit, or a lottery. They are non-recurring in nature and hence cash flow associated with extraordinary items is disclosed separately as arising from operating, investing, or financing activities in the cash flow statement, to enable users to understand their nature and effect on the present and future cash flows of the enterprise. 2. Interest and Dividend: Treatment of cash flows from interest and dividends can be described under two heads which are the followings: 1. In the case of a financial enterprise (whose main business is lending and borrowing), cash flows arising from interest paid and interest and dividend received are classified as cash flows from operating activities, while dividend paid is classified as a financing activity. 2. In the case of a non-financial enterprise, cash flows arising from interest and dividends paid should be classified as cash flows from financing activities while interest and dividend received should be classified as cash flows from investing activities. 3. Taxes on Income and Gains: Taxes may be income tax, capital gains tax, dividend tax, etc. As per AS-3, cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. This clearly implies that: Tax on Operating Profit i.e. Income Tax should be classified as operating cash flows. Dividend tax i.e. tax on the amount distributed as a dividend to shareholders should be classified as financing activity along with dividend paid. Capital Gains Tax i.e. tax on capital profits like tax paid on the sale of fixed assets should be classified under investing activities. Non-Cash Transactions: As per AS-3, investing and financing transactions which do not involve inflow or outflow of cash or cash; equivalent, are excluded from the cash flow statement. But significant such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. Examples of the non-cash transaction are: Acquisition of fixed assets by the issue of share or on Credit. Redemption of debenture by conversion into equity share. Acquisition of an enterprise by means of an issue of share. s Preparation of Cash Flow Statement: (Main Heads Only): Cash Flows from Operating Activities: Operating activities are the main source of revenue and expenditure in an enterprise. Therefore, the ascertainment of cash flows from operating activities is of prime importance. As per AS-3, an enterprise should report cash flows from -N * operating activities using either by. Direct Method or Indirect Method In Direct Method, major classes of gross cash receipts and gross cash payments, are disclosed. or In the Indirect Method, net profit or loss is adjusted for the effects of Transactions of a non-cash nature. any deferrals or accruals of past/future operating cash receipts. Items of income or expenses associated with investing or financing cash flows. Direct Method: As we know that items are recorded on an accrual basis in profit and loss accounts therefore certain adjustments are made to convert them into cash bases. These adjustments are discussed below: 1. Cash Inflow from Sales: Total Sales include Cash Sale and Credit Sale both. Cash sales is a cash inflow, but in the case of credit sales, cash receipts from Debtors are calculated as follows: Cash receipts from Customers = Credit Sales + Opening Debtors and Bills Receivable: Closing Debtors and Bills Receivable – Bad Debts – Discount Allowed – Sales Returns. 2. Cash Outflow from Purchases: Total Purchases include both cash purchases and credit purchases. Cash purchases are cash outflow, but in the case of credit purchases, cash paid to the suppliers is calculated as follows: Cash paid to Suppliers = Credit Purchases + Opening Creditors and Bills Payable – Closing Creditors and Bills Payable – Discount received – Purchases Returns. Purchases = Cost of Goods Sold – Opening Stock + Closing Stock 3. Cash Outflow on Expenses Incurred: The figures of expenses given in the Profit and Loss Account have to be adjusted to find out cash outflow. The amount outstanding and the amount paid in advance have to be adjusted for this purpose. Cash Paid for Expenses = Expenses as given in Profit & Loss A/c – Prepaid Expenses in the beginning and Outstanding Exp. at the end + Prepaid Expenses at the end and Outstanding Expenses in the beginning. However, the following items are not to be considered: 1. All non-cash items are ignored as no cash is involved in them. Examples are: (a) Depreciation (b) Discount on issue of Shares written off (c) Goodwill written off. (d) Preliminary Expenses are written off (e) Discount on issue of Debenture written off (f) Patents and Copyright wrote off (g) Underwriting commission written off. 2. Appropriations of transfer to different reserves and provisions like to General Reserve, Provision for Taxation, and Proposed Dividend should be ignored. 3. Items that are classified as investing or financing activities like profit or loss on sale of fixed assets, interest received, the dividend paid, etc. are also ignored. Cash Flows From Operating Activities (Direct Method) Indirect Method: In this method, net profit or loss is adjusted for the effects of transactions of a non-cash nature flow. In other words, Net profit or loss is adjusted for items that affected net profit but did not affect cash. As per AS-3, (Revised), under the indirect method, net cash flow from operating activities is determined by adjusting net profit or loss for the effects of: 1. Non-cash items are to be added back. Non-cash items like (a) Depreciation (b) Goodwill has written off (c) Patents and Copyrights are written off (d) Appropriation to General Reserve (e) Interim dividend (f) Deferred taxes etc. 2. All other items for which the cash effects are investing or financing cash flows. The treatment of such items depends upon their nature. All investing and financing incomes are to be deducted from the number of net profits while all such expenses are to be added back. 3. Changes in current assets and liabilities during the period. An increase in current assets and a decrease in current liabilities are to be deducted while the increase in current liabilities and a decrease in current assets are to be added up. Cash Flows from Operating Activities (Indirect Method) Cash Flow from Investing Activities: Investing activities are the acquisition and disposal of long terms assets and other investments not included in cash equivalent. Accordingly, cash inflow and outflow relating to fixed assets, shares, and debentures of other enterprises, advances, and loans to third parties and their repayments are shown separately under Investing activities in the Cash Flow Statement. It is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Cash Flow from Investing Activities Cash Flows from Financing Activities: The Financing Activities of an enterprise are those activities that result in a change in size and composition of owners capital and borrowing of the enterprise. It includes separate disclosure of proceeds from the issue of shares or other similar instruments, issue of debentures, loans, bonds, other short-term or long-term borrowings, and repayment of amounts borrowed. It is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings to the enterprise.) Cash Flow from Financing Activities Format for Cash Flow Statement (As Per AS-3 (Revised)) 1. Direct Method Cash Flow Statement for the year ended………… 2. Indirect Method Cash Flow Statement for the year ended………… The Meaning of Cash Flow Statement or statement of cash flows can be defined as 'cash flow statements exhibit the flow of incoming and outgoing cash. This statement assesses the ability of the enterprise to generate cash and to utilize the cash. This statement is one of the tools for assessing the liquidity and solvency of the enterprise'. A cash flow statement is a financial statement that presents total data. Including cash inflows a business gains from its continuing progress and external financing sources, as well as all cash outflows that pay for trading activities and finances during a delivered time. In other words, a cash flow statement is a financial statement that estimates the cash produced or used by a firm in a presented time. As mentioned initially, the cash flow statement furnishes data about the shift in the position of Cash Equivalents and Cash of a firm, over an accounting period. The pursuits according to this change are incorporated into investing, financing and operating. However, While outlining a cash flow statement, complete specifications of outflows and inflows are furnished below these titles involving the net cash flow (or use) The average of the net 'cash flows (or use) is operated out and is given as 'Net Increase or Decrease in Cash Equivalents and cash' to which the amount of 'cash and cash equivalent at the commencement' is summed and therefore the quantity of 'cash and cash equivalents at the end' is reported. This total will be the same as the entire amount of cash at bank, cash equivalents (if any) and cash in hand presented in the balance sheet. Then, if the cash flows from operating activities are formed by direct method while outlining the cash flow statement, it will be known as 'direct method Cash Flow Statement'. Though, unless it is stipulated precisely as to which approach is to be imbibed, the cash flow statement may first be outlined by an indirect method as is prepared by most organisations in work. Advantages of Cash Flow Statement: A cash flow statement, when employed with other financial reports, permits users to assess variations in net assets of a firm and its economic system. It involves liquidity and stability, the capability to influence the amounts and timings of cash flows to adjust to varying conditions and possibilities. Cash flow data evaluate the capability of a firm to produce cash and cash equivalents. It permits users to generate models to assess and analyze the existing value of the expected cash flows of various companies. It also assists in stabilizing its cash inflow and outflow, following in acknowledgement to the varying situation. It is also essential in verifying the correctness of prior estimates of anticipated cash flows and in exploring the association between profitability and net cash flow and the result of varying cost prices. The statement of cash flow gives insights, help an investor to understand the status of a company's operations, from where the money is coming, and how efficiently the money is utilized. The statement is essential as it assists investors to understand whether an organization financial status is reliable or not. On the other hand, creditors, use this statement to analyze how much funds (liquid cash) a company has to support its operating expenditures and pay the debts. Also Read: Difference between balance sheet and cash flow statement Elements of the Cash Flow Statement Cash flow from operating activities Cash flow from investing activities Cash flow from financing activities The cash flow statement is different from the balance sheet and income statement, because, it does not include the future transaction of cash listed on credit. Therefore, money is not equal to net income, whereas, on the income statement and balance sheet, it should be equal, including cash sales and sales made on credit. Example of Cash Flow Statement: Cash Flow from Operating Activities: Operating activities are the operations of a company directly associated with furnishing its commodities and services to the marketplace. These are the enterprise's focus trading pursuits, such as producing, allocating, retailing and marketing a good or service. Operating activities are the principal source of revenue and expenditure in a firm. The operating activities on the cash flow statement comprise of various uses and sources cash from the company's operational activities. In simple words, it shows how much money a company has generated from its products or services. Few items that operating activities include are: Vouchers from sales of goods and services Interest returns Payment of Income-tax Payment credited to suppliers for goods and services used for production Payment to salaries and wages Rent payments Additional operating expenses For an investment and trading company, vouchers from the sale of debt, loans, or equity are also incorporated. In the indirect method of preparing a cash flow statement, deferred tax, amortization, depreciation, dividends or revenue received from investment, gains or losses of a non current asset, are also clubbed. However, buying or selling of long-term asset is not included. How Cash Flow is Calculated? Cash flow is calculated by changing a few things in the net income of a company. Such as by adding or deducting differences in expenses, revenue, credit transactions, and expenses, from one period to the next. It is essential to make adjustments because non-cash things are evaluated with net income (income statement) and total assets and liabilities (balance sheet). Therefore, the determination of cash flows demands special consideration. Few are mentioned below: A direct method of how important sections of gross cash payments and gross cash receipts are revealed. Similarly, an indirect method whereby net profit or loss is duly adjusted for the effects of : Proceedings of a non-cash kind Any accruals or deferrals of past/future working cash receipts Items of income or expenses associated with investing or financing cash flows. It is necessary to specify here that below the indirect method, the outset point is net profit and loss before taxation and extraordinary things as per Statement of Profit and Loss of the company. Then this amount is for non-cash items, etc., adjusted for determining cash flows from functioning pursuits. Explore: Difference between balance sheet and financial statement Methods of Cash Flow Statement Cash flow from operating activities can be determined using both Indirect or Direct methods. These processes are explained in detail as follows : Direct Methods: Here, the notable titles of cash outflows and inflows (namely employee benefits expenses paid, cash received from trade receivables, etc.,) are contemplated. It is significant to perceive here that items are reported on accrual data in the statement of profit and loss. Therefore, some changes are made to transform them into a cash basis. Indirect Method: Indirect method of determining cash flow from operating pursuits starts with the amount of net profit and loss. This statement includes the results of all operating activities of a firm. However, an account of profit and loss is outlined on an accrual base and not on a cash basis. It involves non-operating items (such as profit and loss on the sale of fixed assets, interest paid, etc. Non-cash items such as goodwill to be written-off, depreciation, etc.). Hence, it becomes vital to regulate the amount of net profit and loss as depicted by a statement of profit and loss for landing at cash flows from operating activities. Quick link: What Are Current Assets? Accounts Receivable and Cash Flow All the changes made in accounts receivable (AR) of the balance sheet from the accounting year to the next should be presented in cash flow. In case, if accounts receivable falls, it indicates that more cash has been credited to the company from customers while paying their credit accounts. So, the decreased amount is then combined with net sales. But, if the accounts receivable is increased from one accounting period to the next, then the increased amount is deducted from net sales because these amounts are depicted as revenue and not cash. Inventory Value and Cash Flow On the other hand, a rise in inventory depicts that a company has invested more funds in buying more extra raw materials. If the inventory payment is paid by cash, then the increase in the value of inventory is subtracted from net sales. If the purchases are made on credit, then there would be an increase in accounts payable in the balance sheet. Therefore, the increased amount from one year to the other will be added to net sales. Additional link: Partnership Deed Investing Activities and Cash Flow All the utilisation of funds from a firm's investments is included in investing activities. In this category, sale or possession of an asset, credits offered to merchants or collected from customers, payments associated with an acquisition or amalgamation are include. Cash Flow from Financing Activities: It covers all the cash sources starting from banks or investors, to cash used to pay shareholders. Similarly, a settlement for stock repurchased, payment of interests, and the compensation of debt are recorded in this category. In cash financing when funds are raised, it is known as "cash in" and when dividends are given it is known as "cash-out". Objectives Of Cash Flow Statement: The Main Objectives Are: To provide information about cash inflows and outflows from operating, investing and financing activities. To determine net changes in cash and cash equivalents. What are Inflows And Outflows Of Cash? Inflows Of Cash All transactions that lead to an increase in cash and cash equivalents are classified as inflow of cash. Outflows Of Cash All transactions that lead to a decrease in cash and cash equivalents are classified as outflows of cash. Cash And Cash Equivalents: Cash Cash comprises of cash in hand and demand deposits with banks. Cash Equivalents Cash equivalents are short term, highly liquid investment that is readily convertible into a known amount of cash. Limitations Of Cash Flow Statement (1) Ignores Non-cash transactions (2) Ignores the accrual concept (3) Historical in Nature (4) Not a Substitute for an Income Statement (5) Not suitable for judging Liquidity of the enterprise Cash And Cash Equivalents As Per Schedule III, Part I Of The Companies Act, 2013 1 Balance with banks 2 Cheque on hand 3 Cash on hand 4 Short-term marketable securities 5 Balance with banks held as margin money 6 Bank deposits with more than 12 months of maturity Multiple Choice Questions Q.1- Which of the following is the type of cash flow: a. The inflow of cash b. The outflow of cash c. Either (a) & (b) d. Both (a) & (b) Q.2- Proceeds from issue of shares or debentures also affects: a. Cash flow statement b. Ratios c. Operating activities d. Investing activities Q.3- Cash & cash equivalents for the purpose of cash flow statement generally includes: a. Cash on hand b. Current investment c. Cheques d. Any of the above The above mentioned is the concept, that is elucidated in detail about the Cash Flow Statement – Meaning, Objectives, and Benefits for the class 12 Commerce students. To know more, stay tuned to BYJU'S. Subhash Chandra Thakur 17/03/2023 2 0 A cash flow statement is an important tool used to manage finances by tracking the cash flow for an organization. This statement is one of the three key reports (with the income statement and the balance sheet) that help in determining a company's performance. It is usually helpful for making cash forecast to enable short term planning. The cash flow statement shows the source of cash and helps you monitor incoming and outgoing money. Incoming cash for a business comes from operating activities, investing activities and financial activities. The statement also informs about cash outflows, expenses paid for business activities and investment at a given point in time. The information that you get from the cash flow statement is beneficial for the management to take informed decisions for regulating business operations. Companies generally aim for a positive cash flow for their business operations without which the company may have to borrow money. Home /CBSE/Class 12/Cash flow statement Class...Download the app to get CBSE Sample Papers 2024-25, NCERT Solutions (Revised), Most Important Questions, Previous Year Question Bank, Mock Tests, and Detailed Notes. Install NowCash flow statement class 12 Notes Accountancy in PDF are available for free download in myCBSEguide mobile app. The best app for CBSE students now provides accounting for partnership firm's fundamentals class 12 Notes latest chapter wise notes for quick preparation of CBSE board exams and school-based annual examinations. Class 12 Accountancy notes on chapter 15 accounting for partnership firm's fundamentals are also available for download in CBSE Guide website.CBSE Guide Cash flow statement class 12 Notes AccountancyCBSE guide notes are the comprehensive notes which covers the latest syllabus of CBSE and NCERT. It includes all the topics given in NCERT class 12 Accountancy text book. Users can download CBSE guide quick revision notes from myCBSEguide mobile app and my CBSE guide website.Download CBSE class 12th revision notes for chapter 15 Cash flow statement in PDF format for free. Download revision notes for Cash flow statement class 12 Notes and score high in exams. These are the Cash flow statement class 12 Notes prepared by team of expert teachers. The revision notes help you revise the whole chapter 15 in minutes. Revision notes in exam days is one of the best tips recommended by teachers during exam days.Download Revision Notes as PDFClass 12 Accountancy Revision Notes Chapter 5 Cash flow statement Meaning: It is a statement that shows flow (Inflow or outflow) of cash and cash equivalents during a given period of time.As per Accounting Standard-3 (Revised) the changes resulting in the flow of cash & cash equivalent arises on account of three types of activities i.e.,(1) Cash flow from Operating Activities. (2) Cash flow from Investing Activities. (3) Cash flow from Financing Activities.Cash: Cash comprises cash in hand and demand deposits with bank.Cash equivalents: Cash equivalents are short-term, highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value e.g. short-term investment. Generally, these investments have a maturity period of less than three months.Some examples of cash equivalent: Short-term deposits, marketable securities. Treasury bills, commercial papers, money market funds, money market funds, investment in preference shares if redeemable within three months provided that there is no risk of the failure of the company.Cash flow exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities.Some types of transaction which are considered movement between cash and cash equivalents are given below:1. Cash deposited into bank.2. Cash withdrawn from bank.3. Sale of cash equivalent securities (e.g. Sale of short-term investment, sale of commercial papers)4. Purchases of cash equivalent securities (e.g. Purchase of short-term investment Purchases of Treasury bills).The above types of transaction are part of cash and equivalents, so these are included in opening and closing cash and cash equivalent only. So these types of transaction no to be included in cash flow from different activities like operating investing, financing activities.Preparation of cash flow statementCash flow from operating activitiesCash flow from investing activitiesCash flow from financing activities———-————-———-Net increase/decrease in cash & cash equivalent (Total of the above three activities)Add : Cash & Cash equivalent in theBeginning of the year (Give in opening balance sheet)———-————-Cash & Cash equivalent at the end of the year———-Note: The student should ensure that the Cash & Cash equivalent at the end of the year as calculated above will be same as cash & cash equivalent given in closing balance sheet.Objectives of Cash Flow Statement1. To ascertain how much cash or cash equivalents have been generated or used in different activities i.e., operating/investing/financing activity.2. To ascertain the net changes in cash and cash equivalents.3. To assess the causes of difference between actual cash & cash equivalent and related net earnings/income.4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.5. To help in short-term financial planning.6. To ascertain the liquidity of enterprises.Limitations of Cash Flow Statement1. Non cash transaction are not taken into consideration like shares or debentures issued to vendors, depreciating charged during the year.2. It is a statement related with past data.3. It is not used for judging the profitability of enterprise.4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included.Computation of Cash flows from different activities.(1) Cash flow from operating activities: Operating activities are the main revenue generating activities of the enterprises. It also includes all those transactions which are not included in investing and financing activities.Indirect Method of calculating the cash flow from Operating Activities: Under this method Net Profit before Tax and Extra-ordinary Item is the starting point for further calculations.Calculation of Net Profit before Tax and Extra-ordinary Item:Difference between closing balance and opening balance of Balance in statement of Profit & Loss A/c……………Add:1. Proposed dividend for current year…………….2. Interim Dividend paid during the year …………….3. Profit Transferred to Reserve……………(If reserve of current year increased from previous year) …………….4. Provision for Taxation made during the year…………….5. Preference Dividend…………….6. Extra Ordinary Item if any Debited to Statement of Profit & Loss……………Less:1. Refund of Tax credited to Statement of P & L (…………)2. Extraordinary-item if any Credited to Statement of P& (…………)3. Reserves transferred back to statement of Profit and Loss(…………)Net Profit before Tax and Extra-ordinary item (…………)Extraordinary items: These items are not related to normal business operationFormat Cash Flow from Operating ActivitiesParticularsRs.1. Cash flow from operating activities(A) Net Profit Before Tax and Extra – Ordinary ItemsAdjustment for Non-cash and Non-Operating itemsAdd :i. Depreciation charged during the current yearii. Preliminary expenses, Discount on issue of debentures, share issue expenses etc. written offiii. Goodwill, Patents and Trademark amortized/written offiv. Interest on Long term borrowing and Debenturesv. Loss on Sales of Fixed Assets/InvestmentsLess :i. Interest incomeii. Dividend Incomeiii. Rental incomeiv. Profit on sale of Fixed Assets/InvestmentOperating Profit before Working Capital changesAdjustment for changes in Working Capital:Add : Increase in Current Liabilities and Decrease in Current Assets (other than cash and cash equivalent)Less : Increases in Current Assets (other than cash and cash equivalent) and Decrease in Current LiabilitiesCash Generated from operations before tax and extraordinary items.Less : Income tax paid (Net of Refund received)Cash flow before Extraordinary itemExtraordinary items +/-Net cash from (or used in) Operating Activities——————————————-(——-)(——-)(——-)(——-)————————-(——-)——-(——-)————————-For the calculation of Proposed Dividend during the current year the proposed dividend account is to be prepared as follows:Proposed Dividend AccountDateParticularsRs.DateParticularsRs.To Bank (Dividend Paid during the year)To Balance c/d……………..By Balance b/dBy Balance in Statement of P&L A/c(Proposed dividend during the current year)……………………………For the calculation of Provision for Taxation made during the current year the provision of Taxation account is to be prepared as follows:Provision for Taxation AccountDateParticularsRs.DateParticularsRs.To Bank (Tax paid during the current year)To Balance c/d……………..By Balance b/dBy Statement of P& L A/c(Proposed for taxation made during the current year)……………………….Illustration 1:Cash Flow From Operating ActivitiesParticularsRs.Rs.1. Cash flow from Operating ActivitiesNet Profit Before Tax And Extra-ordinary ItemAdjustment for non-cash and non-operating itemsAdd : Depreciation on fixed assetsPreliminary expenses written offLoss on sale of furnitureLess : Profit on sale on machineryOperating Profit before working capital changesAdjustment for Working Capital ChargesAdd : Increase in CreditorsDecrease in Bills ReceivablesLess : Increase in DebtorsIncrease in Prepaid ExpensesDecrease in Bills PayableCash generated from operation before TaxLess : Income tax PaidNet Cash Inflow from Operating Activities20,00010,0001,0002,74,00031,00060003,05,000(6,000)10,0003,0002,99,00013,0006,0002004,0003,12,000(10,200)3,01,800(1,60,000)1,41,80002. Cash Flow from Investing ActivitiesInvesting activities are those activities which related to the acquisition (busying) and disposal (selling) of fixed assets and investment (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutual funds.Inflows of Cash: (Plus items)Outflows of Cash (imines items)Cash Received from sales of Fixed Assets.Cash Received from sales of Investment.Cash Received from sales of intangibleAssets like Patents.Interest Received,Dividend Received,Rent ReceivedCash paid from sales of Fixed Assets.Cash paid from sales of Investment.Cash paid from sales of intangibleFixed assets like goodwill, patents and copy rights.For the calculation of sale or purchase of fixed assets and investment, the following accounts are prepared:1. Fixed Assets Account2.Investment AccountFixed Assets Account: Fixed assets accounts may be prepared by two methods:(a) At written down value method (when provision for depreciation account/accumulated depreciation account is not maintained):Fixed Assets Account (at written down value)DateParticularsRs.DateParticularsRs.To Balance b/dTo Bank A/c(Additional Purchase)To Profit on sale of fixed assets A/c……………………By Bank A/c(sale of investment)By Depreciation A/c(Dep. On fixed assets sold)By Loss on Sale of fixed assets A/cBy depreciation A/c(Current year dep. On remaining fixed assets)By Balance c/d…………………………………………(b) Fixed Assets (at cost); When provision for depreciation account or accumulated depreciation account has been separated maintained. In this method two separate account named Fixed Assets Account and Provision for Depreciation account are maintained.Fixed Assets Account (at original cost)DateParticularsRs.DateParticularsRs.To Balance b/dTo Bank A/c(Additional Purchase)To Profit on sale of fixed assets A/c……………………By Bank A/c(sale of investment)By Depreciation A/c(Dep. On fixed assets sold)By Loss on Sale of fixed assets A/cBy depreciation A/c(Current year dep. On remaining fixed assets)By Balance c/d…………………………………………Provision for Depreciation AccountDateParticularsRs.DateParticularsRs.To Fixed Assets A/c(Total Depreciation on Fixed assets sold)To Balance c/d……………..By Balance b/dBy Statement of Profit & Loss A/c(Depreciation charged on fixed assets during the current year)……………………………Preparation of Investment Account:Investment AccountDateParticularsRs.DateParticularsRs.To Balance b/dTo Back A/c(Additional Purchase)To Profit on sale of investment A/c……………………By Bank A/c(Sale of investment)By Loss on sale ofInvestment A/cBy Balance c/d…………………………….3. Cash Flow from financing ActivitiesFinancing activities are those activities that result in the changes in size and composition of the share capital (equality and preference) and borrowed fund of the business enterprises. Generally cost related to these funds also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference capital.Inflows of Cash: (Plus items)Outflows of Cash (imines items)1. Proceeds from Issue of equity Share capital.2. Proceeds from Issue of preference shares capital.3. Proceeds from taking long-term loan and issue of debentures.4. Proceeds from Bank Overdraft and Cash Credit.1. Amount paid for repayment of long-term loan.2. Redemption of Preference share capital in cash.3. Redemption of Debenture in cash4. Buy bank of Equity shares (Extra Ordinary Item)5. Payment of Bank Overdraft and Cash Credits6. Interest paid on long-term loan and debentures7. Final Dividend paid.8. Interim dividend paid.9. Dividend paid on Preference SharesNote:1. Bonus shares worth Rs. 5,00,000 issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity.2. If any other information is not given in the question about final dividend paid amount then the previous year proposed dividend is assumed as dividend payable in current year. Current year proposed dividend amount is assumed as proposed dividend in current year and to be added in operating activities to calculated net profit before tax and extraordinary item.3. Previous year proposed dividend- unpaid divided = Final dividend paid during the current year is cash used in financing activities.Financing Business Enterprise Transaction Treatment in Cash Flow statementFinancing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house, banks. These enterprises purchase and sale of securities as their stock, so it is treated as operating activities and interest revived, dividend received and interest paid are considered as routine business activities and included in their operating activities.Comprehensive   CBSE Class-12 Revision Notes and Key PointsCash flow statement class 12 Notes Accountancy. CBSE quick revision note for class-12 Chemistry Physics Math's, Accountancy and other subject are very helpful to revise the whole syllabus during exam days. The revision notes covers all important formulas and concepts given in the chapter. Even if you wish to have an overview of a chapter, quick revision notes are here to do if for you. These notes will certainly save your time during stressful exam days.To download Cash flow statement class 12 Notes Accountancy, sample paper for class 12 Physics, Chemistry, Biology, History, Political Science, Economics, Geography, Computer Science, Home Science, Accountancy, Business Studies and Home Science; do check myCBSEguide app or website. myCBSEguide provides sample papers with solution, test papers for chapter-wise practice, NCERT Cash flow statement , NCERT Exemplar Cash flow statement , quick revision notes for ready reference, CBSE guess papers and CBSE important question papers. Sample Paper all are made available through the best app for CBSE students and myCBSEguide website.Test GeneratorCreate question paper PDF and online tests with your own name & logo in minutes. Create NowmyCBSEguideQuestion Bank, Mock Tests, Exam Papers, NCERT Solutions, Sample Papers, Notes Install Now Skip to content Commerce students can refer to the Cash Flow Statement Notes Class 12 Accountancy given below which is an important chapter in class 12 accountancy book. These notes and important questions and answers have been prepared based on the latest CBSE and NCERT syllabus and books issued for the current academic year. Our team of Accountancy teachers have prepared these notes for the benefit of students so that you can read these revision notes and understand each topic carefully. Refer to the notes and important questions given below for Cash Flow Statement which are really useful and have been recommended by Class 12 Accounts teachers. Understanding the concepts in detail and then solving questions by yourself will help you to learn all topics given in your NCERT Books for Class 12 Accounts. Question 1. Classify the following into (i) Operating Activities, (ii) Investing Activities (iii) Financing Activities and (iv) Cash and Cash Equivalents while preparing Cash Flow Statement:a. Cash Salesb. Purchase of Buildingc. Cash received from Trade Receivabled. Sale of Buildinge. Issue of sharesf. Dividend paidg. Interest paid on Debenture by Finance Companyh. Cash Purchasesi. Depreciationj. Selling and Distribution Expensesk. Dividend received on share by finance companyl. Sale of investment by non-finance companym. Current investmentn. Income tax Paid Solution:a. Operating Activitiesb. Investing Activitiesc. Operating Activitiesd. Investing Activitiese. Finance Activitiesf. Finance Activitiesg. Operating Activitiesh. Operating Activitiesi. Operating Activitiesj. Operating Activitiesk. Operating Activitiesl. Investing Activitiesm. Cash and Cash Equivalentsn. Cash and Cash Equivalents Question 2. On March 31st 2020 Ramesh and Co. indicated a profit of ₹ 1,25,000, after considering the following: Additional Information Solution : Cash in hand will not affect Cash flow from operating activities. Bank Overdraft is a financing Activities, hence it will not appear Cash Flow from Operating Activities. Question 3.From the following figures calculate cash from operating activities Solution: Note: Question 4. Prateek Ltd. Made a profit of ₹ 5,00,000 after considering the following items: Additional Information Ascertain the net cash flow / use from operating activities. Solution:Calculation of Cash Flow from Operating Activities Question 5. Prepare a Cash Flow Statement on the basis of the information given in the Balance Sheet of Neelakshi Trading Co. as at 31.03.2020 and 31.03.2019. Notes: Solution: Notes Question 6. Prepare a Cash Flow Statement on the basis of the information given in the Balance Sheet of Riddhiman Trading Co. as at 31.03.2020 and 31.03.2019 .Notes: Additional Information: Depreciation provided on tangible assets (Machinery) during the year ₹ 8,000Interest paid on debentures ₹ 5,000.Solution: Notes Meaning: It is a statement that shows flow (Inflow or outflow) of cash and cash equivalents during a given period of time. As per Accounting Standard-3 (Revised) the changes resulting in the flow of cash & cash equivalent arises on account of three types of activities i.e.,(1) Cash flow from Operating Activities.(2) Cash flow from Investing Activities.(3) Cash flow from Financing Activities. Cash: Cash comprises cash in hand and demand deposits with bank. Cash equivalents: Cash equivalents are short-term, highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value e.g. short-term investment. Generally these investments have a maturity period of less than three months. Some examples of cash equivalent: Short-term deposits, marketable securities. Treasury bills, commercial papers, money market funds, money market funds, investment in preference shares if redeemable within three months provided that there is no risk of the failure of the company. Cash flow exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing and financing activities. Some types of transaction which are considered movement between cash and cash equivalents are given below:1. Cash deposited into bank.2. Cash withdrawn from bank.3. Sale of cash equivalent securities (e.g. Sale of short-term investment, sale of commercial papers)4. Purchases of cash equivalent securities (e.g. Purchase of short-term investment Purchases of Treasury bills). The above types of transaction are part of cash and equivalents, so these are included in opening and closing cash and cash equivalent only. So these types of transaction no to be included in cash flow from different activities like perating investing, financing activities. Preparation of cash flow statement Note: The student should ensure that the Cash & Cash equivalent at the end of the year as calculated above will be same as cash & cash equivalent given in closing balance sheet. Objectives of Cash Flow Statement1. To ascertain how much cash or cash equivalents have been generated or used in different activities e., operating/investing/financing activity.2. To ascertain the net changes in cash and cash equivalents.3. To assess the causes of difference between actual cash & cash equivalent and related net earnings/income.4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.5. To help in short-term financial planning.6. To ascertain the liquidity of enterprises. Limitations of Cash Flow Statement1. Non cash transaction are not taken into consideration like shares or debentures issued to vendors, depreciating charged during the year.2. It is a statement related with past data.3. It is not used for judging the profitability of enterprise.4. Accrual accounting concept is ignored in this statement e.g. credit sales, credit purchases, outstanding expenses, accrued income are not included. Computation of Cash flows from different activities. (1) Cash flow from operating activities: Operating activities are the main revenue generating activities of the enterprises. It also includes all those transactions which are not included in investing and financing activities. Indirect Method of calculating the cash flow from Operating Activities: Under this method Net Profit before Tax and Extra-ordinary Item is the starting point for further calculations. Calculation of Net Profit before Tax and Extra-ordinary Item: Difference between closing balance and opening balance of Balance in statement of Profit & Loss A/c…………… Add:1. Proposed dividend for current year…………….2. Interim Dividend paid during the year …………….3. Profit Transferred to Reserve……………(If reserve of current year increased from previous year) …………….4. Provision for Taxation made during the year…………….5. Preference Dividend…………….6. Extra Ordinary Item if any Debited to Statement of Profit & Loss……………Less:1. Refund of Tax credited to Statement of P & L (…………)2. Extraordinary-item if any Credited to Statement of P& (…………)3. Reserves transferred back to statement of Profit and Loss(…………)Net Profit before Tax and Extra-ordinary item (…………)Extraordinary items: These items are not related to normal business operation Format Cash Flow from Operating Activities For the calculation of Proposed Dividend during the current year the proposed dividend account is to be prepared as follows:Proposed Dividend Account For the calculation of Provision for Taxation made during the current year the provision of Taxation account is to be prepared as follows:Provision for Taxation Account Illustration 1:Cash Flow From Operating Activities 2. Cash Flow from Investing ActivitiesInvesting activities are those activities which related to the acquisition (busying) and disposal (selling) of fixed assets and investment (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutual funds. For the calculation of sale or purchase of fixed assets and investment, the following accounts are prepared:1. Fixed Assets Account2.Investment AccountFixed Assets Account: Fixed assets accounts may be prepared by two methods:(a) At written down value method (when provision for depreciation account/accumulated depreciation account is not maintained): Fixed Assets Account (at written down value) (b) Fixed Assets (at cost); When provision for depreciation account or accumulated depreciation account has been separated maintained. In this method two separate account named Fixed Assets Account and Provision for Depreciation account are maintained.Fixed Assets Account (at original cost) Provision for Depreciation Account Preparation of Investment Account:Investment Account 3. Cash Flow from financing ActivitiesFinancing activities are those activities that result in the changes in size and composition of the share capital (equality and preference) and borrowed fund of the business enterprises. Generally cost related to these funds also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference capital. Note:1. Bonus shares worth Rs. 5,00,000 issued to equity shareholder are not to be shown in the cash flow statement because there is no flow of cash by this activity. 2. If any other information is not given in the question about final dividend paid amount then the previous year proposed dividend is assumed as dividend payable in current year.Current year proposed dividend amount is assumed as proposed dividend in current year and to be added in operating activities to calculated net profit before tax and extraordinaryitem. 3. Previous year proposed dividend- unpaid divided = Final dividend paid during the current year is cash used in financing activities.Financing Business Enterprise Transaction Treatment in Cash Flow statement Financing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house, banks. These enterprises purchase and sale of securities as their stock, so it is treated as operating activities and interest revived, dividend received and interest paid are considered as routine business activities and included in their operating activities.Comprehensive Also download : Question Papers for Class 12 Accountancy error: Content is protected !! The cash flow statement measures how well the company generates cash to pay its debt obligations and fund its operating expenses. The cash flow statement is also used by various stakeholders to determine the potential of the company to generate funds. Also, it is a mandatory part of a company's financial report. Inflow and outflow of cash and cash equivalents of a company during a specific period are shown in a cash flow statement. Benefits of cash flow statement: Some of the benefits of a cash flow statement are given below – Tracks cash flow – Measurement of inflows and outflows of cash which can be measured annually which arise from operating activities, investing activities, and financial activities. This helps in analyzing and interpreting various inflows and outflows of cash from different sources. Assessment of profitability – It helps assess the liquidity and solvency position of a company/firm as timing and certainty of cash generation is known. This further ensures the investors, creditors, and other parties who have invested funds in the company or to whom the company owes a certain amount, the security of their funds. Easy comparisons can be made – Since the format used by all the companies in the industry is pre-defined it becomes easier to compare and performance of different companies as there is no difference in the accounting treatment of transactions. Helps in planning – It helps the management to prepare its cash planning for the future so that they can avoid unnecessary troubles. Evaluation of future cash flows whether it is sufficient to meet various payments eg. Payment of expenses/debts/dividends/taxes. Better understanding of financial structure – Cash flow statement when accompanied with Balance Sheet and Profit and Loss accounts helps the user in better evaluations of the working and results of the company. This prepares them for the changing situations. Thus, a cash flow statement keeps track of cash and cash equivalents of a company generated through operating activities, investing activities, and financial activities. Chapter 6 – Cash Flow Statement The chapter of Accountancy on Cash Flow Statement class 12, is a pretty long and complicated chapter that comes in not only the main CBSE board exams of Accountancy class 12 but also comes in the Practical Exams. Hence, it becomes one of the very important chapters in Accountancy that covers good weightage as well. In this Leverage Edu blog, we will get to know everything related to the Cash Flow Statement so that you can solve your practical or numerical questions without any hassle in the exams. As per the chapter of Accountancy on Cash Flow Statement class 12, a cash flow statement refers to a statement showing the cash inflows and outflows or the financial position of a business during different intervals of time in terms of cash and cash equivalents. All publicly listed entities have to prepare and report a cash flow statement along with other financial statements on an annual basis under the New Accounting Standard-3. According to the chapter on Cash Flow Statement class 12, Cash is divided into two categories which are cash in hand and demand deposits with the bank. On the other hand, cash equivalents are described as short-term highly liquid assets that are readily convertible into known amounts of cash and have a low risk of value change. As per the chapter on Cash Flow Statement class 12, cash flows are referred to as the inflows and the outflows of cash and cash equivalent in a business. In other words, it can be explained as the movement in and movement out of cash and cash equivalents. Think of it this way, the receipt of cash from a non-cash item would be termed as cash inflow and the cash payment in respect of such items would be termed as cash outflow. Accounting for Partnership: Basic Concepts Based on the chapter on Cash Flow Statement class 12, the following are the objectives of a cash flow statement: When it comes to short-term financial planning, this method comes in handy.When it comes to successful cash management, this is a must-have.It is useful in the implementation of business policies.Assists in the creation and formulation of a cash budget.Used to measure cash flow from different activities such as running, saving, and funding. Based on the chapter on Cash Flow Statement class 12, the following are various limitations of a cash flow statement: It is based on the historical cost principleAdditionally, it is based on secondary dataNo adherence to basic accounting principles A cash flow statement is not a substitute for the income statementIt ignores all the non-cash transactions Financial Statements of a Company As per the chapter of Cash Flow Statement class 12 and the Accounting Standard-3 (revised), the changes that are resulting in the inflows and outflows of cash and cash equivalents are classified into 3 business activities namely: The cash flow from operating activities covers the enterprise's key revenue-generating activities as well as other non-investment and non-financing activities. Operating Activities Cash inflow Cash outflow Cash sales Cash received from debtors Cash received from commission and fees Royalty Cash purchases Payment made to the creditors Cash operating expenses Payment of wages Income tax For a Finance Company Cash inflow Cash outflow Cash received for interest and dividends Sale of securities Cash sales Cash received from debtors Cash received from commission and fees Royalty Cash paid for interests Purchase of securities Cash purchases Payment made to the creditors Cash operating expenses Payment of wages Income tax For an Insurance Company Cash inflow Cash outflow Premiums and claims received Cash received for interest and dividends Sale of securities Cash sales Cash received from debtors Cash received from commission and fees Royalty Premium and claims paidCash paid for interests Purchase of securities Cash purchases Payment made to the creditors Cash operating expenses Payment of wages Income tax For a Real Estate or Infrastructure Company Cash inflow Cash outflow Rent Received Premiums and claims received Cash received for interest and dividends Sale of securities Cash sales Cash received from debtors Cash received from commission and fees Royalty Rent paid Premium and claims paidCash paid for interests Purchase of securities Cash purchases Payment made to the creditors Cash operating expenses Payment of wages Income tax Investing activities (as specified by AS-3 or the Accounting Standards-3) are the purchase and disposition of long-term assets and other investments that are not included in cash equivalents. The following is a map of cash flow from investment activities: Investing Activities Cash inflow Cash outflow Sale of fixed assets Sale of investments Interest received Dividends received Rent received Purchase of fixed assets Purchase of investments Cash Flow from Financing Activities Financing operations, according to AS-3, are those that result in a change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) from other sources. The following is a chart or table of cash flow generated by financing activities: Financing Activities Cash inflow Cash outflow Issue of shares in cash Issue of debentures in cash Proceeds from long-term borrowings Securities premium received Increase in the balance of bank overdraft or cash credit accountPayment of loans Redemption of preference shares and debentures Buy-back of equity shares Payment of dividends Payment of interest Premium paid on redemption of preference shares and debentures The decrease in the balance of bank overdraft or cash credit account. The format of the Indirect Method of the Cash Flow Statement as per the chapter on Cash Flow Statement class 12 and the Accounting Standard-3 (Revised) is as follows: Format of Cash Flow Statement Numerous vivid examples are included in the NCERT Solutions for Class 12 Accountancy Chapter 6, which helps the students understand the concepts and pick up new information rapidly. These are the answers in accordance with the Class 12 CBSE syllabus. Visit BYJU'S or download BYJU'S – The Learning App for more information on NCERT solutions for Class 12 Accountancy, as well as additional solutions and study tools. Which three cash flow statements are there? Typically, the cash flow statement is divided into three parts: operating procedures. Financial transactions. financing your actions. What is a cash flow statement? A cash flow statement details an organization's total cash inflows from current activities and outside investment sources. The cash made by the company from operations, investments, and financing is included in the cash flow statement. This total is known as net cash flow. Why is class 12 cash flow matter? Knowing the precise amount of cash inflows and outflows from a business's various operations is made possible by the cash flow statement. To determine the future cash requirements, it is helpful to compare the cash budgets of earlier evaluations with the current situation. This brings us to the end of this blog on Cash Flow Statement class 12 study notes. We hope that the blog must prove to be helpful for that quick last-minute revision before exams. For more such awesome and amazing reads and for more blogs on study notes, stay tuned with Leverage Edu and we will be back soon with yet another blog on study notes to make you prepare better for your exams. NCERT Solutions is an extremely helpful resource to prepare well for the CBSE Class 12 Accountancy examinations. This study material provides students with a deep knowledge of the concepts, and the NCERT solutions designed by the subject-matter experts are easy to comprehend and clear their doubts instantly. NCERT Solutions for Class 12 Accountancy Chapter 6 – Cash Flow Statement provides students with all-inclusive data on all the concepts and topics covered in the chapter. As the students have learnt the basics about the subject of Accountancy in Class 11, the NCERT Class 12 Solutions is a continual part of it; it explains the concepts in a detailed way. Download the PDF of NCERT Solutions for Class 12 Accountancy Chapter 6 – Cash Flow Statement Download PDF carouselExampleControls111 Previous Next Access NCERT Solutions for Class 12 Accountancy Chapter 6 – Cash Flow Statement Short Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 6 1. What is a cash flow statement? A financial statement that represents the inflow and outflow of cash and cash equivalents of a company is called a cash flow statement. It shows how well a company can manage its cash position and generates enough cash to pay the obligations in the form of debt and also run the operational expenses. 2. How are the various activities classified (as per AS-3 revised) while preparing the cash flow statement? Three types of activities are defined, and they are as follows: 1. Operating Activities 2. Financing Activities 3. Investing Activities 3. State the uses of the cash flow statement. The following are the uses of the cash flow statement: i. Useful for evaluating the cash position of a firm ii. Helpful in finding deficiencies and variations in firms' performance which helps in effective decision making iii. It helps in the assessment of the liquidity of a company iv. It analyses cash receipts and payments from the various activities of a company and helps in short-term planning v. It helps in segregating cash flows obtained from the various activities of the business vi. It helps in providing decisions about the distribution of profit. vii. It is useful for short-term financial analysis 4. What are the objectives of preparing a cash flow statement? The following are the objectives of preparing a cash flow statement: i. To determine the inflow and outflow of cash and the cash equivalents obtained from different kinds of activities. ii. To seek out various reasons responsible for the change in cash balances during the accounting period iii. It helps in depicting the position of the company in terms of liquidity and solvency iv. It also helps in determining the requirement and the corresponding availability of cash for business in future. 5. State the meaning of the terms: Cash Equivalents, Cash flows. Cash equivalents are investments that are highly liquid in nature and do not change value easily. Cash equivalents are essential for managing short-term cash requirements or any such investments. For example, treasury bills. Cash Flows: It is the inflow and outflow of cash and cash equivalents. Cash inflows boost cash balance, and cash outflow has a negative impact on cash balance 6. Prepare a format of cash flow from operating activities under the indirect method. The format is as follows: 7. State clearly what would constitute the operating activities for each of the following enterprises: (i) Hotel (ii) Film production house (iii) Financial enterprise (iv) Media enterprise (v) Steel manufacturing unit (vi) Software development business unit. (i) Hotel 1. Receipts obtained from the sale of goods to customers 2. Customer stay, payments of wages and salaries, food items, and electricity are operating activities (ii) Film Production House: 1. Receipts obtained from the selling of film rights to distributors 2. Payment provided to actors, actresses, directors and other employees (iii) Financial Enterprises: 1. Receipts obtained from loan repayments and interest received from investments 2. Salary for employees, expenditure incurred for recovering loans, loan repayment etc. (iv) Media Enterprises: 1. Receipts that are obtained from various advertisements 2. Payments made to photographers, employees and reporters (v) Steel Manufacturing Unit: 1. Receipts obtained from the sale of steel rods, castings and sheets 2. Payments made for purchasing iron, coal and salaries to staff (vi) Software Development Business Unit: 1. Receipts obtained for software sales and license renewal 2. Payments towards salaries of employees 8. "The nature/type of enterprise can change altogether the category into which a particular activity may be classified." Do you agree? Illustrate your answer. Yes, it can happen. For example, there are two firms one is engaged in real estate and the other in general business. For the firm engaged in the real estate sale of a building will be regarded as part of the operating activity, while for the firm dealing with general business, the purchase or sale of a building is regarded as an investing activity. Therefore, it can be said that nature and type of enterprise determine the type of activities. Long Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 6 1. Describe the procedure to prepare a cash flow statement. The following are the steps to prepare a cash flow statement: i. Determine cash flows obtained from operating activities ii. Determine cash flows obtained from financing activities iii. Determine cash flow obtained from investing activities iv. Determine net increase or decrease, which is obtained by adding amounts from all the cash flow activities. 5. Add the opening balance of cash and the cash equivalents and deduct the same from the amount determined in the previous step. The two methods which are used for the preparation of a cash flow statement are listed below: 1. Direct Method 2. Indirect Method 2. Describe the "Indirect" method of ascertaining cash flow from operating activities. In the indirect method, the cash flow statement begins with net income or loss and subsequently adds or deducts non-cash expenses and revenue items, which results in cash flow from operating activities. And they include the following: i. Items that are non-cash in nature, like goodwill and depreciation, added towards net profit ii. Expenses that are non-operating in nature, like transfer to reserve and loss on sale of fixed assets which are added back to show the net profit earned iii. Provisions such as discounts for debtors, doubtful debts, proposed dividends etc., should be added to net profit iv. Any decrease in current assets and an increase in current liabilities is added to operating profit The following items get deducted from the net profit of the P & L account i. Incomes that are non-operating in nature, like the sale of fixed assets ii. Non-trading incomes like the dividend received, tax refund and interest received iii. Increase in current assets and decrease in current liabilities 3. Explain the major Cash Inflow and outflows from investing activities. Investing activities consist of sales and purchase of fixed assets that are long-term in nature, like the building, land, furniture and plant and machinery etc. It also includes the sale and purchase of items that are not cash equivalents. If any income is received from these assets, it is regarded as a part of investing activities. The major cash inflows and outflows that are involved in investing activities are as follows: i. Cash receipts that are obtained when fixed assets are sold off, and it includes intangible assets ii. Acquiring fixed assets which also includes intangibles like goodwill using cash payments; the payments are for the research and development and assets that are self-constructed iii. Acquiring shares, debt instruments or warrants using cash payments iv. Disposal of shares and warrants that yield cash receipts v. Loans and cash advances that are made to third parties (does not includes loans and advances made by the financial enterprise vi. Cash receipts obtained from any insurance company for a property that is involved in an accident vii. Cash receipts that are obtained for repayment of loans and cash advances made to third parties viii. Any type of income that is obtained from fixed assets like interest, dividend and rent (not in the case of financial enterprises) 4. Explain the major cash inflows and outflows from financing activities. In a firm, the financing activities are associated with capital or long-term funds of the firm, and the financing activities bring about change in capital and borrowed funds. The following cash inflows and outflows as per AS3 can be mentioned: i. Cash received from the issuing of shares and similar instruments causes cash inflow ii. Cash received from issuing of debentures, obtaining loans, bonds, and similar instruments brings cash inflow. iii. Repayments of debentures, loans and bonds in the form of cash are considered cash outflow iv. Buying back shares and debentures which were issued is also a cash outflow v. Interest payment for debentures, advances and loans vi. Dividend payment to equity and preference shareholders Numerical Questions for NCERT Solutions Accountancy Part 2 Class 12 Chapter 6 1. Anand Ltd. arrived at a net income of ₹ 5, 00,000 for the year ended March 31, 2017. Depreciation for the year was ₹ 2,00,000. There was a profit of ₹ 50,000 on assets sold, which was transferred to the statement of profit and loss account. Trade Receivables increased during the year ₹ 40,000, and trade payables also increased by ₹ 60,000. Compute the cash flow operating activities by the indirect approach. The solution to this question is as follows: Cash Flow from Operating Activities as on March 31, 2017 Particulars Amount (₹) Amount (₹) Net Profit during the year 5,00,000 Items to be adjusted: Add: Depreciation 2,00,000 Less: Gain on sale of assets (50,000) 1,50,000 Operating Profit before Working Capital changes 6,50,000 Add: Increase in Trade Payables 60,000 Less: Increase in Trade Receivables (40,000) 20,000 Net Cash from Operations 6,70,000 2. From the information given below, you are required to calculate the cash paid for the inventory: Particulars (₹) Inventory in the beginning 40,000 Credit Purchases 1,60,000 Inventory at the end 38,000 Trade payables in the beginning 14,000 Trade payables at the end 14,500 The solution to this question is as follows: Trade Payables Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Cash (Balancing fig.) 1,59,500 Balance b/d 14,000 Balance c/d 14,500 Purchases 1,60,000 1,74,000 1,74,000 Therefore the cash paid for Inventory amounts to ₹ 1, 59,500. 3. For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow, viz., operating, investing and financing. (a) Acquired machinery for ₹ 2,50,000, paying 20% by cheque and executing a bond for the balance payable. (b) Paid ₹ 2,50,000 to acquire shares in Informa Tech. and received a dividend of ₹ 50,000 after the acquisition. (c) Sold machinery of original cost ₹ 2,00,000 with an accumulated depreciation of ₹ 1,60,000 for ₹ 60,000. The solution to this question is as follows: (a) Part-payment of ₹ 50,000 for acquiring machinery and ₹ 2,50,000 is related to investing activities. (b) ₹ Amount paid for acquiring shares (2,50,000) Dividend received 50,000 Net cash used in investing activities (2,00,000) Amount paid to acquire assets and dividends received is a part of investing activities. (c) Inflow of cash of ₹ 60,000 on the sale of machinery is a part of investing activities. 4. The following is the profit and loss account of Yamuna Limited: Statement of Profit and Loss of Yamuna Ltd., for the Year Ended March 31, 2017 Particulars Note No. Amount (₹) i) Revenue from Operations 10,00,000 ii) Expenses Cost of Materials Consumed 1 50,000 Purchase of Stock-in-trade 5,00,000 Other Expenses 2 3,00,000 Total Expenses 8,50,000 iii) Profit before Tax (i – ii) 1,50,000 Additional information: (i) Trade receivables decrease by ₹ 30,000 during the year. (ii) Prepaid expenses increase by ₹ 5,000 during the year. (iii) Trade payables increase by ₹ 15,000 during the year. (iv) Outstanding expenses payable increased by ₹ 3,000 during the year. (v) Other expenses included depreciation of ₹ 25,000. Compute net cash from operations for the year ended March 31, 2017, by the indirect method. The solution to this question is as follows: Cash Flow from Operating Activities of Yamuna Limited as on March 31, 2017 Particulars Amount ₹ Amount ₹ Net Profit earned during the year 1,50,000 Items to be added: Depreciation 25,000 Operating Profit before Working Capital changes 1,75,000 Add: Increase in Current Liabilities Outstanding Expenses 3,000 Add: Decrease in Current Assets Trade Receivables 30,000 Stock 50,000 83,000 Less: Decrease in Current Liabilities Trade Creditors (15,000) Less: Increase in Current Assets Prepaid Expenses (5,000) (20,000) Net Cash from Operations 2,38,000 5. Compute cash from operations from the following figures: (i) Profit for the year 2016-17 is a sum of ₹ 10,000 after providing for depreciation of ₹ 2,000. (ii) The current assets and current liabilities of the business for the year ended March 31, 2016, and 2015 are as follows: Particular March 31, 2016 (₹) March 31, 2017 (₹) Trade Receivables 14,000 15,000 Provision for Doubtful Debts 1,000 1,200 Trade Payables 13,000 15,000 Inventories 5,000 8,000 Other Current Assets 10,000 12,000 Expenses payable 1,000 1,500 Prepaid Expenses 2,000 1,000 Accrued Income 3,000 4,000 Income received in advance 2,000 1,000 The solution to this question is as follows: Cash Flow Statement for the Year Ending March 31, 2017 Particulars Details (₹) Amount (₹) Cash from Operating Activities Net Profit 10,000 Items to be added: Depreciation 2,000 2,000 Operating Profit before Working Capital Adjustments 12,000 Less: Increase in Current Assets Trade Receivables (1,000) Accrued Income (1,000) Accrued Income (2,000) Other Current Assets (3,000) Inventories Add: Increase in Current Liabilities Provision for Doubtful Debts 200 Trade Payables 2,000 Expense Payable 500 Add: Decrease in Current Assets Prepaid Expenses (1,000) Less: Decrease in Current Liabilities Income received in advance 1,000 Net Cash From Operating Activities 7,700 6. From the following particulars of Bharat Gas Limited, calculate cash flows from investing activities. Also, show the workings clearly preparing the ledger accounts: Balance Sheet of Bharat Gas Ltd. as on 31 Mar. 2016 and 31 Mar. 2017   Particulars Note No. Figures as the end of 2017 (₹) Figures as at the end of reporting 2016 (₹) II) Assets 1. Non-current Assets a) Fixed assets i) Tangible assets 1 12,40,000 10,20,000 ii) Intangible assets 2 4,60,000 3,80,000 b) Non-current investments 3 3,60,000 2,60,000 Notes 1 Tangible assets = Machinery 2 Intangible assets = Patents Notes Figures of the current year Figures of the previous year 1. Tangible Assets Machinery 12,40,000 10,20,000 2. Intangible Assets Goodwill 3,00,000 1,00,000 Patents 1,60,000 2,80,000 4,60,000 3,80,000 3. Non-current Investments 10% long-term investments 1,60,000 60,000 Investment in land 1,00,000 1,00,000 Shares of Amartex Ltd. 1,00,000 1,00,000 3,60,000 2,60,000 Additional Information: (a) Patents were written off to the extent of ₹. 40,000, and some patents were sold at a profit of ₹. 20,000. (b) A machine costing ₹ 1,40,000 (Depreciation provided thereon ₹ 60,000) was sold for ₹ 50,000. Depreciation charged during the year was ₹ 1,40,000. (c) On March 31, 2016, 10% of investments were purchased for ₹ 1,80,000, and some investments were sold at a profit of ₹ 20,000. Interest on investment was received on March 31, 2017. (d) Amartax Ltd. paid dividends @ 10% on its shares. (e) A plot of land had been purchased for investment purposes and let out for commercial use, and rent received ₹ 30,000. The solution to this question is as follows: Cash Flow from Investing Activities Particulars Amount ₹ Amount ₹ Cash Inflow Proceeds from Sale of Patents 1,00,000 Proceeds from Sale of Machinery 50,000 Proceeds from Sale of 10% Long-term Investment 1,00,000 Interest received on 10% Long-term Investment 6,000 Dividend Received from Amartax Ltd. 10,000 Rent Received 30,000 2,96,000 Cash Outflow Purchase of Goodwill (2,00,000) Purchase of Machinery (4,40,000) Purchase of 10% Long-term Investment (1,80,000) (8,20,000) Net Cash used in Investing Activities (5,24,000) Patents Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Balance b/d 2,80,000 Profit and Loss (written off) 40,000 Profit and Loss (Profit on sale) 20,000 Bank (sale- Balancing figure) 1,00,000 Balance c/d 1,60,000 3,00,000 3,00,000 Machinery Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Balance b/d 10,20,000 Depreciation 1,40,000 Bank (Purchases- Balancing figure) 4,40,000 Bank 50,000 Profit and Loss 30,000 Balance c/d 12,40,000 14,60,000 14,60,000 10% Long-term Investment Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Balance b/d 60,000 Bank (Balancing figure) 1,00,000 Bank 1,80,000 Profit and Loss (Profit on sale) 20,000 Balance c/d 1,60,000 2,60,000 2,60,000 7. From the following Balance Sheet of Mohan Ltd., prepare the cash flow Statement. Balance Sheet of Mohan Ltd., as on 31st March 2016 and 31 March 2017 Particulars Note No. March 31, 2017 (₹) March 31, 2016 (₹) I) Equity and Liabilities 1. Shareholders' Funds a) Equity share capital 3,00,000 2,00,000 b) Reserves and surplus 2,00,000 1,60,000 2. Non-current liabilities a) Long-term borrowings 1 80,000 1,00,000 3. Current liabilities Trade payables 1,20,000 1,40,000 Short-term provisions 2 70,000 60,000 Total 7,70,000 6,60,000 II) Assets 1. Non-current assets Fixed assets 3 5,00,000 3,20,000 2. Current assets a) Inventories 1,50,000 1,30,000 b) Trade receivables 4 90,000 1,20,000 c) Cash and cash equivalents 5 30,000 90,000 Total 7,70,000 6,60,000 Notes to accounts: 2017 2016 1. Long-term borrowings Bank Loan 80,000 1,00,000 2. Short-term provision Proposed dividend 70,000 60,000 3. Fixed assets 6,00,000 4,00,000 Less: Accumulated Depreciation 1,00,000 80,000 (Net) Fixed Assets 5,00,000 3,20,000 4. Trade receivables Debtors 60,000 1,00,000 Bills receivables 30,000 20,000 90,000 1,20,000 5. Cash and cash equivalents Bank 30,000 90,000 Additional Information: Machine Costing ₹ 80,000 on which accumulated depreciation was ₹ 50,000 was sold for ₹ 20,000. The solution to this question is as follows: Cash Flow Statement of Mohan Ltd. Particulars Amount ₹ Amount ₹ A. Cash Flow from Operating Activities Profit as per the Balance Sheet (2,00,000 – 1,60,000) 40,000 Proposed Dividend 70,000 Net Profit before Taxation and Extraordinary items 1,10,000 Adjustments: Depreciation 70,000 Loss on Sale of Machine 10,000 80,000 Operating Profit before Working Capital changes 1,90,000 Add: Decrease in Current Assets Debtors 40,000 40,000 2,30,000 Less: Increase in Current Assets Inventories (20,000) Bills Receivable (10,000) Less: Decrease in Current Liabilities Trade Payables (20,000) (50,000) Net Cash from Operations 1,80,000 B. Cash Flow from Investing Activities Proceeds from Sale of Fixed Assets 20,000 Purchases of Fixed Assets (2,80,000) Net Cash Outflow from Investing Activity (2,60,000) C. Cash Flow from Financing Activities Issue of Shares 1,00,000 Bank Loan Paid (20,000) Dividend Paid (60,000) Net Cash from Financing Activities 20,000 D. Net Decrease in Cash and Cash Equivalents (A+B+C) (60,000) Add: Cash and Cash Equivalents in the beginning 90,000 E. Cash and Cash equivalents at the end 30,000 Fixed Assets Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Balance b/d 4,00,000 Bank 20,000 Bank (Purchases- Balancing fig.) 2,80,000 Profit and Loss 10,000 Accumulated Depreciation 50,000 Balance c/d 6,00,000 6,80,000 6,80,000 Accumulated Depreciation Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Fixed Assets 50,000 Balance b/d 80,000 Balance c/d 1,00,000 Profit and Loss (Balance fig.) 70,000 1,50,000 1,50,000 8. From the following balance sheets of Tiger Super Steel Ltd., prepare the cash flow statement: Balance Sheet of Tiger Super Steel Ltd. as at 31st March 2014 and 31st March 2017 Particulars Note No. March 31, 2017 (₹) March 31, 2016 (₹) I) Equity and Liabilities 1. Shareholders' Funds a) Share capital 1 1,40,000 1,20,000 b) Reserves and surplus 2 22,800 15,200 2. Current Liabilities a) Trade payables 3 21,200 14,000 b) Other current liabilities 4 2,400 3,200 c) Short-term provisions 5 28,400 22,400 Total 2,14,800 1,74,800 II) Assets 1. Non-Current Assets a) Fixed assets i) Tangible assets 6 96,400 76,000 ii) Intangible assets 18,800 24,000 b) Non-current investments 14,000 4,000 2. Current Assets a) Inventories 31,200 34,000 b) Trade receivables 43,200 30,000 c) Cash and Cash Equivalents 11,200 6,800 Total 2,14,800 1,74,800 Notes to accounts: 2017 2016 1. Share Capital Equity share capital 1,20,000 80,000 10% Preference share capital 20,000 40,000 1,40,000 1,20,000 2. Reserves and surplus General reserve 12,000 8,000 Balance in the statement of profit and loss 10,800 7,200 22,800 15,200 3. Trade payables Bills payable 21,200 14,000 4. Other current liabilities Outstanding expenses 2,400 3,200 5. Short-term provisions Provision for taxation 12,800 11,200 Proposed dividend 15,600 11,200 28,400 22,400 6. Tangible assets Land and building 20,000 40,000 Plant 76,400 36,000 96,400 76,000 Additional Information: Depreciation Charge on land & building ₹ 20,000, and Plant ₹ 10,000 during the year. The solution to this question is as follows: Cash Flow Statement of Tiger Super Steels Ltd Particulars Amount ₹ Amount ₹ A. Cash Flow from Operating Activities Profit as per the Balance Sheet (10,800 –7,200) 3,600 General Reserve 4,000 Proposed Dividend 15,600 Provision for Taxation 12,800 Net Profit before Taxation and Extraordinary 36,000 Items to be added: Depreciation on Land and Building 20,000 Depreciation on Plant 10,000 Goodwill written off 5,200 35,200 Operating Profit before Working Capital changes 71,200 Add: Increase in Current Liabilities Bills Payable 7,200 Add: Decrease in Current Assets Inventories 2,800 10,000 81,200 Less: Increase in Current Assets Trade Receivables (13,200) Less: Decrease in Current Liabilities Outstanding Expenses (800) (14,000) Cash Generated from Operating Activities 67,200 Less: Income Tax paid (11,200) Net Cash from Operating Activities 56,000 B. Cash Flow from Investing Activities Purchases of Plant (40,400) Purchases of Investment (20,000) Net Cash used in Investing Activities (60,400) C. Cash Flow from Financing Activities Issue of Equity Shares 40,000 Dividend paid (11,200) Redemption of 10% Preference Shares (20,000) Net Cash from Financing Activities 8,800 D. Net Increase in Cash and Cash Equivalent 4,400 Add: Cash and Cash Equivalent in the beginning 6,800 E. Cash and Cash Equivalents at the end 11,200 Working Notes: 1. Plant Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ To Balance b/d 36,000 By Depreciation 10,000 To Bank A/c (Purchases- Balancing figure) 50,400 By Balance c/d 76,400 86,400 86,400 2. Net Profit before Tax 3,600 Profit and Loss Account 12,800 Less: Provision for Tax 16,400 9. From the following information, prepare a cash flow statement. Particulars Note No. 31st March 2015 (₹) 31st March 2014 (₹) I) Equity and Liabilities 1. Shareholders' Funds a) Share capital 7,00,000 5,00,000 b) Reserves and surplus 4,70,000 2,50,000 2. Non-current Liabilities (8% Debentures) 4,00,000 6,00,000 3. Current Liabilities a) Trade payables 9,00,000 6,00,000 Total 24,70,000 19,50,000 II) Assets 1. Non-current assets a) Fixed assets i) Tangible 7,00,000 5,00,000 ii) Intangible-Goodwill 1,70,000 2,50,000 2. Current assets a) Inventories 6,00,000 5,00,000 b) Trade Receivables 6,00,000 4,00,000 c) Cash and cash equivalents 4,00,000 3,00,000 Total 24,70,000 19,50,000 Additional Information: Depreciation Charge on the plant amount to ₹ 80,000. Cash Flow Statement for the year ending March 31, 2015 Particulars Details (₹) Amount (₹) A. Cash from Operating Activities Net Profit 2,20,000 Items to be Added: Interest on Debentures 48,000 Depreciation on Fixed Assets 80,000 Goodwill Written-off 80,000 2,08,000 Operating Profit before Working Capital Adjustments 4,28,000 Add: Increase in Current Liabilities Creditors 3,00,000 Less: Increase in Current Assets Inventories (1,00,000) Trade Receivables (2,00,000) – Cash Generated from Operations 4,28,000 Less: Tax Paid – Net Cash From Operating Activities 4,28,000 B. Cash From Investing Activities Purchase of Fixed Assets (WN) (2,80,000) Net Cash From Investing Activities (2,80,000) C. Cash From Financing Activities Issue of Share Capital 2,00,000 Redemption of Debentures (2,00,000) Interest Paid on Debentures (48,000) (48,000) Net Cash From Financing Activities (C) (48,000) Net Increase in Cash (A + B + C) 1,00,000 Add: Opening Cash and Cash Equivalents 3,00,000 Closing Cash and Cash Equivalents 4,00,000 Working Note: Fixed Assets Account Dr. Cr. Particulars J.F. Amount (₹) Particulars J.F. Amount (₹) Balance b/d 5,00,000 Depreciation 80,000 Purchases (Balancing Figure) 2,80,000 Balance c/d 7,00,000 7,80,000 7,80,000 10. From the following balance sheet of Yogeta Ltd., prepare the cash flow statement. Particulars Note No. 31st March 2017 (₹) 31st March 2016 (₹) I) Equity and Liabilities 1. Shareholders' Funds a) Share capital 1 4,00,000 2,00,000 b) Reserves and surplus-Surplus 2,00,000 1,00,000 2. Non-current Liabilities a) Long-term borrowings 2 1,50,000 2,20,000 3. Current Liabilities a) Short-term borrowings 1,00,000 – (Bank overdraft) b) Trade payables 70,000 50,000 c) Short-term provision 50,000 30,000 (Provision for taxation) Total 9,70,000 6,00,000 II) Assets 1. Non-current assets a) Fixed assets i) Tangible 7,00,000 4,00,000 2. Current assets a) Inventories 1,70,000 1,00,000 b) Trade Receivables 1,00,000 50,000 c) Cash and cash equivalents – 50,000 Total 9,70,000 6,00,000 Notes to Accounts Particulars 31st March 2017 (₹) 31st March 2016 (₹) 1. Share capital a) Equity share capital 3,00,000 2,00,000 b) Preference share capital 1,00,000 – 4,00,000 2,00,000 2. Long-term borrowings Long-term loan – 2,00,000 Long-term Rahul 1,50,000 20,000 1,50,000 2,20,000 Additional Information: Net Profit for the year after charging ₹ 50,000 as depreciation was ₹ 1,50,000. The dividend paid on shares was ₹ 50,000, Tax Provision created during the year amounted to ₹ 60,000. The solution to this question is as follows: Cash Flow Statement of Yogeta Ltd. Particulars Amount ₹ Amount ₹ A. Cash Flow from Operating Activities Profit as per Balance Sheet (2,00,000 –1,00,000) 1,00,000 Proposed Dividend 50,000 Provision for Taxation 60,000 Net Profit before Taxation and Extraordinary items 2,10,000 Items to be added: Depreciation 50,000 50,000 Operating Profit before Working Capital changes 2,60,000 Add: Increase in Current liabilities Trade Payable 20,000 20,000 2,80,000 Less: Increase in Current Assets Inventories (70,000) Trade Receivable (50,000) (1,20,000) Cash Generated from Operating Activities 1,60,000 Less: Income Tax paid (40,000) Net Cash from Operations 1,20,000 B. Cash Flow from Investing Activities Purchases of Fixed Assets (3,50,000) Net Cash used in Investing Activities (3,50,000) C. Cash Flow from Financing Activities Issue of Equity Shares 1,00,000 Issue of Preference Shares 1,00,000 Loan from Rahul 1,30,000 Less: Repayment of Loan (2,00,000) Dividend Paid (50,000) Net Cash from Financing Activities 80,000 D. Net decrease in Cash and Cash Equivalent (A+B+C) (1,50,000) Add: Cash and Cash Equivalents in the beginning 50,000 E. Cash and Cash Equivalents at the end (Bank Overdraft) (1,00,000) Working Notes: 1. Provision for Taxation Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Bank (Balancing figure) 40,000 Balance b/d 30,000 Balance c/d 50,000 Profit and Loss 60,000 90,000 90,000 2. Fixed Assets Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Balance b/d 4,00,000 Depreciation 50,000 Bank 3,50,000 Balance c/d 7,00,000 7,50,000 7,50,000 11. Following is the financial statement of Garima Ltd. Prepare the cash flow statement. Particulars Note No. 31st March 2017 (₹) 31st March 2016 (₹) I) Equity and Liabilities 1. Shareholders' Funds a) Share capital 1 4,40,000 2,80,000 b) Reserve and surplus-Surplus 2 40,000 28,000 2. Current Liabilities a) Trade payables 1,56,000 56,000 c) Short-term provisions 12,000 4,000 (Provision for taxation) Total 6,48,000 3,68,000 II) Assets 1. Non-current assets a) Fixed assets i) Tangible 3,64,000 2,00,000 2. Current assets a) Inventories 1,60,000 60,000 b) Trade receivables 80,000 20,000 c) Cash and cash equivalents 28,000 80,000 d) Other current assets 16,000 8,000 Total 6,48,000 3,68,000 Notes to Accounts Particulars 31st March 2017 (₹) 31st March 2016 (₹) 1. Share capital a) Equity share capital 3,00,000 2,00,000 b) Preference share capital 1,40,000 80,000 4,40,000 2,80,000 2. Reserve and surplus Surplus in statement of profit and loss at the beginning of the year 28,000 Add: Profit of the year 16,000 Less: Dividend 4,000 Profit at the end of the year 40,000 Additional Information: Interest paid on debenture ₹ 600 Dividend paid during the year ₹ 4,000 Depreciation charged during the year ₹ 32,000 The solution to this question is as follows: Cash Flow Statement (Indirect Method) Particulars Amount ₹ Amount ₹ A. Cash Flow from Operating Activities Profit as per Balance Sheet (40,000 – 28,000) 12,000 Proposed Dividend 4,000 Provision for Taxation 12,000 Net Profit before Taxation and Extraordinary items 28,000 Items to be added: Interest paid on Debentures 600 Depreciation 32,000 32,600 Operating Profit before Working Capital changes 60,600 Add: Increase in Current liabilities Trade Payables 1,00,000 Less: Increase in Current Assets Other Current Assets (8,000) Inventories (1,00,000) Trade Receivables (60,000) (68,000) Cash generated from Operating Activities (7,400) Less: Income Tax paid (4,000) Net Cash used in Operating Activities (11,400) B. Cash Flow from Investing Activities Purchase of Fixed Assets (1,96,000) Net Cash used in Investing Activities (1,96,000) C. Cash Flow from Investing Activities Issue of Equity Shares 1,00,000 Issue of Preference Shares 60,000   Less: Interest Paid on Debentures (600) Less: Dividend Paid (4,000) Net Cash from Financing Activities 1,55,400 D. Net decrease in cash and cash equivalent (A+B+C) (52,000) Add: Cash and Cash Equivalents in the beginning 80,000 E. Cash and Cash Equivalents at the end 28,000 Working Notes: Plant and Machinery Account Dr. Cr. Date Particulars J.F. Amount ₹ Date Particulars J.F. Amount ₹ Balance b/d 2,00,000 Depreciation 32,000 Bank (Purchases- Balancing fig.) 1,96,000 Balance c/d 3,64,000 3,96,000 3,96,000 12. From the following balance sheet of Computer India Ltd., prepare a cash flow statement. (₹ in '000) Particulars Note No. 31st March 2017 (₹) 31st March 2016 (₹) I) Equity and Liabilities 1. Shareholders' Funds a) Share capital 50,000 40,000 b) Reserves and surplus-Surplus 1 3,700 3,000 2. Non-Current Liabilities 10% Debentures 6,500 6,000 3. Current Liabilities a) Short-term borrowings 2 6,800 12,500 b) Trade payables 11,000 12,000 c) Short-term provisions 3 10,000 8,000 Total 88,000 81,500 II) Assets 1. Non-current assets a) Fixed assets 4 25,000 30,000 2. Current assets a) Inventories 35,000 30,000 b) Trade receivables 24,000 20,000 c) Cash and cash equivalents-cash 3,500 1,200 d) Other current assets-prepaid exp. 500 300 Total 88,000 81,500 Notes to Accounts Particulars 31st March 2017 (₹) 31st March2016(₹) 1. Reserve and surplus (i) Balance in the statement of profit and loss 1,200 1,000 (ii) General reserve 2,500 2,000 3,700 3,000 2. Short-term borrowings Bank Overdraft 6,800 12,500 3. Short-term provisions (i) Provision for taxation 4,200 3,000 (ii) Proposed dividend 5,800 5,000 10,000 8,000 4. Fixed Assets: Fixed Assets 40,000 41,000   Less: Accumulated Depreciation (15,000) (11,000) 25,000 30,000 Additional Information: Interest paid on Debenture ₹ 600 The solution to this question is as follows: Cash Flow Statement of Computer India Ltd. ('00,000) Particulars Amount ₹ Amount ₹ A. Cash Flow from Operating Activities Profit as per Balance Sheet (1,200 – 1,000) 200 Proposed Dividend 5,800 General Reserve 500 Provision for Taxation 4,200 Net Profit before Tax and Extraordinary items 10,700 Items to be added Provision for Depreciation 4,000 Interest paid on Debentures 600 4,600 Operating Profit before Working Capital changes 15,300 Adjustments Less: Increase in Current Assets Trade Receivables (4,000) Inventories (5,000) Prepaid Expenses (200) (9,200) 6,100 Less: Decrease in Current Liabilities Trade Creditors (1,000) (1,000) Cash generated from Operating Activities 5,100 Less: Income Tax Paid (3,000) Net Cash from Operation 2,100 B. Cash Flow from Investing Activities Sale of Fixed Assets 1,000 Net Cash from Investing Activities 1,000 C. Cash Flow from Financing Activities Issue of Equity Shares 10,000 Issue of 10% Debentures 500 Less: Dividend paid (5,000) Less: Interest paid (600) Net Cash from Financing Activities 4,900 D. Net Increase in Cash and Cash Equivalent (A+B+C) 8,000 Add: Cash and Cash Equivalent in the beginning Cash 1,200 Bank Overdraft

(12,500) (11,300) E. Cash and Cash Equivalents at the end Cash 3,500 Bank Overdraft (6,800) (3,300) The concepts covered in this chapter are listed below: Nature of the cash flow statement Benefits of cash flow statement Cash and cash equivalents Cash flows Preparation of cash flow statement Conclusion NCERT Solutions for Class 12 Accountancy Chapter 6 provides a wide range of illustrative examples, which assists the students in comprehending the concepts and learning quickly. The above-mentioned are the solutions according to the Class 12 CBSE syllabus. For more solutions and study materials of NCERT solutions for Class 12 Accountancy, visit BYJU'S or download BYJU'S – The Learning App for more information. Also, explore – NCERT Solutions for Class 12 Accountancy Part II Notes For All Chapters Accountancy Class 12 CBSE1. Cash Flow Statement Cash flow statement is a statement showing the changes in financial position of a business concern during different intervals of time in terms of cash and cash equivalents. The Revised Accounting Standard-3 has made it mandatory for all listed companies to prepare and present a cash flow statement along with other financial statements on annual basis. 2. Cash Flows Cash flows are inflows and outflows of cash and cash equivalent. It implies movement in and movement out of cash and cash equivalents. Receipt of cash from a non-cash item is termed as 'cash inflow', while cash payment in respect of such item is termed as 'cash outflow'. Cash Cash comprises of cash in hand and demand deposits with the bank. Cash Equivalents Cash equivalents are 'short-term highly liquid investments that are j readily convertible into known amount of cash and which are subjected to an insignificant risk of change in value'. 3. Objectives of Cash Flow Statement (i) Useful in short-term financial planning. (ii) Useful inefficient cash management. (iii) Helpful in formulation of business policies. (iv) Assists in preparation of cash budget. (v) Used for assessment of cash flow from various activities, viz operating, investing and financing activities. 4. Limitations of Cash Flow Statement (i) Based on historical cost principle. (ii) Based on secondary data. (iii) Ignores non-cash transactions. (iv) No adherence of basic accounting principles. (v) Cash flow statement is not a substitute for income statement. 5. Classification of Business Activities Accounting Standard-3 (Revised) requires that the changes resulting in inflows and outflows of cash and cash equivalents will be classified into following three activities: (i) Cash flow from operating activities. (ii) Cash flow from investing activities. (iii) Cash flow from financing activities. 6. Cash Flow from Operating Activities Operating activities are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities. 7. Cash Flow from Investing Activities As per AS-3, investing activities are the acquisition and disposal of the long-term assets and other investments, not included in cash equivalents. Cash flow from investing activities are exhibited as follows: 8. Cash Flow from Financing Activities Financing activities are the activities which result in change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) of the enterprise from other sources. Cash flow arising from financing activities are exhibited as follows: 9. Format of Cash Flow Statement A cash flow statement is a financial statement that reflects how much cash comes in and out of a business over a certain period. It is one of the most intuitive financial statements because it follows the cash earned by the business through operating, investment, and financing activities. Companies must file cash flow statements to remain compliant with financial regulators. A cash flow statement highlights a company's cash inflows and outflows from its ongoing operations and external investment sources.It includes cash made by the business through operations, investment, and financing—the sum of which is called net cash flow.The cash flow statement is divided into three sections, which include cash flow from operations, cash flow from investment activities, and cash flow from financing.Public companies must file cash flow statements to remain compliant with financial regulators.You can prepare the statement of cash flows using two different methods: the direct method or the indirect method. Laura Porter / Investopedia Every company that sells and offers stock to the public must file financial reports and statements with the Securities and Exchange Commission (SEC). The four main financial statements are: Balance sheet: This shows detailed information about a company's assets, liabilities, and shareholders' equity.Income statement: This shows a company's revenue earned during a set time, usually one year or less, plus the costs and expenses that went into earning the revenue.Statement of shareholders' equity: This shows changes in the interests of the company's shareholders over time.Cash flow statement: This shows all the inflows and outflows of the company's cash. It helps interested parties gain insight into all the transactions that go through a company. Cash flow statements highlight a company's financial well-being based on its cash inflows and outflows. Inflows are the result of a company's ongoing operations and external investment sources while outflows reflect money paid for business activities and investments during a given period. There are two different methods of accounting for cash inflow and outflow. They are: Accrual accounting: This method is commonly used by public companies. It recognizes income when it's earned, not when it's received, and expenses when they are incurred, not when they are paid. The income statement is not the same as the company's cash position. Cash accounting: This method recognizes income when the cash is received and expenses when they are paid. The cash flow statement is focused on cash accounting. Profitable companies can fail to adequately manage cash flow, which is why the cash flow statement is important for investors and analysts. Even though a company extends credit to its customers and recognizes that sale as revenue, it doesn't have the cash yet. Nevertheless, it earns a profit on the income statement and pays income taxes on that profit. If it does this too often, it faces the danger of running out of cash despite technically being profitable. Investors and analysts should use good judgment when evaluating changes to working capital, as some companies may try to boost their cash flow before reporting periods. A cash flow statement is divided into three main parts: operations, investing, and financing. Each has a separate section of the cash flow statement, which helps investors determine the value of a company's stock or the company as a whole. The sum of the cash generated by these three segments is called net cash flow. The first section of the cash flow statement covers cash flows from operating activities. This section begins with net income and reconciles all noncash items to cash items involving operational activities. Put simply, it is the company's net income, but in a cash version. This section reports cash inflows and outflows directly related to a company's main business activities. These may include buying and selling inventory and supplies, and paying employee salaries, but exclude investments, debts, and dividends. Companies must generate sufficient positive cash flow for operational growth or they may need financing to expand. For example, accounts receivable (AR) is a noncash account. Higher AR means sales are up, but no cash came in at the time of sale. Receivables are deducted from net income because they are not cash. The cash flow statement can also include accounts payable (AP), depreciation, amortization, and numerous prepaid items that are booked as revenue or expenses with no associated cash flow. The second section looks at cash flows from investing and is the result of investment gains and losses. It also includes cash spent on property, plants, and equipment. It is where analysts look to find changes in capital expenditures. When capital expenditures increase, cash flow generally goes down. However, that's not always a bad thing, as it may indicate that a company is investing in its future operations. Companies with high capital expenditures tend to be those that are growing. Positive cash flows within the CFI section, which can be generated in such ways as selling equipment or property, can be considered good. However, investors usually prefer that companies generate their cash flow primarily from business operations. Cash flows from financing provides an overview of cash used in business financing and measures cash flow between a company and its owners and creditors. The cash normally comes from debt or equity, such as selling stocks and bonds or borrowing from a bank. These figures are generally reported annually on a company's 10-K report to shareholders. Analysts use the CFF section to determine how much money the company pays out via dividends or share buybacks. It's also useful to help determine how a company raises cash for operational growth. Cash obtained or paid back from capital fundraising efforts and loans is listed here. Positive cash flow from financing means more money comes into the company than flows out. When the number is negative, it may mean the company is paying off debt or making dividend payments and/or stock buybacks. Cash inflows and outflows from business activities, such as buying and selling inventory and supplies, paying salaries, accounts payable, depreciation, amortization, and prepaid items booked as revenues and expenses, all show up in operations. Cash flow is generally reduced when capital expenditures increase, as the cash has been used to invest in future operations, thus promoting the company's growth. A negative number can show that a company is paying off debt, making dividend payments, or buying back its stock. The cash flow statement has three key sections: operations, investments, and financing. Even if the business uses accrual accounting as its main reporting system, the cash flow statement is focused on cash accounting, allowing managers, analysts, and investors to assess how well a company is doing. Investors generally prefer that companies generate the bulk of their cash flow from operations rather than investing and financing. After all, operations are what a company is created to do.