

Cash Flow Statement

PART 1

Objective Questions

• Multiple Choice Questions

- Which of the following is a non-operating income?
 - Dividend received by an investment company
 - Premium received by an insurance company
 - Revenue from sale in a trading concern
 - Profit on the sale of used plant in manufacturing company

Ans. (d) Manufacturing companies use plant and machinery to produce goods, but they do not deal in plant and machinery. So, profit on sale of an asset is a non-operating income.

- Which of the following is highly liquid investment?
 - Cash convertible investment
 - Cash equivalent
 - Short-term investment
 - None of the above

Ans. (b) Cash and cash equivalents are short-term highly liquid investment that are readily convertible into known amount of cash and which is subjected to an insignificant risk of changes in value.

3. Balance Sheet (Extract)

Equity and Liabilities	31st March, 2019 (₹)	31st March, 2020 (₹)
12% Debentures	2,00,000	1,60,000

Additional Information

Interest on debentures is paid on half yearly basis on 30th September and 31st March each year. Debentures were redeemed on 30th September, 2019. How much amount (related to above information) will be shown in financing activity for cash flow statement prepared on 31st March, 2020?

- Outflow ₹ 40,000
- Inflow ₹ 42,600
- Outflow ₹ 61,600
- Outflow ₹ 64,000

Ans. (c) Cash Flow from Financing Activity	Amt (₹)
Redemption of Debentures	= 40,000
Interest on Debentures	= 12,000
$2,00,000 \times 12\% \times 6/12$	= 9,600
$1,60,000 \times 12\% \times 6/12$	= 9,600
	<u>61,600</u>

- Which of the following is not an investing cash flow?
 - Purchase of marketable securities for ₹ 25,000 cash
 - Sale of land for ₹ 28,000 cash
 - Sale of 2,500 shares (held as investment) for ₹ 15 each
 - Purchase of equipment for ₹ 500 cash

Ans. (a) Marketable securities are part of cash and cash equivalent

- X Ltd. purchased furniture for ₹ 20,00,000 paying 60% by issue of equity shares of ₹ 10 each and the balance by a cheque. This transaction will result in (CBSE 2020)
 - Cash used in investing activities ₹ 20,00,000.
 - Cash generated from financing activities ₹ 12,00,000.
 - Increase in cash and cash equivalents ₹ 8,00,000.
 - Cash used in investing activities ₹ 8,00,000.

Ans. (d) Cash used in investing activities ₹ 8,00,000.

- ABC Ltd is a financial company which provides loan and invest into shares. At the year end, company received ₹ 50,000 interest on loan. Where will be the amount of interest presented?

- Activity arising from interest will be shown in investing activity
- Activity arising from interest will be shown in financing activity
- Activity arising from interest will be shown in operating activity
- None of the above

Ans. (c) The ABC Ltd is engaged in the business of providing loans and also investing in shares. Any income arising from these activities should be shown under operating activity.

- City Pulse Ltd took a loan from financing company in the year 2016 for ₹ 25,00,000 and balance at the starting of 2017 financial year, i.e. on 1st April, 2017 was ₹ 15,00,000. What kind of activity and amount has been transacted?

- (a) ₹ (10,00,000) has been inflown, i.e. amount is paid to financing company
 (b) ₹ (10,00,000) has been outflown, i.e. amount is paid to financing company
 (c) ₹ (10,00,000) has been outflow, i.e. amount is received from financing company
 (d) None of the above

Ans. (b) Opening balance = 25,00,000
 (–) Closing balance = (15,00,000)
 Payment made (cash outflow) = 10,00,000

- 8.** An investment normally qualifies as a cash equivalent only when it has a maturity of month(s) or less from the date of acquisition.
 (a) one (b) two (c) three (d) four

Ans. (c) three

- 9.** While preparing cash flow statement, cash comprises and with bank.
 (a) cash, cash in hand (b) cash in hand, cash
 (c) bank, cash in hand (d) cash in hand, bank

Ans. (d) cash in hand, bank

- 10.** Which of the following statements is/are correct?
 (i) Dividend paid is always shown as operating activity.
 (ii) Depreciation and amortisation, being non-cash expenses, are deducted from net profit before tax and extraordinary items.

Alternatives

- (a) Only (i) (b) Only (ii)
 (c) Both (a) and (b) (d) None of these

Ans. (a) Depreciation and amortisation, being non-cash expenses, are added to net profit before tax and extraordinary items.

- 11.** For a company manufacturing garments, procurement of raw material, incurrence of manufacturing expenses, sale of garments are classified as activity. (CBSE 2020, Modified)
 (a) financing (b) investing
 (c) operating (d) None of these

Ans. (c) operating

- 12.** Issue of shares for consideration other than cash will result into cash
 (a) inflow (b) outflow
 (c) no flow (d) None of these

Ans. (c) No cash inflow/outflow when shares are issued to any supplier in place of cash payment.

- 13.** X Ltd. redeemed ₹ 1,00,000, 9% debentures at 10% premium. What will be the amount of 'Cash flows from financing activities'? (CBSE 2020)
 (a) ₹ 1,10,000 (b) ₹ 1,00,000
 (c) ₹ 10,000 (d) None of these

Ans. (a) Cash Outflow from Financing Activity will be ₹ 1,10,000 where,
 Debenture Redeemed = ₹ 1,00,000
 Premium on Redemption = ₹ 10,000 (10% of 1,00,000)

14. Match the following.

Column I	Column II
A. Buy back of own shares	(i) Operating activity
B. Purchase and sale of securities by a finance company	(ii) Financing activity
C. Receipt of dividend	(iii) Investing activity

Codes

A	B	C	A	B	C
(a) (iii)	(i)	(ii)	(b) (ii)	(i)	(iii)
(c) (iii)	(ii)	(i)	(d) (ii)	(iii)	(i)

Ans. (b) (ii) (i) (iii)

• Assertion-Reasoning MCQs

Direction (Q. Nos. 1 to 5) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
 (c) Assertion (A) is true, but Reason (R) is false
 (d) Assertion (A) is false, but Reason (R) is true

- 1. Assertion (A)** An investment normally qualifies as a cash equivalent only when its maturity is of three months or less from the date of acquisition.

Reason (R) There is significant risk of change in value.

Ans. (c) Cash and cash equivalents have insignificant risk of change in their value.

- 2. Assertion (A)** Purchase and sale of shares on behalf of customers is an operating activity.

Reason (R) They are being purchased for their customers.

Ans. (d) Its not an operating activity but brokerage received is an operating activity.

- 3. Assertion (A)** An inflow or outflow between components of cash and cash equivalent is not considered.

Reason (R) It is called management of cash.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 4. Assertion (A)** Extraordinary items are incomes and expenses that arise from events or transactions that are clearly distinct from the ordinary business activities of the enterprises.

Reason (R) These are not expected to recur frequently or regularly.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 5. Assertion (A)** Cash flow ignores two basic accounting principles viz 'full disclosure' and 'accrual concept'.

Reason (R) It facilitates the management for short-term plans.

Ans. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

• Case Based MCQs

- 1. Direction** Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

Cash flow from operating activities of Starline Ltd. for the year ended 31st March, 2019 was ₹ 18,000. The balance sheet along with notes to accounts of Starline Ltd. as at 31st March, 2019 is given below.

Balance Sheet
as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital	1	18,00,000	10,00,000
(ii) Reserves and Surplus		50,000	40,000
2. Non-current Liabilities			
Long-term Borrowing	2	1,00,000	4,00,000
3. Current Liabilities			
Short-term Provisions	3	2,50,000	3,60,000
Total		22,00,000	18,00,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible Assets	4	14,00,000	10,00,000
(b) Intangible Assets	5	1,80,000	70,000
2. Current Assets			
(i) Current Investments		30,000	1,90,000
(ii) Trade Receivables		2,90,000	3,10,000
(iii) Cash and Cash Equivalents		3,00,000	2,30,000
Total		22,00,000	18,00,000

Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
1. Reserves and Surplus		
Surplus (Balance in Statement of Profit and Loss)	50,000	40,000
	50,000	40,000
2. Long-term Borrowing		
8% Debentures	1,00,000	4,00,000
	1,00,000	4,00,000
3. Short-term Provisions		
Provision Tax	2,50,000	3,60,000
	2,50,000	3,60,000

	Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
4.	Tangible Assets		
	Plant and Machinery	15,20,000	10,90,000
	(–) Accumulated Depreciation	(1,20,000)	(90,000)
		14,00,000	10,00,000
5.	Intangible Assets		
	Goodwill	1,80,000	70,000
		1,80,000	70,000

You are given the following additional information

- (a) A machinery of the book value of ₹ 40,000 (depreciation provided thereon ₹ 12,000) was sold at a loss of ₹ 6,000.
(b) 8% debentures were redeemed on 1st July, 2018.

(i) How much amount is received on the sale of plant and machinery?

- (a) ₹ 22,000 (b) ₹ 34,000 (c) ₹ 16,000 (d) ₹ 20,000

Ans.

(a) Book Value	=	40,000
(–) Accumulated Depreciation	=	(12,000)
(–) Loss on Sale of Plant	=	(6,000)
Amount Received	=	<u>₹ 22,000</u>

(ii) How much amount is invested in plant and machinery in the current year?

- (a) ₹ 4,76,000 (b) ₹ 4,70,000 (c) ₹ 4,76,500 (d) ₹ 4,75,000

Ans.

(b) Plant at the end of the year	=	15,20,000
(+) Depreciation charged on the sold part of plant	=	12,000
Loss on sale of plant	=	6,000
Amount received on sale of plant	=	22,000
(–) Plant in the beginning of the year	=	(10,90,000)
Amount spent on purchase plant	=	<u>₹ 4,70,000</u>

(iii) Interest paid on debenture is

- (a) ₹ 32,000 (b) ₹ 26,000 (c) ₹ 14,000 (d) None of these

Ans. (c) Interest on Debentures = $1,00,000 \times 8\% + (3,00,000 \times 8\%) \frac{3}{12} = ₹ 14,000$

(iv) Depreciation charged on plant and machinery during the year is

- (a) ₹ 30,000 (b) ₹ 12,000 (c) ₹ 42,000 (d) Zero

Ans.

(c) Closing balance	=	1,20,000
Depreciation on sold machinery	=	12,000
(–) Opening balance	=	(90,000)
Current year depreciation	=	<u>₹ 42,000</u>

2. Direction Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

Following is the balance sheet of G Ltd. as at 31st March, 2019 and additional information.

Balance Sheet
as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		8,00,000	6,00,000
(ii) Reserves and Surplus	1	3,30,000	2,20,000
2. Non-current Liabilities			
Long-term Borrowings	2	1,60,000	1,00,000
3. Current Liabilities			
Trade Payables		1,65,000	1,95,000
Total		<u>14,55,000</u>	<u>11,15,000</u>

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
II ASSETS			
1. Non-current Assets			
(i) Fixed Assets	3	9,50,000	6,05,000
(ii) Non-current Investments		1,35,000	1,00,000
2. Current Assets			
(i) Current Investments		80,000	40,000
(ii) Trade Receivables		90,000	2,00,000
(iii) Cash and Cash Equivalents		2,00,000	1,70,000
Total		14,55,000	11,15,000

Notes to Accounts

Note No.	Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
1	Reserves and Surplus		
	Surplus (i.e Balance in Statement of Profit and Loss)	3,30,000	2,20,000
		3,30,000	2,20,000
2.	Long-term Borrowings		
	10% Debentures	1,60,000	1,00,000
		1,60,000	1,00,000
3.	Fixed Assets		
	Machinery (Cost)	10,70,000	70,00,000
	(-) Accumulated Depreciation	(1,20,000)	(95,000)
		9,50,000	6,05,000

Additional Information

10% Debentures ₹ 60,000 were issued on 1st April, 2018.

- (i) For how many months, the interest on debentures would be provided on the debentures issued on 1st April, 2018?

(a) 12 months (b) 7 months (c) 5 months (d) No interest

Ans. (a) 12 months

- (ii) Opening and closing cash and cash equivalent is and respectively.

(a) ₹ 1,70,000, ₹ 2,00,000 (b) ₹ 1,70,000, ₹ 2,80,000
(c) ₹ 2,10,000, ₹ 2,80,000 (d) ₹ 2,10,000, ₹ 2,00,000

Ans. (c) Opening cash and cash equivalent = 170,000 + 40,000 = ₹ 2,10,000

Closing cash and cash equivalent = 2,00,000 + 80,000 = ₹ 2,80,000

- (iii) How much depreciation is charged on machinery for the current year?

(a) ₹ 15,000 (b) ₹ 75,000 (c) ₹ 50,000 (d) ₹ 25,000

Ans. (d) Current year depreciation = 1,20,000 – 95,000 = ₹ 25,000.

- (iv) Amount invested in machinery during the year is

(a) ₹ 3,95,000 (b) ₹ 3,70,000 (c) ₹ 3,45,000 (d) ₹ 4,00,000

Ans. (b) Machinery purchased = 10,70,000 – 7,00,000 = ₹ 3,70,000.

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. How the various activities are classified (as per AS-3 revised) while preparing cash flow statement?

- Ans.** (i) **Cash Flow from Operating Activities** Operating activities are the **principal revenue producing activities** of the enterprise and other activities that are not investing or financing activities. Cash flows from operating activities being the principal revenue producing activities of the enterprise, generally result from the transactions and other events that determine the net profit or loss.
- (ii) **Cash Flow from Investing Activities** As per AS-3, investing activities are the activities related to acquisition and disposal of long-term assets and other investments, not included in cash equivalents. These activities include transactions involving purchase and sale of the long-term productive assets like machinery, land and building, etc which are not held for resale.
- (iii) **Cash Flow from Financing Activities** Financing activities are the activities which result in change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) of the enterprise from other sources. It includes proceeds from issue of shares or other similar instruments, issue of debentures, loans, bonds, other short-term or long-term borrowings and repayment of amount borrowed.

2. Explain the major cash inflows and outflows from investing activities.

(NCERT)

Ans. Cash Inflows

- (i) Proceeds from sale of fixed assets
- (ii) Proceeds from sale of investments (Non-current and current other than marketable securities)
- (iii) Interest received
- (iv) Dividend received
- (v) Rent received (Whether short-term or long-term)

Cash Outflows

- (i) Purchase of fixed assets
- (ii) Purchase of investments (Non-current and current other than marketable securities)
- (iii) Income tax paid (Related to investing activities only)
- (iv) Loans and advanced granted (Whether short-term or long-term)
- (v) Brokerage paid on purchase of investment

3. Calculate cash flow from operating activities from the following information.

Particulars	Amt (₹)
Net Profit (After provision for tax ₹ 6,12,000)	28,12,000
Proposed Dividend	4,84,000
Above Net Profit is Determined after Following Credits and Debits	
Credits	
(i) Profit on Sale of Machinery	70,000
(ii) Dividend Received on Investments	60,000
Debits	
(i) Depreciation	5,60,000
(ii) Loss on Sale of Investments	1,20,000
Decrease or Increase in Current Assets and Current Liabilities is as follows	
Decrease in Current Assets (Other than cash and cash equivalents)	40,000
Increase in Current Liabilities	6,04,000
Increase in Current Assets (Other than cash and cash equivalents)	12,00,000
Decrease in Current Liabilities	2,56,000
Other Information	
Income Tax Paid	4,72,000
Refund of Income Tax Received	12,000

Ans.

Cash Flow from Operating Activities

Particulars	Amt (₹)
Net Profit after Tax	28,12,000
(+) Provision for Tax (Net of refund) (6,12,000 – 12,000)	6,00,000
Net Profit before Tax and Extraordinary Items	34,12,000
Adjustments for	
(+) Depreciation	5,60,000
Loss on Sale of Investments	1,20,000
(–) Profit on Sale of Machinery	(70,000)
Dividend Received on Investments	(60,000)
Net Profit before Working Capital Changes	39,62,000
(+) Decrease in Current Assets	40,000
Increase in Current Liabilities	6,04,000
	46,06,000
(–) Increase in Current Assets	(12,00,000)
Decrease in Current Liabilities	(2,56,000)
Cash Flow from Operating Activities before Tax and Extraordinary Items	31,50,000
(–) Income Tax Paid (Net of refund) (4,72,000 – 12,000)	(4,60,000)
Cash Flow from Operating Activities	26,90,000

Note Proposed dividend is not taken, as the net profit given is after provision for tax.

4. From the following information relating to Brij Mohan Ltd, calculate cash flow from investing activities for the period ended 31st March, 2018.

Particulars	Purchased During 2017-18 (₹)	Sold During 2017-18 (₹)
Machinery	50,000	10,000
Building	1,00,000	—
Investments	5,000	7,000
Goodwill	7,000	—
Patents and Trademarks	10,000	2,000

Additional Information

- | | |
|---|---------|
| (i) In the past, the company had purchased a building in the prime location. The building was let out and rent received during the year 2017-18 | ₹ 5,000 |
| (ii) Interest received on debentures held as investments | ₹ 1,000 |
| (iii) Interest paid on debentures issued by the company during the year 2017-18 | ₹ 2,500 |
| (iv) Dividend paid during the year 2017-18 | ₹ 5,000 |
| (v) Dividend received during the year 2017-18 | ₹ 1,800 |

Ans.

Cash Flow from Investing Activities

Particulars	Amt (₹)
Purchase of Machinery	(50,000)
Proceeds from Sale of Machinery	10,000
Purchase of Building	(1,00,000)
Purchase of Investments	(5,000)
Proceeds from Sale of Investments	7,000
Purchase of Goodwill	(7,000)
Purchase of Patents and Trademarks	(10,000)
Proceeds from Sale of Patents and Trademarks	2,000
Rent Received	5,000
Interest Received	1,000
Dividend Received	1,800
Net Cash used in Investing Activities	(1,45,200)

5. JMD Ltd had the following balances

Investments at the end of 2016	₹ 40,000
Investments at the end of 2017	₹ 33,200

During the year, the company had sold 25% of its investments at a profit of ₹ 9,000. Calculate cash flow from operating activities and investing activities, if the company has earned a profit of ₹ 20,000 during the year 2017.

Ans.

Cash Flow from Operating Activities
for the year ended 2017

Particulars	Amt (₹)
Net Profit During the Year	20,000
(-) Profit on Sale of Investments	(9,000)
Net Cash from Operating Activities	11,000

Cash Flow from Investing Activities
for the year ended 2017

Particulars	Amt (₹)
Sale of Investments	19,000
Purchase of Investments	(3,200)
Net Cash from Investing Activities	15,800

Working Note

Dr		Investment Account		Cr
Particulars	Amt (₹)	Particulars	Amt (₹)	
To Balance b/d	40,000	By Cash A/c (Sale)	19,000	
To Statement of Profit and Loss (Profit)	9,000	By Balance c/d	33,200	
To Cash A/c (Purchases) (Balancing fig.)	3,200			
	52,200		52,200	

(Cash sales = 25% of 40,000 + 9,000 = ₹ 19,000)

6. Inspiring Minds Ltd provides the following information. Calculate cash flow from financing activities.

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
Equity Share Capital	30,00,000	20,00,000
10% Debentures	—	2,00,000
8% Debentures	4,00,000	—

Additional Information

- (i) Interest paid on debentures ₹ 20,000. (ii) Dividend paid ₹ 1,00,000.
(iii) During the year 2017-2018, Inspiring Minds Ltd issued bonus shares in the ratio of 2 : 1 by capitalising reserve.

Ans.

Cash Flow from Financing Activities

Particulars	Amt (₹)
Cash Proceeds from the Issue of 8% Debentures	4,00,000
Redemption of 10% Debentures	(2,00,000)
Interest Paid	(20,000)
Dividend Paid	(1,00,000)
Cash Flow from Financing Activities	80,000

Note Bonus shares are not shown in the cash flow statement because there is no cash flow.

• Long Answer (LA) Type Questions

1. From the following, calculate the net cash flow from operating activities.

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital	1	3,75,000	3,75,000
(ii) Reserves and Surplus	2	1,55,000	(10,000)
2. Non-current Liabilities (8% Debentures)		1,30,000	75,000
3. Current Liabilities			
(i) Short-term Borrowings (8% Bank loan)		20,000	25,000
(ii) Trade Payables		60,000	55,000
(iii) Short-term Provisions (Provision for tax)		25,000	20,000
Total		7,65,000	5,40,000
II. ASSETS			
1. Non-current Assets			
(i) Tangible Fixed Assets (Net)		4,30,000	3,10,000
(ii) Intangible Assets (Goodwill)		7,500	20,000
(iii) Non-current Investments		62,500	40,000
2. Current Assets			
(i) Current Investments		2,500	7,500
(ii) Inventories		97,500	50,000
(iii) Trade Receivables		1,00,000	1,00,000
(iv) Cash and Cash Equivalents		65,000	12,500
Total		7,65,000	5,40,000

Notes to Accounts

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
1. Share Capital		
Equity Share Capital	2,75,000	2,25,000
5% Preference Share Capital	1,00,000	1,50,000
	3,75,000	3,75,000
2. Reserves and Surplus		
General Reserve	75,000	60,000
Statement of Profit and Loss	75,000	(70,000)
Securities Premium Reserve	5,000	—
	1,55,000	(10,000)

Additional Information

During the year, a piece of machinery costing ₹ 30,000 on which depreciation charged ₹ 10,000 was sold for ₹ 10,000. Depreciation provided on fixed assets ₹ 30,000. Dividend on equity shares @ 8% was paid on opening balance. Income tax ₹ 22,500 was provided. Additional debentures were issued at par on 1st October, 2013 and bank loan was repaid on the same date. At the end of the year, preference shares were redeemed at a premium of 5%.

Ans.

Calculation of Net Cash Flow from Operating Activities

Particulars	Amt (₹)
Cash Flow from Operating Activities	
Net Profit before Tax (WN 1)	2,08,000
Adjustments for	
(+) Depreciation on Fixed Assets	30,000
Loss on Sale of Machinery (WN 2)	10,000
Interest on Debentures $[(75,000 \times 8/100) + (55,000 \times 8/100 \times 6/12)]$	8,200
Interest on Bank Loan $[(25,000 \times 8/100 \times 6/12) + (20,000 \times 8/100 \times 6/12)]$	1,800
Goodwill Amortised	12,500
Premium on Redemption of Preference Shares	2,500
	65,000
Operating Profit before Working Capital Changes	2,73,000
(+) Decrease in Current Assets and Increase in Current Liabilities	
Trade Payables	5,000
(-) Increase in Current Assets and Decrease in Current Liabilities	
Inventories	(47,500)
	(42,500)
Net Cash Flow from Operating Activities before Tax	2,30,500
(-) Tax Paid (WN 3)	(17,500)
Net Cash Inflow from Operating Activities after Tax	2,13,000

Working Notes

1. **Calculation of Net Profit before Tax**

Particulars	Amt (₹)
Net Profit as per Statement of Profit and Loss (75,000 + 70,000)	1,45,000
(+) Transfer to Reserve	15,000
(+) Dividend on Equity Shares	18,000
(+) Dividend on Preference Shares	7,500
(+) Provision for Tax	22,500
Net Profit before Tax	2,08,000

2. **Tangible Fixed Assets Account**

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	3,10,000	By Depreciation A/c	30,000
To Bank A/c (Purchases)	1,70,000	By Bank A/c (Sale)	10,000
(Balancing figure)		By Loss on Sale A/c	10,000
		(Statement of profit and loss)	
		By Balance c/d	4,30,000
	4,80,000		4,80,000

3. **Provision for Tax Account**

Particulars	Amt (₹)	Particulars	Amt (₹)
To Bank A/c (Balancing figure)	17,500	By Balance b/d	20,000
To Balance c/d	25,000	By Provision for Tax A/c	22,500
		(Statement of profit and loss)	
	42,500		42,500

2. Prepare a cash flow statement on the basis of the information given in the balance sheets of Simco Ltd as at 31st March, 2018 and 2017.

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		2,00,000	1,50,000
(ii) Reserves and Surplus	1	90,000	75,000
2. Non-current Liabilities			
Long-term Borrowings		87,500	87,500
3. Current Liabilities			
Trade Payables		10,000	76,000
Total		3,87,500	3,88,500
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible Assets		1,87,500	1,40,000
(b) Non-current Investments		1,05,500	1,02,500
2. Current Assets			
(i) Current Investments (Marketable)		12,500	33,500
(ii) Inventories		4,000	5,500
(iii) Trade Receivables		9,500	23,000
(iv) Cash and Cash Equivalents		68,500	84,000
Total		3,87,500	3,88,500

Notes to Accounts

Particulars	2018 (₹)	2017 (₹)
1. Reserves and Surplus		
Surplus (Balance in statement of profit and loss)	90,000	75,000

Ans.

Cash Flow Statement
for the year ended 31st March, 2018

Particulars	Amt (₹)
A. Cash Flow from Operating Activities	
Net Profit before Tax and Extraordinary Items (90,000 – 75,000)	15,000
(+) Decrease in Current Assets and Increase in Current Liabilities	
Trade Receivables	13,500
Inventories	1,500
(–) Decrease in Current Liabilities and Increase in Current Assets	
Trade Payables	(66,000)
Net Cash used in Operating Activities	(36,000)
B. Cash Flow from Investing Activities	
Purchase of Tangible Assets	(47,500)
Purchase of Non-current Investments	(3,000)
Net Cash used in Investing Activities	(50,500)
C. Cash Flow from Financing Activities	
Issue of Share Capital	50,000
Net Cash from Financing Activities	50,000
Net Decrease in Cash and Cash Equivalents (A + B + C)	(36,500)
(+) Cash and Cash Equivalents in the Beginning (Cash 84,000 + Current investments 33,500)	1,17,500
Cash and Cash Equivalents at the End (Cash 68,500 + Current investments 12,500)	81,000

3. From the following balance sheet of JY Ltd as at 31st March, 2017, prepare a cash flow statement.

Balance Sheet
as at 31st March, 2017

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2016 (₹)
I EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		5,00,000	5,00,000
(ii) Reserves and Surplus	1	1,00,000	(25,000)
2. Non-current Liabilities			
Long-term Borrowings	2	2,50,000	1,50,000
3. Current Liabilities			
(i) Short-term Borrowings	3	1,50,000	1,00,000
(ii) Short-term Provisions	4	2,00,000	1,25,000
Total		12,00,000	8,50,000
II ASSETS			
1. Non-current Assets			
Fixed Assets			
Tangible Assets	5	6,00,000	4,50,000
2. Current Assets			
(i) Trade Receivables		2,75,000	2,25,000
(ii) Cash and Cash Equivalents		1,25,000	75,000
(iii) Short-term Loans and Advances		2,00,000	1,00,000
Total		12,00,000	8,50,000

Notes to Accounts

Note No.	Particulars	31st March, 2017 (₹)	31st March, 2016 (₹)
1.	Reserves and Surplus (Surplus, i.e. Balance in the Statement of Profit and Loss)	1,00,000	(25,000)
		1,00,000	(25,000)
2.	Long-term Borrowings 10% Debentures	2,50,000	1,50,000
		2,50,000	1,50,000
3.	Short-term Borrowings Bank Overdraft	1,50,000	1,00,000
		1,50,000	1,00,000
4.	Short-term Provisions (i) Proposed Dividend (ii) Provision for Tax	75,000 1,25,000	50,000 75,000
		2,00,000	1,25,000
5.	Tangible Assets Machinery Accumulated Depreciation	7,37,500 (1,37,500)	5,25,000 (75,000)
		6,00,000	4,50,000

Additional Information

₹ 1,00,000, 10% debentures were issued on 31st March, 2017.

(CBSE 2018)

Ans.

Cash Flow Statement
for the year ending 31st March, 2017

Particulars	Amt (₹)
A. Cash Flow from Operating Activities	
Net Profit before Tax and Extraordinary Items	3,25,000
Adjustments for	
(+) Depreciation	62,500
Interest on Debentures (1,50,000 × 10%)	15,000
Operating Profit before Working Capital Changes	4,02,500
(+) Decrease in Current Assets and Increase in Current Liabilities	—
(–) Increase in Current Assets and Decrease in Current Liabilities	
Trade Receivables	50,000
Short-term Loan and Advances	1,00,000
Cash Generated from Operations	2,52,500
(–) Income Tax Paid	(75,000)
Cash Flow from Operating Activities	1,77,500
B. Cash Flow from Investing Activities	
Purchase of Machinery	(2,12,500)
Cash used in Investing Activities	(2,12,500)
C. Cash Flow from Financing Activities	
Proceeds from Issue of Debentures	1,00,000
Increase in Bank Overdraft	50,000
Dividend Paid	(50,000)
Interest on Debentures	(15,000)
Cash Flow from Financing Activities	85,000
Net Increase in Cash and Cash Equivalents	50,000
(+) Opening Cash and Cash Equivalents	75,000
Closing Cash and Cash Equivalents	1,25,000

Working Note

Calculation of Net Profit before Tax and Extraordinary Items

Particulars	Amt (₹)
Surplus, i.e. Balance in Statement of Profit and Loss (Closing)	1,00,000
(–) Surplus, i.e. Balance in Statement of Profit and Loss (Opening)	(25,000)
(+) Proposed Dividend	75,000
Provision for Tax	1,25,000
Net Profit before Tax and Extraordinary Item	3,25,000

4. Cash flow from the operating activities of Pinnacle Ltd. for the year ended 31st March, 2019 was ₹ 28,000. The balance sheet along with notes to accounts of Pinnacle Ltd. as at 31st March, 2019 is given below

Balance Sheet
as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		9,00,000	5,00,000
(ii) Reserves and Surplus	1	90,000	1,10,000
2. Non-current Liabilities			
Long-term Borrowings	2	3,00,000	2,00,000

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
3. Current Liabilities			
Trade Payables		60,000	80,000
Total		13,50,000	8,90,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible Assets	3	7,46,000	5,24,000
(b) Intangible Assets	4	36,000	76,000
2. Current Assets			
(i) Current Investments		1,30,000	20,000
(ii) Inventories		2,00,000	1,30,000
(iii) Cash and Cash Equivalents		2,38,000	1,40,000
Total		13,50,000	8,90,000

Notes to Accounts

Note No.	Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
1.	Reserves and Surplus (Balance in Statement of Profit and Loss)	90,000	1,10,000
2.	Long-term Borrowings 9% Debentures	3,00,000	2,00,000
3.	Tangible Assets Plant and Machinery Accumulated Depreciation	8,86,000 (1,40,000)	6,04,000 (80,000)
		7,46,000	5,24,000
4.	Intangible Assets Goodwill	36,000	76,000

You are given the following additional information

- A machinery of the book value of ₹ 90,000 (depreciation provided thereon was ₹ 23,000), was sold at a profit of ₹ 12,000.
- 9% debentures were issued on 1st April, 2018.

Prepare the cash flow statement.

(CBSE 2020)

Ans.

Cash Flow Statement for the year ended 31st March, 2019

Particulars	Amt (₹)
A. Cash Flow from Operating Activities	
Cash Inflows from Operating Activities	28,000
B. Cash Flow from Investing Activities	
Purchase of Plant and Machinery	(3,95,000)
Sale of Plant and Machinery	1,02,000
Cash Used in Investing Activities	(2,93,000)
C. Cash Flows from Financing Activities	
Issue of Share Capital	4,00,000
Issue of 9% Debentures	1,00,000
Interest Paid on 9% Debentures	(27,000)
Cash Inflows from Financing Activities	4,73,000

Particulars	Amt (₹)
Net Increase in Cash and Cash Equivalents (A + B + C)	2,08,000
(+) Opening Balance of Cash and Cash Equivalents	
Current Investments	20,000
Cash and Cash Equivalents	1,40,000
Closing Balance of Cash and Cash Equivalents	
Current Investments	1,30,000
Cash and Cash Equivalents	2,38,000
	3,68,000

Working Notes

1. Dr

Plant and Machinery Account				Cr	
Particulars		Amt (₹)	Particulars		Amt (₹)
To Balance b/d		6,04,000	By Accumulated Depreciation A/c		23,000
To Statement of Profit and Loss (Gain on Sale)		12,000	By Cash A/c		1,02,000
To Cash A/c (Balancing figure)		3,95,000	By Balance c/d		8,86,000
		10,11,000			10,11,000

2. Dr

Accumulated Depreciation Account

Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Plant and Machinery A/c	23,000	By Balance b/d	80,000
To Balance c/d	1,40,000	By Depreciation A/c (Statement of P & L)	83,000
	1,63,000		1,63,000

5. From the following Balance Sheet of DCX Ltd. and the additional information as at 31st March, 2018, prepare a cash flow statement.

Balance Sheet as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		30,00,000	21,00,000
(ii) Reserves and Surplus	1	4,00,000	5,00,000
2. Non-current Liabilities			
Long-term Borrowings	2	8,00,000	5,00,000
3. Current Liabilities			
(i) Trade Payables		1,50,000	1,00,000
(ii) Short-term Provisions	3	76,000	56,000
Total		44,26,000	32,56,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible Assets	4	27,00,000	20,00,000
(b) Intangible Assets		8,00,000	7,00,000
2. Current Assets			
(i) Current Investments		89,000	78,000
(ii) Inventories		8,00,000	4,00,000
(iii) Cash and Cash Equivalents		37,000	78,000
Total		44,26,000	32,56,000

Notes to Accounts

Note No.	Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
1.	Reserves and Surplus (Surplus, i.e. Balance in the Statement of Profit and Loss)	4,00,000	5,00,000
		4,00,000	5,00,000
2.	Long-term Borrowings 8% Debentures	8,00,000	5,00,000
		8,00,000	5,00,000
3.	Short-term Provisions Provision for Tax	76,000	56,000
		76,000	56,000
4.	Tangible Asset Machinery	33,00,000	25,00,000
	(–) Accumulated Depreciation	(6,00,000)	(5,00,000)
		27,00,000	20,00,000

Additional Information

(i) During the year, a machinery costing ₹ 8,00,000 on which accumulated depreciation was ₹ 3,20,000 was sold for ₹ 6,40,000.

(ii) Debentures were issued on 1st April, 2017.

(CBSE 2019)

Ans.

Cash Flow Statement

Particulars	Amt (₹)
A. Cash Flow from Operating Activities	
Net Profit before Tax and Extraordinary Items (WN1)	(24,000)
(+) Depreciation on Machinery	4,20,000
Interest on Debentures	64,000
(–) Profit on Sale of Machinery	(1,60,000)
Net Operating Profit before Working Capital Changes	3,00,000
(+) Increase in Current Liabilities and Decrease in Current Assets	
Trade Payables	50,000
(–) Increase in Current Assets and Decrease in Current Liabilities	
Inventories	(4,00,000)
Cash Generated from Operations	(50,000)
(–) Tax Paid	(56,000)
Net Cash Used in Operating Activities	(1,06,000)
B. Cash Flow from Investing Activities	
Sale of Machinery	6,40,000
Purchase of Machinery	(16,00,000)
Purchase of Intangible Assets	(1,00,000)
Net Cash Used in Investing Activities	(10,60,000)
C. Cash Flow from Financing Activities	
Issue of Equity Shares	9,00,000
Issue of Debentures	3,00,000
Interest on Debentures Paid	(64,000)
Net Cash Inflow from Financing Activities	11,36,000
Net Decrease in Cash and Cash Equivalent (A + B + C)	(30,000)
(+) Opening Cash and Cash Equivalent	78,000
Opening Current Investments	78,000
Cash and Cash Equivalent as on 31st March, 2018 (37,000 + 89,000)	1,26,000

Working Notes

1. Surplus as per Statement of Profit and Loss $(4,00,000 - 5,00,000) = (1,00,000)$
 (+) Provision for Tax $= 76,000$
 Net Profit before Tax and Extraordinary Items $= (24,000)$

2. Dr **Machinery Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	25,00,000	By Bank A/c (Sale)	6,40,000
To Statement of Profit and Loss	1,60,000	By Accumulated Depreciation A/c	3,20,000
To Bank A/c (Purchase)	16,00,000	By Balance c/d	33,00,000
(Balancing figure)			
	42,60,000		42,60,000

3. Dr **Accumulated Depreciation Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Machinery A/c	3,20,000	By Balance b/d	5,00,000
To Balance c/d	6,00,000	By Statement of Profit and Loss	4,20,000
		(Balancing figure)	
	9,20,000		9,20,000

6. Following is the balance sheet of X Ltd. as at 31st March, 2018

Balance Sheet
as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		19,00,000	17,00,000
(ii) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-current Liabilities			
Long-term Borrowings	2	5,00,000	4,00,000
3. Current Liabilities			
(i) Short-term Borrowings	3	1,70,000	1,75,000
(ii) Short-term Provisions	4	2,00,000	1,65,000
Total		33,70,000	27,40,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible Assets	5	24,00,000	19,00,000
(b) Intangible Assets	6	2,00,000	3,00,000
(ii) Non-current Investments		3,00,000	2,00,000
2. Current Assets			
(i) Current Investments		1,40,000	1,70,000
(ii) Inventories		2,60,000	1,30,000
(iii) Cash and Cash Equivalents		70,000	40,000
Total		33,70,000	27,40,000

Notes to Accounts

Note No.	Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
1.	Reserves and Surplus (Surplus, i.e. Balance in Statement of Profit and Loss)	6,00,000	3,00,000
		6,00,000	3,00,000
2.	Long-term Borrowings 12% Debentures	5,00,000	4,00,000
		5,00,000	4,00,000
3.	Short-term Borrowings Bank Overdraft	1,70,000	1,75,000
		1,70,000	1,75,000
4.	Short-term Provisions Provision for Tax	2,00,000	1,65,000
		2,00,000	1,65,000
5.	Tangible Assets Machinery	26,00,000	20,00,000
	(–) Accumulated Depreciation	(2,00,000)	(1,00,000)
		24,00,000	19,00,000
6.	Intangible Assets Goodwill	2,00,000	3,00,000
		2,00,000	3,00,000

Additional Information

- (i) ₹ 1,00,000, 12% Debentures were issued on 1st April, 2017.
(ii) During the year, a piece of machinery costing ₹ 80,000 on which accumulated depreciation was ₹ 40,000 was sold at a gain of ₹ 10,000.

Prepare a cash flow statement.

(CBSE 2018)

Ans.

Cash Flow Statement for the year ended 31st March, 2018

Particulars	Amt (₹)
A. Cash Flow from Operating Activities	
Net Profit before Tax	5,00,000
(+) Non-operating Expenses	
Goodwill Written-off	1,00,000
Interest on Debentures	60,000
Depreciation on Machinery	1,40,000
	8,00,000
(–) Non-operating Income	
Profit on Sales of Machinery	(10,000)
Operating Profit before Working Capital Changes	7,90,000
(–) Decrease in Current Assets and Decrease in Current Liabilities	
Increase in Inventories	(1,30,000)
Cash Generated from Operations	6,60,000
(–) Tax Paid	(1,65,000)
Cash Flow from Operating Activities	4,95,000

Particulars		Amt (₹)
B. Cash Flow from Investing Activities		
Purchase of Machinery	(6,80,000)	
Sale of Machinery	50,000	
Purchase of Investments	(1,00,000)	
Cash Used in Investing Activities		(7,30,000)
C. Cash Flow from Financing Activities		
Issue of Shares	2,00,000	
Issue of 12% Debentures	1,00,000	
Bank Overdraft Paid	(5,000)	
Interest Paid on Debentures	(60,000)	
Cash Flow from Financing Activities		2,35,000
Net Increase in Cash and Cash Equivalents (A + B + C)		Nil
(+) Opening Cash and Cash Equivalent		
Current Investments	1,70,000	
Cash and Cash Equivalents	40,000	2,10,000
Closing Cash and Cash Equivalents		
Current Investments	1,40,000	
Cash and Cash Equivalents	70,000	2,10,000

Working Notes

1. Calculation of Net Profit before Tax

Net Profit after Tax	= 3,00,000
(+) Provision for Tax	= 2,00,000
	<u>5,00,000</u>

2. Dr **Machinery Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	20,00,000	By Bank (Sale)	50,000
To Profit and Loss A/c (Profit on Sale)	10,000	By Accumulated Depreciation A/c	40,000
To Bank (Purchase) (Balancing figure))	6,80,000	By Balance c/d	26,00,000
	<u>26,90,000</u>		<u>26,90,000</u>

3. Dr **Accumulated Depreciation Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Machinery A/c	40,000	By Balance b/d	1,00,000
To Balance c/d	2,00,000	By Profit and Loss A/c (Provision)	1,40,000
	<u>2,40,000</u>		<u>2,40,000</u>

7. From the following balance sheet of Ramesh Ltd as at 31st March, 2017 and 2018, prepare a cash flow statement.

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Equity Share Capital		3,00,000	3,60,000
(ii) Reserves and Surplus	1	1,60,000	2,00,000
2. Non-current Liabilities			
Long-term Borrowings	2	2,62,000	3,78,000
3. Current Liabilities			
(i) Trade Payables (Creditors)		16,000	20,000
(ii) Cash Credit		12,000	8,000
(iii) Other Current Liabilities (Outstanding expenses)		6,000	2,000
Total		7,56,000	9,68,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible	3	4,60,000	6,40,000
(b) Intangible (Goodwill)		20,000	10,000
2. Current Assets			
(i) Inventories		40,000	34,000
(ii) Trade Receivables	4	1,36,000	1,68,000
(iii) Other Current Assets (Prepaid expenses)		20,000	16,000
(iv) Cash and Cash Equivalents (Cash at bank)		80,000	1,00,000
Total		7,56,000	9,68,000

Notes to Accounts

Particulars	2017 (₹)	2018 (₹)
1. Reserves and Surplus		
General Reserve	60,000	60,000
Balance of Statement of Profit and Loss	1,00,000	1,40,000
	1,60,000	2,00,000
2. Long-term Borrowings		
12% Debentures	1,02,000	1,38,000
12% Public Deposits	1,60,000	2,40,000
	2,62,000	3,78,000
3. Fixed Assets (Tangible)		
Building	3,00,000	4,40,000
Plant	1,60,000	2,00,000
	4,60,000	6,40,000
4. Trade Receivables		
Debtors	1,20,000	1,50,000
Bills Receivables	16,000	18,000
	1,36,000	1,68,000

Additional Information

- (i) Depreciation charged on building ₹ 20,000 and plant ₹ 10,000.
(ii) Interest paid on debentures ₹ 14,400. New debentures of ₹ 36,000 were issued on 1st October, 2017.
(iii) Interest paid on deposits from public ₹ 19,200 for the year.

Ans.

Cash Flow Statement
for the year ended 31st March, 2018

Particulars		Amt (₹)
A. Cash Flow from Operating Activities		
Net Profit as per Statement of Profit and Loss (1,40,000 – 1,00,000)		40,000
Adjustments for		
(+) Goodwill Written-off	10,000	
Depreciation on Building	20,000	
Depreciation on Plant	10,000	
Interest on Debentures	14,400	
Interest on Public Deposits	19,200	73,600
Operating Profit before Working Capital Changes		1,13,600
(+) Decrease in Current Assets and Increase in Current Liabilities		
Inventories	6,000	
Prepaid Expenses	4,000	
Creditors	4,000	14,000
		1,27,600
(–) Increase in Current Assets and Decrease in Current Liabilities		
Debtors	(30,000)	
Bills Receivables	(2,000)	
Outstanding Expenses	(4,000)	(36,000)
Net Cash from Operating Activities		91,600
B. Cash Flow from Investing Activities		
Cash Payment for Building (WN 1)	(1,60,000)	
Cash Payment for Plant (WN 2)	(50,000)	
Net Cash Used in Investing Activities		(2,10,000)
C. Cash Flow from Financing Activities		
Decrease in Cash Credit	(4,000)	
Cash Proceeds from Issue of Equity Shares	60,000	
Cash Proceeds from Issue of Debentures	36,000	
Cash Proceeds from Public Deposits	80,000	
Interest on Debentures Paid	(14,400)	
Interest on Public Deposits Paid	(19,200)	
Net Cash from Financing Activities		1,38,400
Net Increase in Cash and Cash Equivalents (A + B + C)		20,000
(+) Cash and Cash Equivalents in the Beginning of the Year		80,000
Cash and Cash Equivalents at the End of the Year		1,00,000

Working Notes

1. Dr	Building Account		Cr	
	Particulars	Amt (₹)	Particulars	Amt (₹)
	To Balance b/d	3,00,000	By Depreciation A/c	20,000
	To Bank A/c (Purchase) (Balancing figure)	1,60,000	By Balance c/d	4,40,000
		4,60,000		4,60,000

2. Dr	Plant Account		Cr
Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	1,60,000	By Depreciation A/c	10,000
To Bank A/c (Purchase) (Balancing figure)	50,000	By Balance c/d	2,00,000
	2,10,000		2,10,000

8. From the following balance sheets of Shri Ganpati Industries Ltd, prepare cash flow statement as per AS-3 (Revised).

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital	1	4,00,000	5,00,000
(ii) Reserves and Surplus (General reserve)		1,02,000	2,44,000
2. Non-current Liabilities			
10% Debentures		1,25,000	2,00,000
3. Current Liabilities			
(i) Short-term Borrowings (Bank overdraft)		10,000	12,000
(ii) Trade Payables		83,000	15,000
(iii) Short-term Provisions (Provision for taxation)		11,000	18,000
Total		7,31,000	9,89,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets (Net)	2	6,10,000	8,60,000
(ii) Long-term Investments		30,000	50,000
2. Current Assets			
(i) Trade Receivables		80,000	61,000
(ii) Cash and Cash Equivalents		11,000	18,000
Total		7,31,000	9,89,000

Notes to Accounts

Particulars	2017 (₹)	2018 (₹)
1. Share Capital		
Equity Share Capital	2,00,000	3,50,000
15% Preference Share Capital	2,00,000	1,50,000
	4,00,000	5,00,000
2. Fixed Assets		
Cost	7,10,000	10,10,000
(–) Accumulated Depreciation	(1,00,000)	(1,50,000)
	6,10,000	8,60,000

Additional Information

- (i) Preference shares were redeemed on 31st March, 2018 at a premium of 10%.
- (ii) Dividend at 12% was paid to equity shares for the year 2016-17.
- (iii) Fresh debentures were issued on 1st April, 2017.

Ans.

Cash Flow Statement
for the year ended 31st March, 2018

Particulars	Amt (₹)
A. Cash Flow from Operating Activities	
Net Profit before Taxation and Extraordinary Items (WN 1)	2,14,000
Adjustments for	
(+) Interest on Debentures	20,000
Depreciation (WN 3)	50,000
Premium on Redemption of 15% Preference Shares	5,000
Operating Profit before Working Capital Changes	75,000
(+) Decrease in Current Assets and Increase in Current Liabilities	
Trade Receivables	19,000
(-) Decrease in Current Liabilities and Increase in Current Assets	
Trade Payables	(68,000)
Cash Generated from Operations	2,40,000
(-) Payment of Tax	(11,000)
Net Cash from Operating Activities	2,29,000
B. Cash Flow from Investing Activities	
Purchase of Fixed Assets (WN 2)	(3,00,000)
Investments Purchased	(20,000)
Net Cash Used in Investing Activities	(3,20,000)
C. Cash Flow from Financing Activities	
Increase in Bank Overdraft	2,000
Issue of Equity Shares	1,50,000
Redemption of 15% Preference Share Capital at Premium (50,000 + 5,000)	(55,000)
Issue of Debentures	75,000
Interest Paid on Debentures	(20,000)
Dividend Paid on Preference Shares	(30,000)
Dividend Paid on Equity Shares	(24,000)
Net Cash from Financing Activities	98,000
Net Increase in Cash and Cash Equivalents (A + B + C)	7,000
(+) Cash and Cash Equivalents at the Beginning of the Period	11,000
Cash and Cash Equivalents at the End of the Period	18,000

Working Notes

1. Calculation of Net Profit before Tax and Extraordinary Items

Particulars	Amt (₹)
Increase in Reserves and Surplus	1,42,000
(+) Provision for Taxation	18,000
	1,60,000
(+) Dividend on Preference Shares (2,00,000 × 15%)	30,000
	1,90,000
(+) Dividend on Equity Shares (2,00,000 × 12%)	24,000
	2,14,000

Chapter Test

Multiple Choice Questions

- Rent received by an real estate company is a/an
 (a) operating activity (b) investing activity
 (c) financing activity (d) cash and cash equivalents
- Machinery was purchased for ₹ 10,00,000, paying 40% by issue of equity shares of ₹ 10 each and the balance by a cheque. This transaction will result in
 (a) cash used in investing activities ₹ 6,00,000. (b) cash generated from financing activities ₹ 4,00,000.
 (c) decrease in cash and cash equivalents ₹ 10,00,000. (d) cash used in investing activities ₹ 10,00,000.
- Interest received in cash on loans and advances results in cash from activity.
 (a) outflow , financing (b) inflow , financing (c) outflow , investing (d) inflow , investing
- While preparing cash flow statement , if net cash flow from operating, investing and financing activities is negative, the same is to opening cash balance to obtain cash balance.
 (a) added , deducted (b) added , closing (c) deducted , closing (d) deducted , opening

Short Answer (SA) Type Questions

- From the following information, calculate cash flow from operating activities.

Particulars	31st March, 2015 (₹)	31st March, 2014 (₹)
Surplus (i.e. Balance in the Statement of Profit and Loss)	71,000	89,000
Inventory	12,000	4,000
Trade Receivables	58,000	45,000
Outstanding Expenses	14,600	10,000
Goodwill	57,000	27,000
Cash in Hand	9,000	12,000
Machinery	82,000	56,000

Additional Information

- A piece of machinery costing ₹ 50,000 on which depreciation of ₹ 20,000 had been charged was sold for ₹ 10,000. Depreciation charged during the year was ₹ 18,000.
 - Income tax ₹ 23,000 was paid during the year.
 - Dividend paid during the year was ₹ 36,000.
- From the following information, calculate cash flow from investing activities of NTPC Ltd.

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
Investments @ 10%	10,00,000	5,00,000
Fixed Assets	23,80,000	17,50,000

Additional Information

- Half of the investments held in the beginning of the year were sold at 10% profit.
- Depreciation on fixed assets was ₹ 2,00,000 for the year.
- Interest received on investments ₹ 70,000.
- Dividend received on investments ₹ 50,000.

3. From the following information, calculate cash flow from investing and financing activities.

Particulars	2017 (₹)	2018 (₹)
Machine at Cost	5,00,000	9,00,000
Accumulated Depreciation	3,00,000	4,50,000
Equity Share Capital	28,00,000	35,00,000
Bank Loan	12,50,000	7,50,000

In year 2018, machine costing ₹ 2,00,000 was sold at a profit of ₹ 1,50,000, depreciation charged on machine during the year 2018 amounted to ₹ 2,50,000.

Long Answer (LA) Type Questions

1. There was 'Nil' net cash flow from operating activities of Ashok Ltd during the year ending 31st March, 2019. From the following Balance Sheets of Ashok Ltd as at 31st March, 2019, prepare a cash flow statement.

Balance Sheets of Ashok Ltd. as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Fund			
(i) Share Capital		19,00,000	11,00,000
(ii) Reserves and Surplus	1	1,60,000	1,60,000
2. Non-current Liabilities			
Long-term Borrowings	2	1,00,000	4,00,000
3. Current Liabilities			
(i) Short-term Borrowings	3	2,50,000	2,30,000
(ii) Short-term Provisions	4	1,90,000	2,70,000
Total		26,00,000	22,00,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible Assets	5	15,00,000	11,00,000
(b) Intangible Assets	6	2,80,000	1,70,000
2. Current Assets			
(i) Current Investments		1,30,000	2,90,000
(ii) Trade Receivables		3,90,000	4,10,000
(iii) Cash and Cash Equivalents		3,00,000	2,30,000
Total		26,00,000	22,00,000

Notes to Accounts

Note No.	Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
1.	Reserve and Surplus		
	Surplus (Balance in the Statement of Profit and Loss)	1,60,000	2,00,000
2.	Long-term Borrowings		
	8% Debentures	1,00,000	4,00,000
3.	Short-term Borrowings		
	Bank Overdraft	2,52,000	2,30,000
4.	Short-term Provisions		
	Provision for Tax	1,90,000	2,70,000

Note No.	Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
5.	Tangible Assets		
	Plant and Machinery	16,30,000	11,70,000
	Accumulated Depreciation	(1,30,000)	(70,000)
		15,00,000	11,00,000
6.	Intangible Assets		
	Goodwill	2,80,000	1,70,000

Additional Information

- (i) A machinery of the book value of ₹ 60,000, (depreciation provided thereon ₹ 20,000) was sold at a loss of ₹ 6,000.
(ii) 8% Debentures were redeemed on 1st July, 2018.

2. Following is the balance sheet of MM Ltd as on 31st March, 2015.

Balance Sheet as at 31st March, 2015

Particulars	Note No.	31st March, 2015 (₹)	31st March, 2014 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(i) Share Capital		5,00,000	4,00,000
(ii) Reserves and Surplus	1	2,00,000	(50,000)
2. Non-current Liabilities			
Long-term Borrowings	2	4,50,000	5,00,000
3. Current Liabilities			
(i) Short-term Borrowings	3	1,50,000	50,000
(ii) Short-term Provisions	4	70,000	90,000
Total		13,70,000	9,90,000
II. ASSETS			
1. Non-current Assets			
(i) Fixed Assets			
(a) Tangible	5	10,03,000	7,20,000
(b) Intangible	6	20,000	30,000
(ii) Non-current Investments		1,00,000	75,000
2. Current Assets			
(i) Current Investments		50,000	60,000
(ii) Inventories	7	1,07,000	45,000
(iii) Cash and Cash Equivalents		90,000	60,000
Total		13,70,000	9,90,000

Notes to Accounts

Particulars	31st March, 2015 (₹)	31st March, 2014 (₹)
1. Reserves and Surplus		
Surplus, i.e. Balance in Statement of Profit and Loss	2,00,000	(50,000)
2. Long-term Borrowings		
12% Debentures	4,50,000	5,00,000
3. Short-term Borrowings		
Bank Overdraft	1,50,000	50,000
4. Short-term Provisions		
Provision for Tax	70,000	90,000

Particulars	31st March, 2015 (₹)	31st March, 2014 (₹)
5. Tangible Assets		
Machinery	12,03,000	8,21,000
(–) Accumulated Depreciation	(2,00,000)	(1,01,000)
	10,03,000	7,20,000
6. Intangible Assets		
Goodwill	20,000	30,000
7. Inventories		
Stock-in-trade	1,07,000	45,000

Additional Information

- (i) 12% debentures were redeemed on 31st March, 2015.
- (ii) Tax ₹ 70,000 was paid during the year.

Prepare cash flow statement.

Answers

Multiple Choice Questions

1. (a) 2. (a) 3. (d) 4. (c)