

**CBSE Test Paper 05**  
**Ch-11 Cash Flow Statement**

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1. Dividend paid by a finance company comes under\_\_\_\_\_.
  - a. Financing Activity
  - b. Operating Activities
  - c. Investing Activities
  - d. Manufacturing Activity
2. Increase in Bank Overdraft balance -----.
  - a. Add in Financing Activities
  - b. Add in Operating Activities
  - c. Less in Financing Activities
  - d. Less in Operating Activities
3. Which of the following is not a cash inflow?
  - a. Sale of asset at loss
  - b. Interest received on investment
  - c. Goods purchased in cash
  - d. Goods sold in cash
4. A Ltd engaged in the business retailing of Air-Conditioners, invested Rs. 25, 00,000 in the shares of a manufacturing company. Dividend received on this investment will be:
  - a. Cash flow from Investing activities
  - b. Cash flow from operating activities
  - c. Cash Equivalent
  - d. Cash flow from Financing activities
5. Cash Flow from Operating activities + Cash flow from investing activities + Cash flow from financing activities =?
  - a. Net Increase/Decrease in Long term borrowings
  - b. Net Increase/Decrease in cash & cash equivalents
  - c. Net Increase/Decrease in Non-current Assets
  - d. Net Increase/Decrease in Share Capital
6. While preparing cash flow statement which type of activity is - 'payment of cash to acquire shares of another company by a trading company'?

7. State with reason whether the issue of 9% debentures to the vendors for the purchase of machinery of Rs. 50,000 will result into inflow, outflow or no flow of cash.
8. State any two advantages of preparing cash flow statements.
9. What is meant by Operating Activities?
10. Give the meaning of cash equivalents' for the purpose of preparing cash flow statement.
11. Net profit of a company before tax is Rs. 12,50,000 as on 31st March 2003, after considering the following:

	Rs.
Depreciation on Fixed Assets	25,000
Goodwill written off	15,000
Loss on Sale of Machine	12,000

The current assets and current liabilities of the company in the beginning and at the end of the year were:

Particulars	31.3.2002(Rs.)	31.3.2003(Rs.)
Bills Receivable	25,000	15,500
Bills Payable	10,000	12,500
Debtors	30,000	38,800
Stock in Hand	18,000	14,000

Calculate Cash Flow from Operating Activities.

12. i. Calculate the net amount of cash flow if a fixed asset costing Rs. 32,000(having a book value of Rs. 24,000) is sold at a loss of Rs. 8,000.
- ii. From the following information calculate cash flow from operating activities:

Profit and Loss Account

**For the year ended on 31-3-2007**

<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
To Cost of goods sold	6,20,000	By sales	9,60,000
To selling and distribution expenses	52,000	By Profit on sale of furniture	12,000
To office Expenses	1,20,000	By interest Received	2,400
To Loss on sale of machinery	57,600	.	...
To depreciation	24,000	.	...
To Discount on debentures	8,000	.	...
To payment for taxation	28,800	.	...
To Net Profit	64,000	.	...
9,74,400	9,74,400	.	9,74,400

**Additional information**

Debtors	1,12,000	1,31,200
Stock	67,200	92,000
Creditors	50,000	60,000
Outstanding expenses	2,800	1,600

13. From the following particulars, calculate the cash flow from Investing Activities:

	<b>Purchases(Rs.)</b>	<b>Sales(Rs.)</b>
Investments	1,80,000	1,00,000
Goodwill	2,00,000	---
Machinery	4,40,000	1,50,000
Patents	---	1,00,000

Interest received on Debentures held as an investment Rs. 16,000.

Dividend received on Shares held as investment Rs. 20,000.

A plot of land was purchased out of surplus funds for investment purposes and was let out for commercial use. Rent received was Rs. 80,000.

14. Following are the Balance sheet of Vaishnavi Ltd.as follows :

Particulars	Note No	Mar 31,2019	Mar 31,2018
Equity & Liability			
share Capital		70000	40000
Balance nstatement of profit & loss		(32000)	(5000)
9% debenture		40000	20000
Trade Payable		15000	11000
Outstanding Expense		2000	1000
Totoal		95000	67000
Assets			
Fixed Asset		50000	30000
Investment		14000	20000
Stock		0000	5000
debtors		17000	10000
Cash		4000	2000
Total		95000	67000

**Additional Information:**

Included in the fixed asset was a piece of machinery costing 7000 on which dep charged was 4000 and it was sold for 3000. During the year 14000 dep was charged on fixed asset.

Prepare cash flow statement.

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**Answer**

1. b. Operating Activities, **Explanation:** Dividend paid by a finance company comes under Operating activity. As Dividend is a operating activity for a finance company.
2. a. Add in Financing Activities, **Explanation:** Increase in Bank overdraft is treated as source of funds and it is added in financing activities while preparing a cash flow statement as its increase in cash.
3. c. Goods purchased in cash, **Explanation:** Goods purchase in cash is not a cash inflow as in this transaction cash is going out.
4. a. Cash flow from Investing activities, **Explanation:** Cash flow from Investing activities
5. b. Net Increase/Decrease in cash & cash equivalents, **Explanation:** After calculating cash flows from different three activities, they are added to know the net increase or decrease in cash and cash equivalents.
6. Investing activity. Cash flow from investing activities is an item on the cash flow statement that reports the aggregate change in a company's cash position resulting from investment gains or losses and changes resulting from amounts spent on investments in capital assets, such as plant and equipment.
7. There is no flow of cash by the issue of 9% debentures to the vendors for the purchase of machinery of Rs. 50,000 because this transaction will not change the balance of cash and cash equivalents. A non-cash transaction is a contract, business affair or economic event in which a company doesn't dole out any sum of money. Accountants often call this type of transaction a "non-monetary transaction" or "non-cash item."
8. The advantages of cash flow statement are as follows
  - i. Ascertaining Liquidity and Profitability Positions
  - ii. Ascertaining Optimum Cash Balance

9. Operating activities are the functions of a business directly related to providing its goods and/or services to the market.
10. Cash equivalents are investment securities that are for short-term investing, and they have high credit quality and are highly liquid. Cash equivalents are short-term highly liquid investments that can be easily convertible into known amount of cash and which are subject to an insignificant risk of change in value, e.g. short-term marketable securities, which can be readily converted into cash, are treated as cash equivalents.
11. Cash flow from operating activities (CFO) is an accounting item that indicates the amount of money a company brings in from the ongoing regular business activities, such as manufacturing and selling goods or providing a service. Cash flow from operating activities does not include long-term capital expenditures or investment costs, as they may be one time activities. CFO focuses only on the core business, and is also known as operating cash flow (OCF) or net cash from operating activities.

#### **Cash Flow from Operating Activities**

<b>Particulars</b>		<b>(Rs.)</b>
Net Profit before Tax		12,50,000
Add Non-Cash and Non-Operative Items :		
Depreciation on Fixed Assets	25,000	
Goodwill wrote off	15,000	
Loss on Sale of Machine	12,000	52,000
<b>Operating Profit before Working Capital Changes</b>		<b>13,02,000</b>
Add: Decrease in Current Assets and Increase in Current Liabilities:		
The decrease in Bills Receivable	9,500	
Increase in Bills Payable	2,500	

Decrease in Stock	4,000	
		<b>13,18,000</b>
Less: Increase in Current Assets and Decrease in Current Liabilities :		
Increase in Debtors	(8,800)	
The decrease in Outstanding Expenses	(1,000)	(9,800)
<b>Cash Flow From Operating Activities</b>		<b>13,08,200</b>

12. (i) Calculation of Cash flow from Investing Activity :

Book Value of Asset sold = Rs.24,000

Loss on sale = Rs8,000

Thus, sale proceeds or cash inflow = Book value - Loss

= 24,000 - 8,000

= Rs.16,000

(ii) CASH FLOW FROM OPERATING ACTIVITIES

<b>Particulars</b>	<b>Amount(₹)</b>	<b>Amount(₹)</b>
Net Profit before Taxation and extraordinary items (Note 1)		92,800
Add: non-cash expenses :	...	...
Depreciation	24,000	...
Loss on sale of machinery	57,600	...
Discount on debentures written off	8,000	89,600
		<b>1,82,400</b>

less: non-operating incomes :	...	...
Profit on sale of furniture	(12,000)	...
Interest Received	(2,400)	(14,400)
<b>operating profit before working capital changes</b>		1,68,000
Adjustments related to current assets and liabilities	...	...
Add: Increase in current Liabilities	...	...
Creditors		10,000
		1,78,000
Less : Decrease in current liabilities	...	...
outstanding expenses		(1,200)
Less : Increase in current assets	...	...
debtors	( 19,200)	...
Stock	(24,800)	(44,000)
		1,32,800
Less payment of taxes		(28,800)
Net cash flow from operating activities	...	1,04,000

NOTES:

#### 1. CALCULATION OF PROFIT BEFORE TAX :

Net Profit = Rs 64,000

Add : Tax Paid = Rs. 28,800

= Rs. 92,800

13. Cash flows from investing activities is a line item in the statement of cash flows, which is one of the documents comprising a company's financial statements.



### Cash Flow from Investing Activities

Particulars	Amount (Rs.)
Purchase of Investments	(1,80,000)
Proceeds from the sale of Investments	1,00,000
Goodwill Purchased	(2,00,000)
Machinery Purchased	(4,40,000)
Proceeds from Sales of Machinery	1,50,000
Proceeds from Sale of Patents	1,00,000
Interest Received	16,000
Dividend Received	20,000
Rent Received	80,000
<b>Net Cash used in Investing Activities</b>	<b>(3,54,000)</b>

### 14. Cash Flow Statement

Particulars	Detail (Rs.)	Amount (Rs.)
<b>I. Cash Flow from Operating Activity:</b>		
<b>Net Profit</b>	(27000)	
<b>Add:</b> Depreciation	14000	
Interest on debenture	<u>1800</u>	
<b>Operating Profit before working capital change</b>	<b>(11200)</b>	
<b>Add:</b> Creditors	4000	
O/S Exp	<u>1000</u>	
	(6200)	

<b>Less: Stock</b>	(5000)	
Debtors	<u>(7000)</u>	<b>(18200)</b>
<b>II. Cash Flow from Investing Activity:</b>		
Sale of fixed asset	3000	
Purchase of fixed asset	(37000)	
Sale of investment	<u>6000</u>	<b>(28000)</b>
<b>III. Cash Flow from Financing Activity:</b>		
Share capital	30000	
debenture	20000	
Interest paid on debenture	<u>(1800)</u>	<b><u>48200</u></b>
<b>Net Cash Flow</b>		<b>2000</b>
+ Opening Cash and Cash Equivalent		2000
Closing Cash and Cash Equivalent		4000