KEY TERMS

Cash flow statement: Cash flow statement is prepared as the per AS-3. CFS shows all cash inflows and outflows for a particular period. CFS records both revenue and capital items: Income statement shows only the revenue incomes and revenue expenses, balance sheet shows the capital receipts and expenditures, whereas, the cash flow statement shows all types of cash flows.

Cash equivalents: Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Financing activities: Financing activities are those activities that result in changes in the size and composition of the equity capital and borrowing of the enterprise.

Investment activities: Investing activities relate to the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Operating activities: Operating activities are principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.

Operating profit: Excess of operating income over the operating expenses is operating profit.

Cash from financing activities(CFF): CFF is result of the financing activities. Cash from financing activities may be negative or positive. Negative CFF means the company has paid off loans or redeemed capital or bought back capital or distributed dividend. Positive cash flows may be due to raising of funds in the form of capital or loans.

Cash from investing activities (CFI): CFI is the result of the investing activity of a company. Cash from investing activities may be negative or positive. Negative CFI means the company has paid for acquiring assets. Positive cash flows may be due to the sale of assets or due to the receipt of dividend and interest on the investments made.

Cash from Operating activities (CFO): CFO is the result of the operating activity of a company. CFO depends profit generating ability of a company. CFO can be determined by direct method or by using indirect method.

Direct method of determining CFO: Under direct approach operating cash flow information is obtained from the cash book- cash receipts and payments can be classified and aggregated under the usual heads of accounts.

Indirect method of determining CFO: Under indirect method effort is being made to reconcile profit with cash from operating activities. Profit is adjusted for non-cash items, non-operating items and changes in the working capital