

CUET · ACCOUNTANCY · CLASS XII · CODE 301

Cash Flow Statement

CUET unit: Analysis of Financial Statements → Cash Flow Statement

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Snapshot

- Third core financial statement after Balance Sheet and Statement of Profit & Loss; shows historical changes in cash and cash equivalents over an accounting period.
- Prepared as per Accounting Standard 3 (Revised) — Cash Flow Statement, notified under section 133 of the Companies Act, 2013 (Section 2(40) includes it in "Financial Statements").
- Classifies all cash flows into three heads: Operating, Investing and Financing activities — making liquidity, solvency and future cash-generating ability transparent.
- NCERT chapter focuses on the Indirect Method of computing cash from operating activities (start with net profit before tax + adjust non-cash, non-operating items, then adjust for working-capital changes).
- High-yield CUET area: classification of items, treatment of depreciation/dividend/proposed dividend/profit-loss on sale of fixed assets, and numerical computation of cash from each activity.

Detailed Notes

2.1 Core concepts

- A Cash Flow Statement provides information about historical changes in cash and cash equivalents by classifying cash flows into operating, investing and financing activities; an enterprise must present it for each accounting period for which financial statements are presented (NCERT §6 intro, p. 241–242).
- **Primary objective:** to provide users with useful information about cash flows under three heads — operating, investing and financing — to assess the enterprise's ability to generate cash and its needs to utilise those cash flows (NCERT §6.1, p. 242).
- **Benefits:** evaluating changes in net assets, financial structure (liquidity & solvency), comparability across enterprises by eliminating effects of different accounting treatments, and balancing cash inflow–outflow (NCERT §6.2, p. 242).
- **Cash** = cash in hand + demand deposits with banks. **Cash equivalents** = short-term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value — must normally have a short maturity of three months or less from the date of acquisition (NCERT §6.3, p. 243).

- Investments in shares are excluded from cash equivalents unless they are in substance cash equivalents (e.g., preference shares acquired shortly before a specified redemption date) (NCERT §6.3, p. 243).
- **Cash Flows** = movement of cash in (inflow) and out (outflow) due to non-cash items, e.g., cash received on sale of machinery (inflow), cash paid to purchase machinery (outflow) (NCERT §6.4, p. 243).
- Purchase of marketable securities/short-term investments that constitute cash equivalents is NOT shown in cash flow statement — it is treated as cash management (NCERT §6.4, p. 243).
- AS-3 mandates classification into three categories: (1) Operating, (2) Investing, (3) Financing (NCERT §6.5, p. 243).
- **Operating activities** = principal revenue-producing activities of the enterprise; not investing or financing. Examples of inflows: receipts from sale of goods/services, royalties, fees, commissions. Examples of outflows: payments to suppliers, employees, insurance premiums, income tax paid (unless specifically identified with financing/investing) (NCERT §6.5.1, p. 244).
- For a financial enterprise, cash advances/loans made are operating activities; for others they are not (NCERT §6.5.1, p. 244).
- **Investing activities** = acquisition and disposal of long-term assets and other investments not included in cash equivalents. Inflows: sale of fixed assets/intangibles, repayment of loans by third parties, sale of shares/debentures of other enterprises, interest received, dividend received from investments. Outflows: purchase of fixed assets, intangibles, shares/debentures of other enterprises, advances/loans to third parties (NCERT §6.5.2, p. 244–245).
- **Financing activities** = activities that change the size and composition of owners' capital (including preference share capital) and borrowings of the enterprise. Inflows: proceeds from issue of shares, debentures, bonds, long-term/short-term borrowings. Outflows: repayment of borrowings, interest paid on debentures/long-term loans, dividends paid on equity & preference capital (NCERT §6.5.3, p. 245–246).
- **Treatment of peculiar items (§6.5.4, p. 247):** Extraordinary items (loss by theft/earthquake/flood) — disclosed separately under the activity they relate to. Interest paid, interest received and dividend received — for a financial enterprise these are operating; for a non-financial enterprise interest/dividend paid is financing while interest/dividend received is investing. Dividend paid by a non-financial enterprise is always a financing activity.
- **Taxes on Income (§6.5.4, p. 247):** generally classified as operating cash flows; however dividend distribution tax goes with dividend (financing), and capital gains tax on sale of fixed assets goes under investing.

- **Non-cash transactions** (e.g., acquisition of machinery by issue of equity shares; redemption of debentures by issue of equity shares) must be excluded from the cash flow statement and disclosed elsewhere (NCERT §6.5.4, p. 247).
- **Proposed Dividend:** As per AS-4, proposed dividend is shown in Notes to Accounts as contingent liability since it becomes a liability only after shareholders' approval. Previous year's proposed dividend, once declared in current year's AGM, is added back to net profit (under operating) and shown as outflow under financing activities (NCERT §6.6 box, p. 249).
- **Indirect Method (§ 6.6.1, p. 250):** start with Net Profit/Loss before Tax and Extraordinary Items. Add non-cash items (depreciation, goodwill written-off, provisions, amortisation, loss on sale of fixed assets) and non-operating expenses (interest paid). Deduct non-operating incomes (interest received, dividend received, profit on sale of fixed assets). Then adjust for working capital changes — **increase in current asset = deduct; decrease in current asset = add; increase in current liability = add; decrease in current liability = deduct.** Deduct income tax paid. Add/deduct extraordinary items. The result is Net Cash from Operating Activities (NCERT §6.6.1 + Exhibit 6.4, p. 251–252).
- Direct Method discloses major classes of gross cash receipts and gross cash payments; the indirect method is used by most companies in practice (NCERT §6.6, p. 249).
- **Ascertaining cash from investing & financing activities (§ 6.7, p. 258):** all major items of gross receipts, gross payments and net cash flows must be shown separately under each head. Profit on sale of fixed assets is deducted from operating profit but full sale proceeds appear under investing; similarly loss on sale is added back to operating profit.
- **Preparation (§ 6.8, p. 261):** the net of (A) Operating + (B) Investing + (C) Financing = Net Increase/Decrease in Cash and Cash Equivalents. Adding opening cash & cash equivalents gives closing cash & cash equivalents, which must match the balance sheet figure.

2.2 Definitions to memorise

Term	Definition	Page
Cash	Cash in hand and demand deposits with banks	243
Cash Equivalents	Short-term, highly liquid investments readily convertible into known amounts of cash with insignificant risk of change in value; maturity of 3 months or less	243
Cash Flows	Inflows and outflows of cash and cash equivalents	243
Operating Activities	Principal revenue-producing activities of the enterprise; not investing or financing	244
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Term	Definition	Page
Investing Activities	Acquisition and disposal of long-term assets and other investments not included in cash equivalents	
Financing Activities	Activities that result in changes in size & composition of owners' capital and borrowings	245
Extraordinary Items	Non-recurring items like loss due to theft, earthquake or flood — disclosed separately	247
AS-3	Accounting Standard 3 (Revised) — Cash Flow Statement; mandatory under Companies Act 2013	241
Indirect Method	Method where net profit before tax is adjusted for non-cash, non-operating items and working-capital changes	250
Direct Method	Method disclosing major classes of gross cash receipts and gross cash payments	249

2.3 Diagrams / processes to remember

- **Exhibit 6.1 (p. 246):** Tree diagram showing Cash Inflows vs. Cash Outflows for each of the three activities — useful to memorise classification of items at a glance.
- **Exhibit 6.2 (p. 248):** Format of Cash Flow Statement showing A + B + C structure plus opening and closing cash & cash equivalents.
- **Exhibit 6.4 (p. 251–252):** Proforma of Cash Flows from Operating Activities (Indirect Method) — Net Profit before Tax → add non-cash & non-operating expenses → less non-operating incomes → Operating Profit before Working Capital Changes → adjust for working-capital movements → less Income Tax Paid → +/- Extraordinary Items → Net Cash from Operating Activities.
- **Illustration 5 (p. 258):** Machinery Account + Accumulated Depreciation Account method to find purchase/sale of fixed assets — standard CUET problem-solving framework.

2.4 Common confusions / NTA trap points

- Interest/dividend received vs. paid for a non-financial enterprise: received = investing; paid = financing. Many students wrongly classify all interest under operating.
- Proposed dividend is NOT shown in cash flow statement at the time of proposing; it is shown only when declared (in next AGM) — previous year's proposed dividend is added back to net profit and shown as financing outflow.
- Profit on sale of fixed asset = deduct from net profit under operating; full sale proceeds appear under investing. Loss on sale = add back to net profit under operating; full sale proceeds still under investing.
- Purchase of marketable securities / short-term investments that constitute cash equivalents is NOT shown as cash outflow — it is cash management.

- Acquisition of machinery by issue of equity shares is a non-cash transaction — excluded from the cash flow statement entirely.
- For a financial enterprise (bank/NBFC), interest paid, interest received and dividend received are all operating; dividend paid remains financing.
- **Working capital adjustments direction.** Increase in current asset = deduct; Decrease in current asset = add; Increase in current liability = add; Decrease in current liability = deduct. The single most-inverted rule in CUET (NCERT §6.6.1, p. 251).
- **Cash equivalents threshold.** Maturity \leq 3 months from acquisition (NCERT §6.3, p. 243).
- **Income tax paid.** Generally classified as operating; capital gains tax on sale of fixed assets goes to investing; dividend distribution tax goes with dividend (financing) (NCERT §6.5.4, p. 247).
- **Profit on sale of fixed asset.** Deduct from net profit under operating; full sale proceeds appear under investing — splitting the same transaction (NCERT §6.7, p. 258).

2.5 Journal entry templates

A Cash Flow Statement is not a journal — it is a derived statement. The templates below are journal entries behind the most-tested cash-flow scenarios.

(a) Sale of machinery at a profit (NCERT Illus. 5, p. 258)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jun 30	Bank A/cDr.		13,000	
	Accumulated Depreciation A/cDr.		15,000	
	To Machinery A/c			25,000
	To Gain on Sale of Machinery A/c			3,000
	(Being machinery sold; ₹13,000 inflow appears under Investing; ₹3,000 gain deducted from Net Profit under Operating)			

(b) Depreciation for the year (NCERT §6.6.1, p. 250)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Depreciation A/cDr.		2,00,000	
	To Accumulated Depreciation A/c			2,00,000

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(Being depreciation — added back to Net Profit in indirect method as it is non-cash)			

(c) Issue of equity shares (financing inflow — NCERT § 6.5.3, p. 245)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Bank A/cDr.		10,00,000	
	To Share Capital A/c			10,00,000
	(Being equity issued; shown as inflow under Financing)			

(d) Repayment of long-term loan (financing outflow)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 10	Long-term Borrowings A/cDr.		5,00,000	
	To Bank A/c			5,00,000
	(Being loan repaid; shown as outflow under Financing)			

(e) Interest paid on debentures (financing outflow for non-financial enterprise — NCERT § 6.5.4, p. 247)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Interest A/cDr.		60,000	
	To Bank A/c			60,000
	(Being interest on debentures paid — added back to Net Profit in Operating and shown as outflow in Financing)			

(f) Dividend received on investments (investing inflow)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Sep 30	Bank A/cDr.		25,000	
	To Dividend Received A/c			25,000
	(Being dividend received on investments — deducted from Net Profit in Operating and shown as inflow in Investing)			

(g) Acquisition of machinery by issue of shares — non-cash (NCERT § 6.5.4, p. 247)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 5	Machinery A/cDr.		5,00,000	
	To Share Capital A/c			5,00,000
	(Being machinery acquired by issue of equity shares — non-cash transaction; excluded from Cash Flow Statement, disclosed separately)			

(h) Income tax paid (operating outflow — NCERT § 6.5.4)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Provision for Tax A/cDr.		1,00,000	
	To Bank A/c			1,00,000
	(Being income tax paid — outflow under Operating in indirect method)			

Practice MCQs

Q1. Cash Flow Statement is prepared as per which Accounting Standard?

- A. AS-1
- B. AS-2
- C. AS-3 (Revised)
- D. AS-4

Q2. As per AS-3, an investment qualifies as a "cash equivalent" only when it has a short maturity of:

- A. Twelve months or less
- B. Six months or less
- C. Three months or less from the date of acquisition
- D. One month or less

Q3. Which of the following will be classified as an "Investing Activity" for a non-financial enterprise?

- A. Cash receipts from sale of goods
- B. Dividend received on shares held as investment
- C. Proceeds from issue of debentures
- D. Income tax paid on operating profit

 **9 more MCQs + answer key**

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PYQ Alignment

This is one of the highest-weight chapters in CUET 301 Accountancy — every CUET paper since 2022 has had 8–12 questions from Cash Flow Statement. Typical CUET items are (i) classification of a given transaction into operating/investing/financing, (ii) treatment of a peculiar item (proposed dividend, interest, profit on sale of fixed asset, non-cash transactions), and (iii) short numerical computations of net cash from each activity — almost always using the indirect method covered in this chapter.

CUET 2025 — Actual PYQs from this chapter

Q.25 (CUET 2025) Dividend paid to shareholders is classified under:

- A) Cash flow from operating activities B) Cash flow from investing activities C) Cash flow from financing activities D) Cash flow from extraordinary activities **Tests:** §3 Classification — Dividend paid is a Financing Activity for a non-financing enterprise. **Answer:** Not in extracted key

Q.38 (CUET 2025) Match: (A) Cash outflows from financing → (I) Redemption of debentures; (B) Cash inflows from operating → (III) Cash from royalties, fees and commission; (C) Cash and cash equivalents → (II) Current investment; (D) Cash inflows from investing → (IV) Cash receipt from disposal of fixed assets.

- A) A-I, B-III, C-II, D-IV B) A-II, B-I, C-III, D-IV C) A-I, B-II, C-III, D-IV D) A-IV, B-III, C-II, D-I **Tests:** §3 Classification of cash flows under the three activity heads. **Answer:** Not in extracted key

Q.47 (CUET 2025) Which activity represents cash inflow from operating activities?

- A) Sale of fixed assets B) Dividend received C) Cash received from customers D) Issue of shares Tests: §3 Operating Activities — cash receipts from customers. Answer: Not in extracted key

Q.48 (CUET 2025) Which of the following is not a financing activity?

- A) Issue of shares B) Redemption of debentures C) Payment of dividend D) Purchase of machinery Tests: §3 Financing vs Investing classification. Answer: Not in extracted key

CUET 2023 — Actual PYQs from this chapter

Q.22 (CUET 2023) Pick the odd one out while calculating Cash Flow from Financing Activities:

- A) Issue of shares B) Repayment of bank loan C) Redemption of debentures D) Rent received Tests: §3 Classification — distinguishing financing items from operating items. Answer: Not in extracted key

Q.23 (CUET 2023) Identify the cash transaction:

- A) Purchase machinery by issue of preference shares B) Redemption of debentures by issuing equity shares C) Issue of debentures as collateral security D) Purchase of land by taking loan Tests: §2 / §3 — distinction between cash and non-cash transactions in Cash Flow Statement. Answer: Not in extracted key

Q.24 (CUET 2023) Acquire machinery ₹5,00,000 paying 50% by cheque and executing bond for balance. Nature of activity under cash flow:

- A) Inflow operating ₹2,50,000 B) Outflow investing ₹5,00,000 C) Inflow investing ₹5,00,000 D) Outflow investing ₹2,50,000 Tests: §3 Investing Activities — only the cash portion is reported. Answer: Not in extracted key

Q.35 (CUET 2023) Cash equivalents refer to: (A) Demand deposits with bank (B) Bills receivables (C) Treasury bills (D) Commercial paper (E) Marketable securities

- A) (A),(C),(D),(E) only B) (A),(B),(C),(D) only C) (A),(B),(D),(E) only D) (B),(C),(D),(E) only Tests: §2 Cash and Cash Equivalents — definition and instances. Answer: Not in extracted key

Q.39 (CUET 2023) Match: (A) Accounting basis of cash flow → (II) Cash basis; (B) Dividend paid on equity and preference capital → (IV) Financing activities; (C) Example of cash equivalent → (III) Treasury bills; (D) Cash outflow from financing → (I) Investment in shares.

- A) A-IV, B-I, C-II, D-III B) A-II, B-IV, C-III, D-I C) A-III, B-II, C-I, D-IV D) A-II, B-I, C-IV, D-III Tests: §2 / §3 — composite of basis, classification and cash-equivalent identification. (Note: option (D)→(I) "Investment in shares" appears mislabelled in the source; the correct match per AS-3 makes (D) a financing activity.) Answer: Not in extracted key

Q.44 (CUET 2023) Cash equivalents refer to investments which are:

- A) Highly liquid B) Short-term C) Easily convertible to known cash amounts D) All of the above
- Tests: §2 Cash Equivalents — definition criteria. Answer: Not in extracted key

Q.48 (CUET 2023) Which activity in Cash Flow Statement includes purchase or sale of fixed assets?

- A) Operating Activity B) Financing Activity C) Investing Activity D) Non-cash Activity
- Tests: §3 Investing Activities — fixed asset transactions. Answer: Not in extracted key

Q.49 (CUET 2023) Dividend paid by a company is classified under:

- A) Operating Activities B) Investing Activities C) Financing Activities D) Non-cash Activities
- Tests: §3 Financing Activities — dividend paid. Answer: Not in extracted key



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