



A STUDY ON CASH FLOW STATEMENT

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ABSTRACT

For analysis of Financial Statement by using Cash Flow Statement as per AS-3 under Indirect Method it is very useful to students and scholars. Under this article I can explain easy way to prepare cash flow statement and understand the components of financial statement between two financial years.

KEYWORDS : Simple steps for Analysis of Financial Statement, Cash Flow Statement, Indirect Method.

INTRODUCTION

Cash Flow means inflows and outflows of cash. Cash comprises cash on hand and demand deposits with banks. Cash equivalent are short-term, highly liquid investments which are readily convertible into cash.

A statement of changes in the financial position of firm on cash basis is called a cash flow analysis/statement.

A cash flow analysis summarizes the causes of changes in cash position of a business enterprise between dates of two balance sheets. Cash flow analysis is a statement of changes of financial position in business due to inflow or outflow of cash.

The cash flow analysis can be classified into following activities:

- 1) Operating activities,
- 2) Investing activities, and
- 3) Financing activities.

1. OPERATING ACTIVITIES

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations, the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise, dividends, repay loans, and make new investments without recourse to external sources of financing.

2. INVESTING ACTIVITIES

The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income cash flows.

3. FINANCING ACTIVITIES

The separate disclosure of cash flows arising 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.

Balance Sheet

Liabilities	Rs	Rs	Assets	Rs	Rs
Share Capital	xx	xx	Machinery	xx	xx
General Reserve	xx	xx	Land Building	xx	xx
P&L Account	xx	xxxx	Furniture	xx	xx
Debentures	xx	xx	Goodwill	xx	xx
Bank Loans	xx	xx	Investment	xx	xx
Term Loans	xx	xx	Debtors	xx	xx
Creditors	xx	xx	Receivables	xx	xx
Bank O.D	xx	xx	Prepaid exp.	xx	xx
Bills Payable	xx	xx	Cash in hand	xx	xx
O/s Expenses	xx	xx	Cash at bank	xx	xx
Prepaid exp.	xx		Preliminary exp	xx	xx

Components of Balance Sheet are analyzed as follows for

preparation of Cash Flow Statement. Cash Flow Statement is one of the tools for analysis of Financial Statement.

Liabilities:**Share Capital**

- Increase in Share Capital in current year when compared to last year it is treated as "Issue of Share Capital" shown in Financing Activities as add item
- Decrease in Share Capital in current year when compared to last year it is treated as "Redemption of Share Capital" shown in Financing Activities as Less item.

P&L Account

- Increase in P&L Account in current year when compared to last year it is treated as "Profit of the year" shown in Operating Activities.
- Decrease in P&L Account in current year when compared to last year it is treated as "Loss of the year" shown in Operating Activities

Reserves

- Increase in Reserves in current year when compared to last year it is treated as "Transfer to Reserves" shown in Operating Activities as add item
- Decrease in Reserves in current year when compared to last year it is treated as "Transfer from Reserves" shown in Operating Activities as less item.

Debentures

- Increase in Debentures in current year when compared to last year it is treated as "Issue of Debentures" shown in Financing Activities as add item
- Decrease in Debentures in current year when compared to last year it is treated as "Redemption of Debentures" shown in Financing Activities as Less item.

Loans

- Increase in Loan in current year when compared to last year it is treated as "Loan from Bank or Financial Institution" shown in Financing Activities as add item
- Decrease in Loan in current year when compared to last year it is treated as "Repayment of Loan" shown in Financing Activities as Less item.

Current Liabilities

- Increase in Current Liabilities in current year when compared to last year it is treated as "Increase in Current Liability" shown in Operating Activities as add to operating profit before working capital changes
- Decrease in Current Liabilities in current year when compared to last year it is treated as "Decrease in Current Liability" shown in Operating Activities as Less from operating profit before working capital changes

Assets:**Tangible Fixed Assets**

- Increase in Tangible Fixed Assets in current year when compared to last year it is treated as "Purchase of Fixed Asset" shown in Investing Activities as Less item
- Decrease in Tangible Fixed Asset in current year when compared to last year it is treated as "Sale of Fixed Asset" shown in Investing Activities as add item.

Intangible Fixed Assets

- Increase in Intangible Fixed Assets in current year when compared to last year it is treated as "Purchase of Asset" shown in Investing Activities as Less item
- Decrease in Intangible Fixed Asset in current year when compared to last year it is treated as "Intangible Asset Written off" shown in Operating Activities as add item.

Investments

- Increase in Investments in current year when compared to last year it is treated as "Purchase of Investments" shown in Investing Activities as Less item
- Decrease in Investments in current year when compared to last year it is treated as "Sale of Investment" shown in Investing Activities as add item.

Current Assets

- Increase in Current Assets in current year when compared to last year it is treated as "Increase in Current Assets" shown in Operating Activities as less from operating profit before working capital changes
- Decrease in Current Assets in current year when compared to last year it is treated as "Decrease in Current Assets" shown in Operating Activities as add to operating profit before working capital changes

Fictitious Assets

- Decrease in Preliminary Expenses in current year when compared to last year it is treated as "Preliminary Expenses Written off" shown in Operating Activities as add item.

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