T.Y. B. Com

AS-3 Cash Flow Statement (01/04 /1997)

Accounting standard 3 deals with the provision of information about sources and applications of funds of an enterprise by means of cash flow statement during the period. Cash flow is an additional information to the user of financial statement. This statement exhibits the flow of incoming and outgoing cash. This statement is one of the tools for assessing the liquidity and solvency of the enterprise.

Applicability:

According to the Companies Act, this standard applies to every company except a one person, small and dormant company.

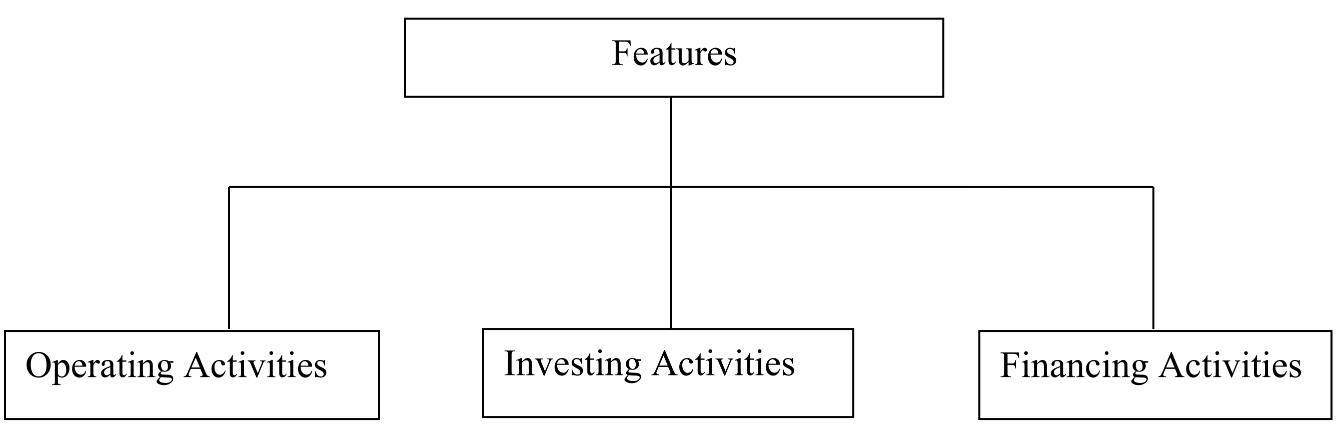
Cash:

It consists of cash in hand and demand deposits.

Cash Equivalent:

It consists of short-term, highly liquid investment having maturity less than three months, which can be radily converted into cash without decline in its value. In other words, these investments can be converted into cash without any risk.

Features:



i) **Operating Activities:**

They are principal revenue producing activities of the enterprises other than investing and financial activities. Following are the examples of cash flow from operating activities are as follows:

- Cash receipts from the sale of goods and the rendering services.
- Cash receipt from royalties, fees, commission and other revenue.
- Cash payments to suppliers for goods and services
- Cash payments to and on behalf of the employees.

ii) **Investment Activities:**

The activities of acquisition and disposal of long-term assets and other investments not included in cash equivalents are investing activities. They include making and collecting loans, acquiring and disposal of debt and equity instruments, property and fixed assets, etc. Following are the examples of cash flow from Investment activities.

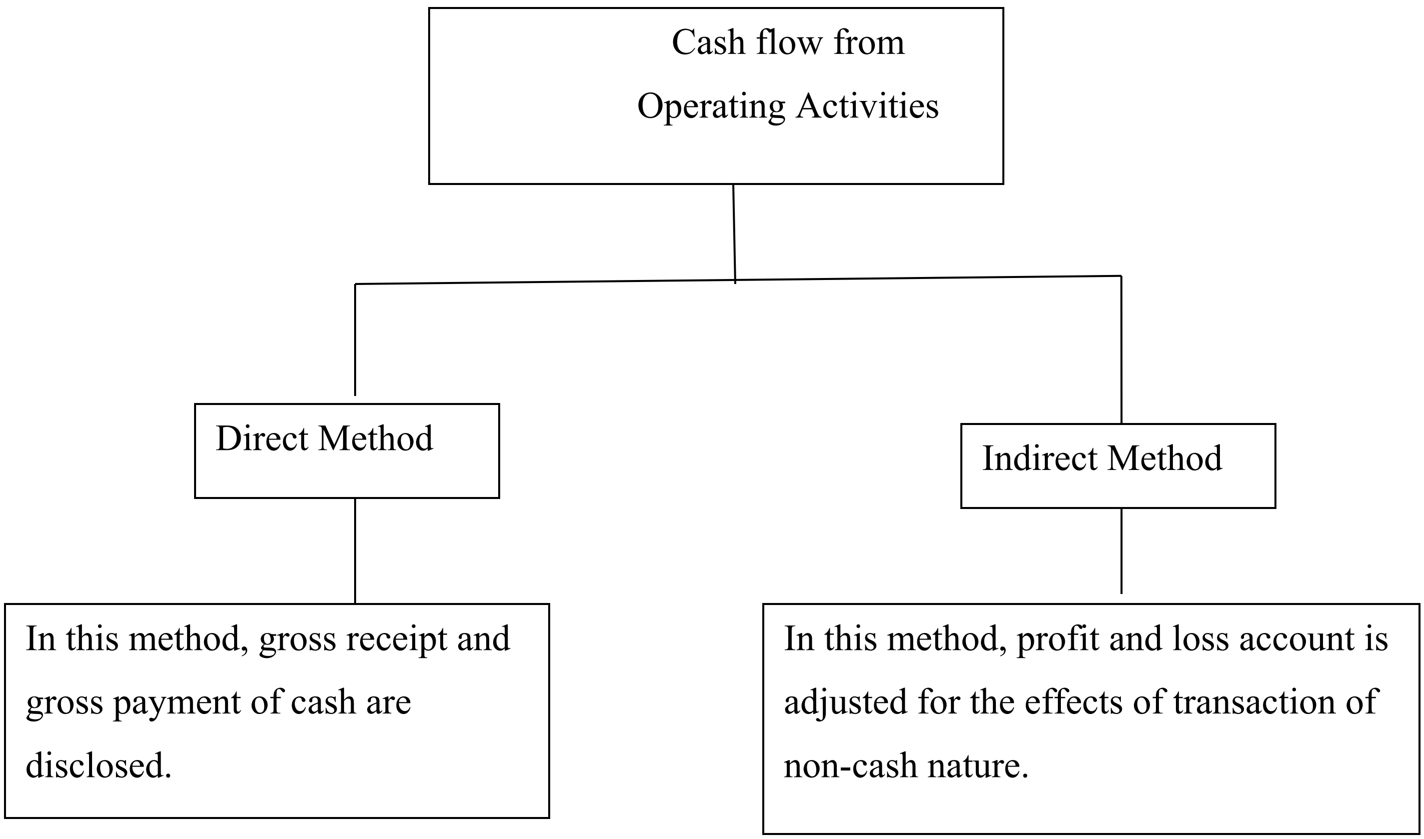
- Cash payments to acquire fixed assets.
- Cash receipts from disposal of fixed assets.
- Cash receipts from disposal of shares, warrants or debt instruments of other enterprises and interest in joint ventures.

iii) **Financial Activities:**

These are the activities which result in change in size and composition of owners capital and borrowing of the organization.

- Sale of shares
- Buy back of shares
- Redemption of preference shares.
- Issue/redemption of debentures.
- Long-term loan/ payment.
- Dividend/Interest paid.

Cash flow from Operating Activities



Interest Received:

- From Investment, it is in investment activities.
- From short-term investment classified as cash equivalents should be considered as cash inflows.
- On trade advances and operating receivables should be in operating activities.

Interest Paid:

- On loans or debts are in financing activities.
- On working capital loan and any other loan taken to finance operating activities are in operating activities.

Dividend Received:

- For Financial Enterprises-in operating activities.

- For other than Financial Enterprises-in investing activities.

Dividend Paid:

- Dividend paid – Always classified as financing activities.

Cash Flow from foreign currency transactions:

The effect of change in exchange rate in cash and cash equivalents held in foreign currency should be reported as a separate part of the reconciliation of cash and cash equivalents. Unrealised gains and losses arising from changes in foreign exchange rates are not cash flows.

Extraordinary items: The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

Treatment of Tax:

- Cash flow for tax payments or refund should be classified as cash flow from operating activities.
- If cash flow can be specifically identified as cash flow from investment or financing activities, appropriate classification should be made.

Cash flow relating Investments in associates, subsidiaries and Joint Venture:

Enterprises having investments in associates, subsidiaries and joint venture should report in the cash flow statement only cash flow between itself and the investee.

Reporting Cash- Flow on net basis (Activity basis)

- Cash receipts and payment on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise.
- Cash receipt and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Cash Flow relating to acquisition or disposal of subsidiaries:

- Cash flow arising from acquisition and from disposal of subsidiaries or other business units should be presented separately and classified as investing activities.
- Total purchase or total disposal should be disclosed separately.
- The position of the purchase or disposal consideration discharged by means of cash and cash equivalents should be disclosed.

Non-cash transactions:

- Investing and financing transactions that do not involve the use of cash and cash equivalents should be excluded from a cash flow statement.
- Such transactions should be disclosed in the financial statements. Examples of nan-cash transactions are:
  - Acquisition of assets by assuming directly related liabilities.
  - Acquisition of an enterprise by means of issue of shares.
  - Conversion of debt to equity.

Disclosure of Cash and Cash equivalents:

- An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amount in the cash flow statement with the equivalent items reported in the balance sheet.
- An enterprise should disclose the amount of significant cash and cash equivalent balance held by the enterprise that are not available for use by it with explaination of the management.