

**A Presentation
on**

**INTRODUCTION TO
CASH FLOW STATEMENT**

AT

**S.Y.B.B.A (SEMESTER – III)
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PRESENTED BY

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INTRODUCTION

- Till now you have learnt about the financial statements being primarily inclusive of **Position Statement** (showing the financial position of an enterprise as on a particular date) and **Income Statement** (showing the result of the operational activities of an enterprise over a particular period).
- **There is also a third important financial statement known as Cash flow statement**, which shows inflows and outflows of the cash and cash equivalents.
- This statement is usually prepared by companies which comes as a tool in the hands of users of financial information **to know about the sources and uses of cash and cash equivalents of an enterprise over a period of time from various activities of an enterprise.**

COMPANIES ACT 2013

- Financial Statement of companies are prepared following the accounting standards prescribed in the companies Act, 2013.
- Accounting Standards are notified under section 133 of the Companies Act, 2013 vide Accounting Standards Rules, 2006 and **are mandatory in nature.**
- Companies Act, 2013 also specifies that if the accounting standards are not followed, financial statements will not be true and fair, which is a quality of financial statement.
- Financial Statements are defined in Companies Act, 2013 (Section 2 (40)] and includes Cash Flow Statement prepared in accordance with Accounting Standard- 3 (AS-3)- Cash Flow Statement

OBJECTIVES OF CASH FLOW STATEMENT

- A Cash flow statement shows inflow and outflow of cash and cash equivalents from various activities of a company during a specific period.
- The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities.
- This information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those 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.

INTRODUCTION

- A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities.
- It requires that an enterprise should prepare a cash flow statement and should present it for each accounting period for which financial statements are presented.

MEANING OF CASH FLOW

- The cash flow statement is usually prepared using **cash and cash equivalents** as its basis.
- Cash equivalents are **short-term, highly liquid** investments that are both
 1. readily convertible to known amounts of cash, and
 2. so near to their maturity that their market value is relatively insensitive to changes in interest rates.



DEFINITION

- “A statement of change in financial position of a firm on cash basis is called a cash flow statement”
- The cash flow statement describes the inflows (sources) & outflow (uses) of cash. It summarises the Cause of changes in cash position of a business enterprise between two balance sheets.

PURPOSE OF THE CASH FLOW STATEMENT

- The primary purpose of the cash flow statement is to provide **information about the cash receipts and cash payments** of an entity during a period.
- A secondary objective is to provide information about its
 - **Operating activities**
 - **Investing activities**
 - **Financing activities**

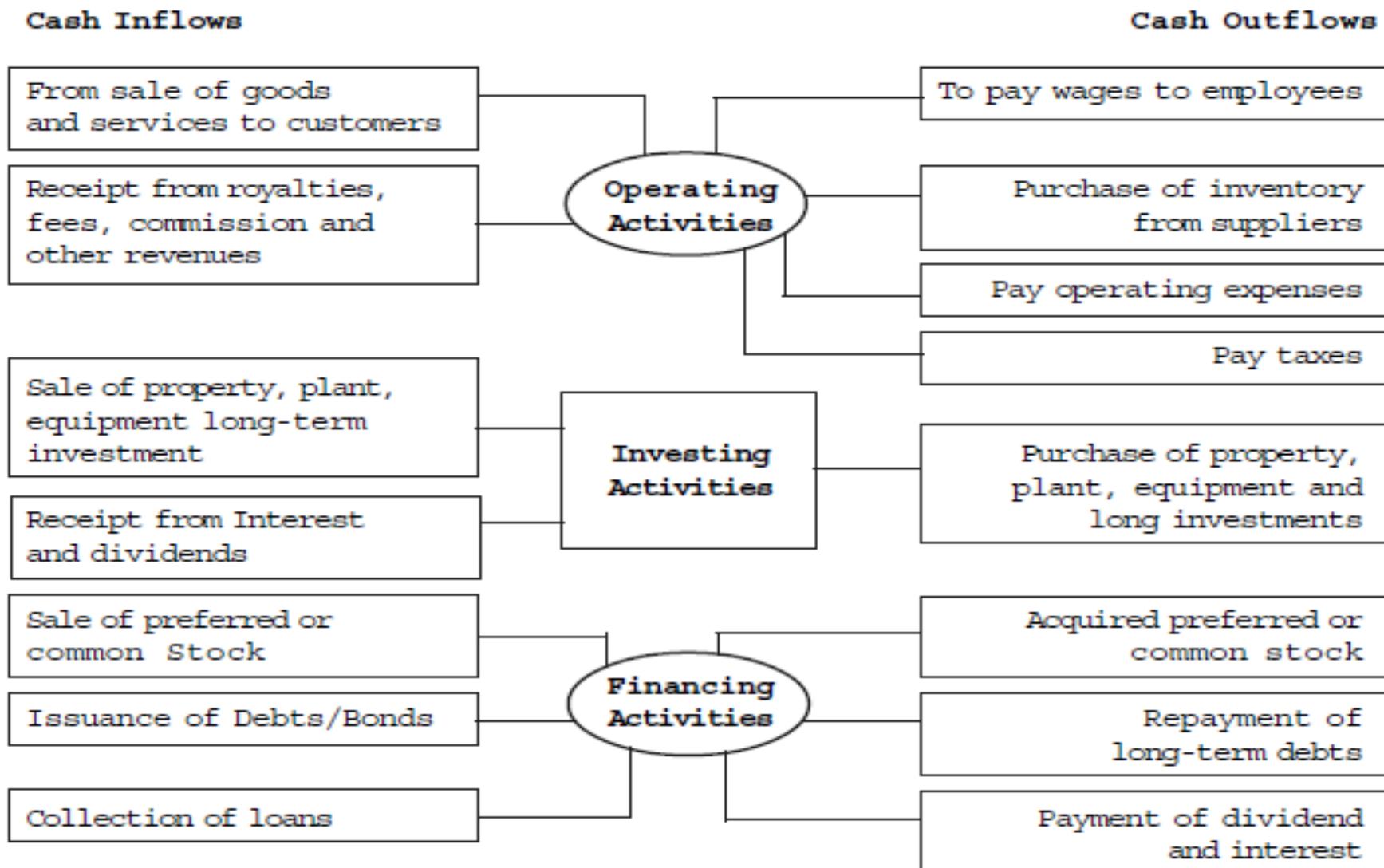
CLASSIFICATION OF ACTIVITIES

These activities are to be classified into three categories:

- (1) Operating,
- (2) Investing, and
- (3) Financing Activities

- so as to show separately the cash flows generated (or used) by (in) these activities.
- This helps the users of cash flow statement to assess the impact of these activities on the financial position of an enterprise and so also on its cash and cash equivalents.

CLASSIFICATION OF CASH INFLOWS AND CASH OUTFLOWS ACTIVITIES



CONCEPTS

1. **Cash** comprises cash on hand and demand deposits with banks.
2. **Cash equivalents** are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
- 3 **Cash flows** are inflows and outflows of cash and cash equivalents.
- 4 **Operating activities** are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
- 5 **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- 6 **Financing activities** are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

PREPARING THE CASH FLOW STATEMENT

The cash flow statement is prepared differently from the three other basic financial statements.

1. It is not prepared from the adjusted trial balance.
2. The cash flow statement deals with cash receipts and payments, so the accrual concept is not used in the preparation of this statement.

The information to prepare this statement usually comes from three sources:

1. Comparative balance sheet
2. Current income statement
3. Additional information

THREE MAJOR STEPS IN PREPARING THE FUND FLOW STATEMENT

Step 1: Determine the net increase (decrease) in cash.

The difference between the beginning and ending cash balances can be easily calculated from comparative balance sheets.

Step 2: Determine net cash provided (used) by operating

This step involves analysing not only the current year's income statement but also comparative balance sheets and selected additional data.

Step 3: Determine net cash provided (used) by investing and financing activities.

This step involves analysing comparative balance sheet data and selected additional information for their effects on cash.

THANK YOU