

Chapter 11 · Cash Flow Statement

CBSE Class 12 Accountancy (055) · Part B · Unit 4 = 8 marks · Ultimate Revision Sheet

60-SECOND RECALL

Standard	AS 3 (Revised) — only the INDIRECT method is prescribed for Class 12
Three activities	Operating → Investing → Financing
Operating	Main revenue-producing activities — the residual category
Investing	Purchase / sale of non-current assets and non-current investments
Financing	Changes in share capital and long-term borrowings , plus dividend paid
Cash equivalents	Short-term, highly liquid, maturity $\leq$ 3 months from acquisition
Check	Net of the three = Closing Cash – Opening Cash

1. Concept

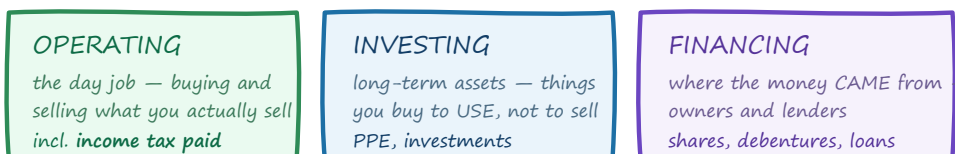
DEFINITION A Cash Flow Statement shows the inflows and outflows of cash and cash equivalents during a period, classified into operating, investing and financing activities. It is prepared as per AS 3 (Revised).

Cash and cash equivalents = Cash in hand + Bank balance + short-term highly liquid investments with a maturity of **three months or less** from the date of acquisition. **Bank overdraft** is treated as a financing activity (or as negative cash, per the question).

Objectives: assess liquidity and solvency · explain the reasons for the change in cash · help in short-term planning · assess the cash-generating ability of the business.

2. Classification — the three activities

Ask one question of every item: *what part of the business does this cash belong to?*



The four items examiners use to separate the marks — for a **NON-financial** company:



If the company **IS** a bank or an NBFC, all four become **OPERATING**.

Read the first line of the question to find out which kind of company it is — that line is there on purpose.

RECEIVED goes with Investing; **PAID** goes with Financing. That single pairing is most of the mark.

WHERE DOES IT GO? — the classification the exam tests

Activity	Inflows	Outflows
OPERATING	Cash sales · Cash from debtors · Commission received · Royalty received	Cash purchases · Payment to creditors · Wages, salaries · Office & selling expenses · Income tax paid

INVESTING	Sale of PPE · Sale of non-current investments · Interest received · Dividend received	Purchase of PPE · Purchase of non-current investments · Purchase of intangibles
FINANCING	Issue of shares · Issue of debentures · Proceeds from long-term loans · Bank overdraft raised	Redemption of debentures / preference shares · Repayment of loans · Interest paid · Dividend paid · Buy-back of shares

THE FOUR ITEMS THAT DECIDE THE QUESTION For a non-financial company:

- Interest RECEIVED → Investing • Dividend RECEIVED → Investing
- Interest PAID → Financing • Dividend PAID → Financing

For a financial company (bank, NBFC), interest and dividend received/paid are **OPERATING**.
Read the question's first line to see which it is.

3. Format — Indirect Method

FORMAT — REPRODUCE EXACTLY

Particulars	₹	₹
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax and Extraordinary Items (see WN1)		...
Adjustments for non-cash and non-operating items:	...	...
Add: Depreciation · Goodwill / Patents written off Loss on sale of asset · Interest on debentures	(...)	
Less: Profit on sale of asset · Interest received · Dividend received		
Operating Profit before Working Capital Changes		XXX
Add: Decrease in Current Assets · Increase in Current Liabilities	...	...
Less: Increase in Current Assets · Decrease in Current Liabilities	(...)	
Cash Generated from Operations		XXX
Less: Income Tax Paid		(...)
Net Cash from Operating Activities (A)		XXX
B. CASH FLOW FROM INVESTING ACTIVITIES	...	
Purchase of PPE · Sale of PPE · Purchase/Sale of Investments Interest Received · Dividend Received		
Net Cash from / (used in) Investing Activities (B)		XXX
C. CASH FLOW FROM FINANCING ACTIVITIES	...	
Issue of Shares · Issue / Redemption of Debentures Long-term Loans raised / repaid · Interest Paid · Dividend Paid		
Net Cash from / (used in) Financing Activities (C)		XXX
Net Increase / (Decrease) in Cash (A + B + C)		XXX
Add: Opening Cash and Cash Equivalents		...
Closing Cash and Cash Equivalents		XXX

4. The Working Notes That Carry Marks

WN1 — NET PROFIT BEFORE TAX (always needed)

Net Profit before Tax = Change in Surplus (Balance in Statement of P&L) + Transfer to Reserves + Proposed Dividend of last year + Interim Dividend + Provision for Tax made this year

Start from the *difference* between closing and opening Surplus, then add back everything that was appropriated.

WN2 — PROVISION FOR TAX A/c (to find tax paid)

To Bank A/c (tax PAID — balancing figure)	...	By Balance b/d	...
To Balance c/d	...	By Statement of P&L (provision made)	...

WN3 — MACHINERY / PPE A/c (to find purchase or sale)

To Balance b/d	...	By Depreciation A/c	...
To Bank A/c (purchase — balancing figure)	...	By Bank A/c (sale proceeds)	...
To Statement of P&L (profit on sale)	...	By Statement of P&L (loss on sale)	...
		By Balance c/d	...

Whatever is missing is the *balancing figure* — that is the number the question wants.

5. Question Triggers what the wording is really asking

If the question says...	Do this
"depreciation charged ₹X"	ADD BACK in operating (non-cash)
"profit on sale of machinery"	LESS in operating; full sale proceeds to investing
"loss on sale of asset"	ADD in operating; sale proceeds to investing
"interest on debentures paid"	ADD in operating, then show as financing outflow
"dividend received"	LESS in operating, then investing inflow
"proposed dividend of last year"	Add in WN1, then financing outflow this year
"provision for tax" opening & closing given	Prepare WN2 to find tax paid
"machinery costing ₹X (accumulated dep ₹Y) sold"	Prepare WN3 ; book value = X – Y
Trade Receivables increased	LESS in working capital changes
Trade Payables increased	ADD in working capital changes
"bank overdraft raised"	Financing inflow
"it is a financial company"	Interest/dividend received & paid → OPERATING

MOST-ASKED BOARD QUESTIONS

- [6M]** Prepare a Cash Flow Statement from the given Balance Sheets and notes.
- [3-4M]** Calculate Cash Flow from Operating Activities.
- [3M]** Calculate Net Profit before Tax / Tax paid / purchase of machinery.
- [1M]** Under which activity is dividend paid classified? → **Financing**
- [1M]** Under which activity is interest received by a non-financial company? → **Investing**

6. [1M] Which standard governs cash flow statements? → AS 3 (Revised)

THE HABIT THAT SCORES — Run the closing check every time: $A + B + C + \text{Opening Cash}$ must equal Closing Cash . If it does not, the error is almost always a missed working-capital change or a sale proceeds figure left out of investing. That one check turns a 4-mark answer into a 6-mark answer.