

CASH FLOW ANALYSIS – Made Easy

[As per Accounting Standard AS – 03]

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Cash Flow Analysis or Cash Flow Statement is one which is prepared from the financial statements of an organization concentrating and giving significance to the inflow and outflow of cash. It is a financial statement where the aggregate of cash inflow and outflow are presented. Global standard IAS – 07 (International Accounting Standard – 07) manages the preparation of CFS and in India AS - 03 (Accounting Standard – 03) manages the same. Treatment varies between AS – 03 and IAS – 07 as for treating “Bank Overdraft” as a component of Cash and Cash Equivalent. The presented model is based on AS – 03. Cash flow statement mainly mirror’s a firm’s liquidity. The following can be taken as Why and for Whom CFA will be helpful?

- ❖ Effective Cash Management
- ❖ Internal Financial Management
- ❖ Discloses Movement of Cash
- ❖ Discloses success or failure of Cash Planning
- ❖ Will help Creditors, Investors, Directors, Shareholders, Contractors and Employees

There are two methods of preparing CFS, Direct and Indirect Method. The presented model is based on the Indirect Method where Balance of Profit and Loss account is considered as base and it is balanced considering the cash, non-cash and non-operating items from the financial statements in order to arrive “Net Cash Flow from Operating Activities”

Preparation of CFS as per AS – 03 is separated into three activities:

- ❖ Operating Activities
- ❖ Investing Activities and
- ❖ Financing Activities

S. No	PARTICULARS	AMOUNT	AMOUNT
1	CASH FLOW FROM OPERATING ACTIVITIES: Net Profit for the Year or (Closing Balance minus Opening Balance of Profit and Loss a/c) Add: a. Depreciation b. Transfer to Reserve c. Goodwill, Preliminary Expenses Written-off d. Patents, Trademarks, copy rights Written-off e. Discount on Shares and Debentures f. Loss on sale of Fixed Assets g. Foreign Exchange Loss h. Interim Dividend Paid i. Provision for Tax j. Proposed Dividend k. Decrease in Current Assets (Except Cash and Bank) l. Increase in Current Liabilities Less: a. Tax / Income Tax Paid b. Profit on sale of Fixed Assets c. Dividend received / Interest received d. Increase in Current Assets (Except Cash and Bank) e. Decrease in Current Liabilities	<div style="text-align: center;">xxx</div> <div style="text-align: center; margin-top: 60px;">xxx</div> <div style="text-align: center; margin-top: 80px;">xxx</div>	xxx - 1
	NET CASH FLOW FROM OPERATING ACTIVITIES - OA		

WORKINGS

When Ordinary Depreciation Method is followed

FIXED ASSETS A/C

To Balance b/d	xxx	By Depreciation	xxx
To Profit on Sales	xxx	By Sales [Selling Price]	xxx
To Purchases	xxx	By Loss on Sales	xxx
		By Balance c/d	xxx
	-----		-----
	xxx		xxx
	-----		-----

When Provision for Depreciation Method is Followed

1. FIXED ASSETS A/C [AT COST PRICE]

To Opening Balance	xxx	By Sales [at cost price]	xxx
To Purchases	xxx	By Closing Balance	xxx
	-----		-----
	xxx		xxx
	-----		-----

2. PROVISION FOR DEPRECIATION A/C

To Assets sold Dep	xxx	By Opening Balance	xxx
To Closing Balance	xxx	By Current Year Depreciation	xxx
	-----		-----
	xxx		xxx
	-----		-----

3. ASSETS SOLD A/C

To Assets [at cost price]	xxx	By Depreciation	xxx
To Profit on sale	xxx	By Loss on sale	xxx
		By Sales [At selling Price]	xxx
	-----		-----
	xxx		xxx
	-----		-----

PROVISION FOR TAXATION A/C

To Tax paid [Op. A]	xxx	By Opening Balance	xxx
To Closing Balance	xxx	By Provision for tax for	
		Current year [Op. A]	xxx
	-----		-----
	xxx		xxx
	-----		-----

PROPOSED DIVIDEND A/C

To Dividend paid [Fin. A]	xxx	By Opening Balance	xxx
To Closing Balance	xxx	By Current year provision	
		for Dividend [Op. A]	xxx
	-----		-----
	xxx		xxx
	-----		-----

POINTS TO KNOW - SUMMARY

- ✓ Meaning of Cash Flow Statement / Projected Cash Flow Statement (Cash Budget)
- ✓ Prepared in the same way as Funds Flow Statement
- ✓ Considering Sources of Cash and Uses of Cash
- ✓ Considering both Cash and Non-Cash Transactions
- ✓ Sources will be Internal and External
- ✓ Difference between Cash Flow Analysis and Funds Flow Analysis
- ✓ Use of CFA
 - a. Effective Cash Management
 - b. Internal Financial Management
 - c. Discloses Movement of Cash
 - d. Discloses success or failure of Cash Planning
- ✓ Main limitation is that it cannot substitute income Statement, Funds Flow Statement (Each serves for its own purpose)
- ✓ CFS as per AS-3
- ✓ Operating Activities
- ✓ Investing Activities
- ✓ Financing Activities
- ✓ Treatment of Bank Overdraft (Nothing in AS-3 / But mentioned in IAS-7 (Ind AS-7) – A component of cash and cash equivalent)
- ✓ Two methods of preparation
 - a. Direct Method
 - b. Indirect Method
- ✓ Preparation of Fixed Assets Accounts
 - a. When Ordinary Depreciation
 - b. When Provision for Depreciation
- ✓ Preparation of Provision for Taxation a/c
- ✓ Preparation of Proposed Dividend a/c
- ✓ Treatment of Interim Dividend