

CBSE Test Paper 03
Ch-11 Cash Flow Statement

1. Purchase and Sales of Shares by a manufacturing company comes under _____.
 - a. Financing Activities
 - b. Not recorded
 - c. Operating Activities
 - d. Investing activities
2. Purchase of plant and machinery will be _____.
 - a. Added in Financing Activities
 - b. Added in Investing Activities
 - c. Deducted in investing activities
 - d. Deducted in Financing Activities
3. Cash deposit with the bank with a maturity date after two months belongs to which of the following:
 - a. Both Investing and Financing
 - b. Cash and Cash Equivalents
 - c. Investing Activities
 - d. Financing Activities
4. Payment of dividend is classified as _____.
 - a. Both Operational activities and Investment activities
 - b. Financial activities
 - c. Investment activities
 - d. Operational activities
5. Sale of Copyrights is concerned with _____.
 - a. Financing Activities
 - b. None of these
 - c. Operating Activities
 - d. Investing Activities
6. State with reason whether 'withdrawal of cash from bank' will result into, inflow, outflow or no flow of cash.

7. Why Cash flow statement is not a substitute for income statement?
8. How do you compute the average stock?
9. While preparing cash flow statement, the accountant of 'Rachana Ltd', a financing company, included 'interest received on loan' in financing activities. Was he correct in doing so? Give reason.
10. Declaration of final dividend would result into inflow, outflow or no flow of cash? Give your answer with reason.
11. From the following Balance Sheet of Mayur Ltd. and the additional information as at 31st March 2018, prepare a Cash Flow Statement :

Mayur Ltd.
Balance Sheet as at 31st March, 2018

Note No.	Particulars	31.3.2018 (Rs.)	31.03.2017 (Rs.)
1	Reserves and Surplus:		
	Surplus (Balance in Statement of Profit and Loss)	3,00,000	4,00,000
		3,00,000	4,00,000
2	Long-term Borrowings:		
	9% Debentures	4,00,000	4,00,000
		4,00,000	4,00,000
3	Short-term Provisions:		
	Provision for Tax	76,000	64,000
		76,000	64,000
4	Tangible Assets:		
	Machinery	36,00,000	28,00,000

	Accumulated Depreciation	(7,00,000)	(5,00,000)
		29,00,000	23,00,000
5	Intangible Assets:		
	Goodwill	2,70,000	1,60,000
		2,70,000	1,60,000

Additional Information:

- i. During the year, a piece of machinery costing Rs.4,00,000 on which accumulated depreciation was Rs.73,000 was sold for Rs.3,10,000.
- ii. 9% Debentures of Rs.1,00,000 were issued on 31st March, 2018.

12. From the following particulars from Rajeshwar Ltd., calculate Cash Flow from Financing Activities:

Particulars	2006(Rs.)	2007(Rs.)
Equity Share Capital	6,00,000	10,00,000
18% Preference Share Capital	4,00,000	3,00,000
Securities Premium	1,00,000	2,60,000
14% Debentures	2,00,000	2,50,000
Discount on Debentures	5,000	6,000
Underwriting commission on the issue of shares	-	20,000

Additional Information:

- i. The dividend on preference shares and an interim dividend @ 15% were paid on equity shares on March 31, 2007.
- ii. Preference shares were redeemed on March 31, 2007 at a premium of 5%. Such premium has been provided out of profit.
- iii. New shares and debentures were issued on March 31, 2007.

13. From the following Balance Sheet of DCX Ltd. and the additional information as at

31st March 2018 prepare a Cash Flow Statement :

DCX Ltd.

Balance Sheet as at 31st March, 2018

	Particular		Note No.	31.3.2018 (Rs.)	31.03.2017 (Rs.)
I	Equity and Liabilities:				
1	Shareholder's Funds :				
(a)	Share Capital			30,00,000	21,00,000
(b)	Reserve 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:				
(a)	Trade payables			1,50,000	1,00,000
(b)	Short-term Provisions		3	76,000	56,000
		Total		44,26,000	32,56,000
II	Assets:				
1	Non-Current Assets:				
	Fixed Assets:				
(i)	Tangible Assets		4	27,00,000	20,00,000
(ii)	Intangible Assets			8,00,000	7,00,000
2	Current Assets:				
(a)	Current Investments			89,000	78,000
(b)	Inventories			8,00,000	4,00,000
(c)	Cash and cash equivalents			37,000	78,000
		Total		44,26,000	32,56,000

Notes to Accounts:

Note No.	Particulars	31.3.2018 (Rs.)	31.3.2017 (Rs.)
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
	Less: Accumulated Depreciation	(6,00,000)	(5,00,000)
		27,00,000	27,00,000

Additional Information:

- i. During the year a machinery costing Rs.8,00,000 on which accumulated depreciation was Rs.3,20,000 was sold for Rs.6,40,000.
- ii. Debentures were issued on 1st April 2017.

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

Particulrs	Note No.	31st March,2015 Amt (Rs)	31st March,2014 Amt (Rs)
I. EQUITY AND			

LIABILITIES			
1.Shareholders' Funds			
(a) Share Capital		5,00,000	4,00,000
(b)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 Liabilites			
(a)Short-term Borrowings	3	1,50,000	50,000
(b)Short-term Provisions	4	70,000	90,000
Total		13,70,000	9,90,000
II.ASSETS			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible	5	10,03,000	7,20,000
(ii) Intangible	6	20,000	30,000
(b)Non-current Investments		1,00,000	75,000
2.Current Assets			
(a)Current Investments		50,000	60,000
(b)Inventories	7	1,07,000	45,000
(c)Cash and Cash Equivqalents		90,000	60,000
Total		13,70,000	9,90,000

Notes to Accounts

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Particulars	31st March, 2015 Amt(Rs)	31st March,2014 Amt (Rs)
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
5.Tangible Assets Machinery (-)Accumulated Depreciation	12,03,000 (2,00,000)	8,21,000 (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 Rs.70,000 was paid during the year.
- Prepare cash flow statement.

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Answer

1. d. Investing activities, **Explanation:** Purchase and Sales of Shares by a manufacturing company comes under Investing activities as investment in other's company.
2. c. Deducted in investing activities, **Explanation:** Purchase of plant and machinery is part of investing activities where the amount of the same will be deducted while preparing cash flow statement. As cash will be out flow.
3. b. Cash and Cash Equivalents, **Explanation:** Cash deposit with the bank with a maturity date after two months belongs to Cash and Cash Equivalents. As it is a Current Activity.
4. b. Financial activities, **Explanation:** Payment of dividend is classified as financing activities. It is deducted in financing activities as its paid on share capital.
5. d. Investing Activities, **Explanation:** Sale of Copyrights is concerned with investing activities as Copyrights is a intangible assets of a company.
6. 'Withdrawal of cash from bank' does not result in cash flow. It is simply a movement between two components of cash and cash equivalents. Result is inflow of cash and outflow of cash equivalent so no change in cash flow.
7. The cash flow statement measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses. The cash flow statement complements the balance sheet and income statement and is a mandatory part of a company's financial reports since 1987. Cash flow statement is used to assess the cash inflows and outflows only. It does not calculate profit or loss of a company that's why it is not a substitute for income statement.
8. Average inventory is a calculation that estimates the value or number of a particular good or set of goods during two or more specified time periods.

$$\text{Average Stock or Inventory} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

9. No, accountant is not correct as Rachna Ltd is a financing company, the interest received on loan should be classified under the head 'operating activity' as these activities are performed by them to increase their profitability.
10. No flow of cash as final dividend is only declared, not yet paid. Proposed dividend is the dividend declared or proposed to be distributed among the shareholders of the company during a financial year which will be paid in the next financial year.

11. **Cash Flow statement of Mayur Ltd.**

	Particulars	Details (Rs.)	Amount (Rs.)
A	<u>Cash flows from Operating Activities:</u>		
	Net Profit before Tax & Extraordinary items (note 1)	(24,000)	
	Add: Loss on sale of machinery	17000	
	Depreciation	2,73,000	
	Interest on Debentures	<u>27,000</u>	
	Operating profit before working Capital changes	2,93,000	
	Add: Decrease in Inventories	10,000	
	Decrease in trade receivables	<u>20,000</u>	
		3,23,000	
	Less: Decrease in trade payables	<u>(80,000)</u>	
	Cash generated Form Operations	2,43,000	
	Less: Tax Paid	<u>(64,000)</u>	1,79,000
B	<u>Cash Flows from Investing Activities:</u>		
	Purchase of Machinery(Total Assets)	(12,00,000)	
	Sale of Machinery(Total Assets)	3,10,000	

	Purchase of goodwill (Intangible Assets)	<u>(1,10,000)</u>	(10,00,000)
C	<u>Cash Flows from Financing Activities:</u>		
	Issue of share capital	10,00,000	
	Issue of 9% Debentures	1,00,000	
	Interest on debentures	<u>(27,000)</u>	<u>10,73,000</u>
	Net Cash Flow (A+B+C)		2,52,000
	Add: Opening Cash and Cash Equivalent		<u>1,94,000</u>
	Closing Cash and Cash equivalent		4,46,000

Notes:

Calculation of profit before Tax:

Net Profit	(1,00,000)
Add: Provision for tax in current year	<u>76,000</u>
	(24,000)

Machinery A/c

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	28,00,000	By bank b/d	3,10,000
To bank A/c (Bal figure) (purchase)	12,00,000	By Accumulated Depreciation A/c	73,000
		By P/L statement	17,000
		By Balance C/d	36,00,000
	40,00,000		40,00,000

Accumulated Depreciation A/c

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Particulars	Rs.	Particulars	Rs.
To Machinery A/c	73,000	By balance b/d	5,00,000
To Balance c/d	7,00,000	By Statement of P& L(bal.figure)	2,73,000
	7,73,000		7,73,000

12. **Cash Flow from Financing Activities**

Particulars	(Rs.)
Proceeds from issue of Equity Share Capital (Rs 4,00,000 + Securities Premium Rs 1,60,000 - Underwriting Commission Rs 20,000)	5,40,000
Redemption of Preference Shares (Rs 1,00,000 + Premium Rs 5,000)	(1,05,000)
Proceeds from issue of Debentures (Rs 50,000 - Rs 1,000)	49,000
Dividend paid on Preference Shares (18% on Rs 4,00,000)	(72,000)
Interim Dividend paid on Equity Shares (15% on Rs 6,00,000)	(90,000)
Interest paid on Debentures (14% on Rs 2 ,00,000)	(28,000)
Net Cash used in Financing Activities	(2,94,000)

Cash flow from financing activities is a section of a company's cash flow statement, which shows the net flows of cash that are used to fund the company. Financing activities include transactions involving debt, equity, and dividends.

13. **DCX LTd.**

Cash flow Statement

	Particulars	Details(Rs.)	Amount (Rs.)
A	Cash flows from Operating Activities:		
	Net Profit before Tax	(24,000)	
	Add: Depreciation on Machinery	4,20,000	

	Add:Interest on Debentures	64,000	
	Less: Gain on sale of machinery	<u>(1,60,000)</u>	
	Operating profit before the working Capital changes	3,00,000	
	Add: Increase in Trade Payables	50,000	
	Less: Increase in Inventories	<u>(4,00,000)</u>	
	Cash generated from Operations before tax	50,000	
	Less: Tax Paid	<u>(56,000)</u>	
	Net Cash used in Operating Activities		(1,06,000)
B	Cash Flows from Investing Activities:		
	Purchase of Machinery	(16,00,000)	
	Purchase of Intangible Assets	(1,00,000)	
	Sale of Machinery	<u>6,40,000</u>	
	Net Cash used in investing activities		(10,60,000)
C	Cash Flows from financing Activities		
	Issue of shares	9,00,000	
	Issue of Debentures	3,00,000	
	Interest paid on debentures	<u>(64,000)</u>	
	Cash Inflows from Financing Activities		<u>11,36,000</u>
	Net Decrease in Cash and Cash Equivalents		(30,000)
	Add: Opening Cash and Cash Equivalents		
	Current Investments	78,000	
	Cash & Cash equivalents	<u>78,000</u>	<u>1,56,000</u>
	Closing Cash and Cash Equivalents		
	Current Investments	89,000	

Cash & cash equivalents	37,000	1,26,000
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Working Notes:

◦ Calculation of profit before Tax:

Net Profit for the year = (1,00,000)

Add: Provision for tax = 76,000

Net profit before tax = (24,000)

◦ **Machinery A/c**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	25,00,000	By Accumulated depreciation	3,20,000
To Statement of P& L (Gain on sale)	1,60,000	By Bank	6,40,000
To Bank A/c (Bal.fig.)	16,00,000	By balance c/d	33,00,000
	42,60,000		42,60,000

◦ **Accumulated Depreciation A/c**

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	3,20,000	By Balance b/d	5,00,000
To Balance c/d	6,00,000	By Depreciation (bal.fig.)	4,20,000
	9,20,000		9,20,000

14.

Cash Flow Statement

(For the year ended 31st March,2015)

Particulars		Amt(Rs)
Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (W.N.)		3,00,000
Adjustment for Non cash and Non operating Items		

(+)Depreciation	99,000	
(+)Intangible Assets Written off	10,000	
(+)Interest on Debentures (5,00,000 × 12%)	60,000	1,69,000
Operating Profit before Working Capital Changes		4,69,000
(-)Increase in Current Assets And Decrease in Current Liabilities Inventories	(62,000)	(62,000)
Cash Generated from Operations		4,07,000
(-)Tax Paid		(70,000)
Net Cash Flow from Operating Activities		3,37,000
Cash Flow from Investing Activities		
Purchase of Fixed Assets (12,03,000 - 8,21,000)	(3,82,000)	
Purchase of Non-current Investments	(25,000)	
Net Cash Used in Investing Activities		(4,07,000)
Cash Flow from Financing Activities		
Proceeds from Issue of Share Capital	1,00,000	
Redemption of Debentures	(50,000)	
Interest Paid on Debentures	(60,000)	
Increase in Bank Overdraft	1,00,000	
Net Cash Flow from Financing Activities		90,000
Net Increase in Cash and Cash Equivalents		20,000
(+)Operating Cash and Cash Equivalents i.e. Cash +Current Investment (60,000+60,000)		1,20,000
Closing Cash and Cash Equivalents i.e. Cash+ Current Investments (90,000+50,000)		1,40,000

i. Calculation of Net Profit before Tax and Extraordinary Items

Net Profit the Year [2,00,000-(-50,000)]			2,50,000
(+) Provision for Tax			50,000
			3,00,000
Dr.	Provision for Tax Account		Cr
Particulars	Amt (Rs.)	Particulars	Amt (Rs)
To Bank A/c	70,000	By Balance b/d	90,000
To Balance c/d	70,000	By Statement of Profit and Loss A/c (Balancing Figure)	50,000
	1,40,000		1,40,000