AS 3 Cash Flow Statements

Applicability of AS 3 Cash Flow Statements

The applicability of Cash flow statement has been defined under the Companies Act, 2013. As per the definition in the act, a financial statement includes the following:

i. Balance sheet
ii. Profit and loss account / Income and expenditure account
iii. Cash flow statement
iv. Statement of changes in equity
v. Explanatory notes

Thus, cash flow statements are to be prepared by all companies but the act also specifies a certain category of companies which are exempted from preparing the same. Such companies are One Person Company (OPC), Small Company and Dormant Company.

♦ OPC means a company which has only one single person as its member.
♦ A Small Company is a private company with a maximum paid up capital of Rs. 50 lakhs and a maximum turnover of Rs. 2 crores.
♦ A Dormant Company is an inactive company which is formed for some future projects or only to hold an asset and has no significant transactions.

2. Cash and Cash Equivalents

Cash equivalents are held by an enterprise for meeting its short-term cash commitments instead of the purpose of investment or such other purposes. For investments to qualify as cash equivalents:

1. An investment must be easily convertible into cash and
2. Must be subject to a very low level of risk with respect to changes in its value

Hence, an investment would qualify to be a cash equivalent only when such an investment has a short maturity of three months or less from its acquisition date.

AS 3 Cash Flow Statements states that cash flows should exclude the movements between items which forms part of cash or cash equivalents as these are part of an enterprise's cash management rather than its operating, financing and investing activities.Cash management consists of the investment of excess cash in the cash equivalents.

3. Presentation of Cash Flow

Companies must prepare and present cash flows from operating, financing as well as investing activities in such manner that is apt to their business.Grouping the activities provide information which enables the users in assessing the impact of such activities on the overall financial position of an enterprise and also assess the value of the cash and cash equivalents.A cash flow statement must depict the cash flows within the period classifying them as

A. Operating Activities

Cash flows from operating activities predominantly result from the main revenue-generating activities of an enterprise.

For example:

(i) Cash received from the sale of goods and services
(ii) Cash received in form of fees, royalties, commissions and various other revenue forms
(iii) Cash paid to a supplier of goods and services

B. Investing Activities

Cash flows from investing activities represent outflows are made for resources intended for generating cash flows and future income.

For instance:

(i) Cash paid for acquiring fixed assets

(ii) Cash received from disposal of fixed assets (including intangibles)

(iii) Cash paid for acquiring shares, warrants or debt instruments of other companies and interests in JVs

C. Financing Activities

Financing activities are those which brings changes in composition and size of owner's capital and borrowings of an enterprise.

For instance:

(i) Cash received from issuing shares or other similar securities

(ii) Cash received from issuing loans, debentures, bonds, notes, and other short-term or long-term borrowings

(iii) Cash repaid on borrowings

Taxes on Income

Cash flows which arise from taxes on income must be disclosed separately and must be reported as cash flows from the operating activities except if they could be explicitly related to investing and financing activities.