

# Analysis of Financial Statements

## CHAPTER - 14

### CASH FLOW STATEMENT

#### Meaning of Cash Flow Statement

A Cash Flow Statement is a statement that shows inflow (receipts) and outflow (payments) of cash and its equivalents in an enterprise during a specified period of time. The Institute of Chartered Accountant of India has issued AS-3(Revised), for preparing a Cash Flow Statement. The terms, Cash, Cash Equivalents, and Cash Flows explained below:

**Cash:** It comprises cash in hand and demand deposits with banks.

**Cash Equivalents:** They are short term highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of change in value. An investment normally qualifies as a cash equivalent only when it has a short maturity, of say three months or less from the date of acquisition. Cash equivalent is held for the purpose of meeting short-term cash commitments rather than for investment or another purpose.

Cash Flows are inflows and outflows of cash and cash equivalents. An inflow increases the total cash and cash equivalents at the disposal of the enterprise whereas an outflow decreases them.

As per AS 3, Cash Flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an enterprise rather than part of its operating, investing, or financing activities.

#### Objectives of Cash Flow Statement

The basic objective of the Cash Flow Statement is to highlight the change in the cash position including the sources from which cash was obtained by the enterprise and specific uses to which cash was applied.

The Cash Flow Statement serves a number of objectives which are following:

1. To ascertain the sources of Cash and Cash equivalents from operating, investing and financing activities of the enterprise.
  2. To ascertain the applications of Cash and Cash equivalents under operating, investing and financing activities of the enterprise.
  3. To ascertain the net change in Cash and Cash equivalents i.e. the difference between sources and applications under the three activities between the dates of two balance sheets.
  4. To highlight the major activities that have provided cash and that have used cash during a particular period and to show off their effect on the overall cash balance.
- Cash Flow statement deals with the provision of information about the historical changes in cash and cash equivalent of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities."

#### Uses of Cash Flow Statement

A Cash Flow Statement is a useful financial statement and provides the following benefits:

- (a) **It enables the management to for short term financial planning-** As it provides information regarding the sources and utilization of cash during a period, it becomes easier for management to assess whether it will have adequate cash to meet day-to-day expenses and pay the trade payables in time, whether it will have sufficient cash to pay the long term loans and interest thereon and whether it has enough cash to pay for the purchase of fixed assets or not.
- (b) **It helps in preparing cash budget-** It informs the management about the surplus or deficit period of cash, i.e., in which months the payment will be in excess of receipts. It helps in planning the investment of surplus

cash in short-term investments and to plan short-term credit for deficit periods.

- (c) **It explains the deviations of cash from earnings-** A firm may earn huge profits yet it may have paucity of cash or when it suffered a loss it may still have plenty of cash. A cash flow statement explains the reason for it.
- (d) **It helps in studying trend of Cash Receipts and Payments-** A cash-flow statement reveals the speed at which the cash is being generated from trade receivables, inventory and other current assets and the speed at which the current liabilities are being paid. It enables the management to assess the true position of cash in the future.
- (e) **It helps in comparison with cash budget-** A cash budget is prepared at the commencement of the year, whereas a cash flow statement is prepared at the end of the year. A comparison between the two helps in ascertaining the extent to which the financial resources of the firm have been generated and used according to the plan. Causes of variances between the figures of two statements can be analysed and proper corrective measure can be taken.
- (f) **It helps in ascertaining cash flows from various activities separately-** A cash flow statement aims at highlighting the cash flow from operating, investing and financing activities separately. It indicates how much cash has been generated or used in these activities.
- (g) **It is helpful in making dividend decisions-** The amount of dividend must be deposited in a separate 'Dividend Bank A/c' within 5 days of the declaration of such dividend. Hence the management takes the help of cash flow statement to ascertain the position of cash generated from operating activities which can be used for payment of dividend.
- (h) **Test for the Managerial Decisions-** It is the general rule that fixed assets should be purchased from the funds raised from long term sources like issue of shares, debentures etc. and these should be repaid out of cash generated from operating activities. The cash flow statement shows whether this policy has been properly followed or not.
- (i) **Useful to outsiders-** Cash flow statement helps the investors, lenders, bankers etc.. to analyse the financial position of the enterprise and they can take proper decisions on the basis of such analysis.

#### **Limitations of Cash Flow Statement**

- (a) **Not suitable for judging the liquidity-** It does not present true picture of the liquidity of the firm because the liquidity does not depend upon cash alone. Liquidity also depend on those assets which can be converted into cash easily.
- (b) **Possibility of Window Dressing-** The possibility of window-dressing is higher in case of cash position in comparison to the working capital position of the firm. The cash balance can easily be manoeuvred by postponing purchases and other payments and by rapidly collecting cash from trade receivables before the balance sheet date.
- (c) **Ignores non cash transactions-** Cash flow statement ignores non-cash transactions like purchase of fixed

assets by issuing shares or debentures, conversion of debentures into shares etc. Hence the true position of an enterprise cannot be judged by cash-flow statement.

- (d) **Ignores the accrual concept of accounting-** It is prepared on cash basis and hence ignores one of the basic concepts of accounting, namely accrual concept.
- (e) **No substitute for an income statement-** A cash flow statement is not a substitute of Income statement which takes into account both cash and non-cash items. Therefore, net cash flow does not mean net income of the business.
- (f) **Historical in nature-** A cash flow statement is prepared on the basis of the two comparative balance sheets of the past years. Hence, information revealed by it is historical in nature. Information revealed by it will be more useful if it is accompanied by the projected cash flow statement.

#### **Difference between Cash-Flow Statement and Cash-Budget**

There is not much difference between a cash-flow statement and a cash budget. The only difference is that a cash-flow statement is prepared for a past period whereas a cash budget is prepared for the future period.

#### **Classification of Cash Flows**

A Cash Flow Statement shows the inflow and outflow of cash and cash equivalents from various activities of a company during a specific period. As per AS-3, these activities can be classified into three categories which are following:

1. Operating activities
  2. Investing activities
  3. Financing activities
- 1. Operating Activities:** Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise to pay dividends, repay loans and make investments without resources to extent source of financing. Examples of Cash Flows from operating activities are:

#### **Cash Inflows from Operating Activities:**

1. Cash receipts from the sale of goods and rendering of services.
2. Cash receipts from royalties, fees, commissions, and other revenues.
3. Cash receipts relating to future contracts, forward contracts, option contracts, and swap contracts when the contracts are held for dealing or trading purpose.
4. Cash receipts as income tax refunds unless they can be specifically identified with financing and investing activities.

#### **Cash Outflows from Operating Activities:**

1. Cash payments to suppliers of goods and services.
2. Cash payments to and on behalf of employees for wages, salaries, etc.
3. Cash payments of income tax unless they can be specified as financing or investing activities.

4. Cash payments for future contracts, forward contracts, etc.
5. Cash Payments for interest etc.
2. **Investing Activities:** As per AS-3 investing activities are the acquisition and disposal of long-term assets (such as land, building, plant, machinery, etc.) and other investment not included in cash equivalents.

#### Cash Inflows from Investing Activities:

1. Cash receipts from disposal of fixed assets.
2. Cash receipts from disposal of shares, warrants, or debt instruments of other enterprises and interest in joint ventures other than cash equivalents.
3. Cash receipts from the repayment of advances and loans made to third, parties (other than advances and loans of the financial enterprise.)
4. Interest received in cash from loans and advances.
5. Dividend received from investment in other enterprises.

#### Cash Inflows from Financing Activities:

1. Cash proceeds from issuing shares or other similar instruments.
2. Cash proceeds from issuing debentures, loans, bonds, and other short or long-term borrowings.

#### Cash Outflows from Financing Activities:

1. Cash repayments of the amounts borrowed.
2. Payment of dividend, Interest, etc.
3. Redemption of Preference Shares.

#### Format of Cash Flow Statement

#### Cash Outflows from Investing Activities:

1. Cash payments to acquire fixed assets.
2. Cash payment, relating to capitalized research and development costs.
3. Cash payment, to acquire shares, warrants, etc. other than cash equivalent.
4. Cash advances and loans made to a third party (other than advances and loans made by a financial enterprise wherein it is operating activities.)

3. **Financing Activities:** As per AS-3, financing activities are activities that result in changes in the size and composition of the owner's capital (including preference share capital in the case of a company) and borrowings of the enterprise. The separate disclosure of cash flows from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise.

**ABC Ltd.**  
CASH FLOW STATEMENT for the year ended .....  
(Indirect Method)  
(as per Accounting Standard -- 3 Revised)

	₹	₹
<b>A. Cash Flows from Operating Activities:</b>		
Net Profit before Tax (See Note No. 1)	.....	
Adjustments for non cash non operating items:		
Add: Depreciation	.....	
Preliminary Expenses/Discount on issue of Shares and Debentures written off	.....	
Goodwill, Patents and Trademarks Amortised	.....	
Interest on long-term Borrowings	.....	
Loss on Sale of Fixed Assets	.....	
Less : Interest Income (.....)		
Dividend Income (.....)		
Rental Income (.....)		
Profit on Sale of Fixed Assets (.....)	(.....)	
Operating Profit before Working Capital Changes	.....	
Add : Decrease in Current Assets	.....	
Increase in Current Liabilities	.....	
Less : Increase in Current Assets (.....)		
Decrease in Current Liabilities (.....)	(.....)	
Cash generated from operations	.....	
Less : Income Tax paid (Net of Tax Refund received)	(.....)	
<b>Net cash from (or used in) operating activities</b>	.....	.....
<b>B. Cash flows from Investing Activities:</b>		
Proceeds from Sale of Tangible Fixed Assets	.....	
Proceeds from Sale of Intangible Fixed Assets like goodwill	.....	
Proceeds from Sale of Non-Current Investments	.....	
Interest and Dividend Received	.....	

Rent Received	.....	
Purchase of Tangible Fixed Assets	(.....)	
Purchase of Intangible Fixed Assets like goodwill	(.....)	
Purchase of Non-Current Investments	(.....)	
<b>Net cash from (or used in) Investing Activities</b>	<u>.....</u>	.....
<b>C. Cash flows from Financing Activities:</b>		
Proceeds from issue of Shares and Debentures	.....	
Proceeds from Other Long-term Borrowings	.....	
Proceeds from Short-term Borrowings:	.....	
Proceeds from Short-term Borrowings:		
(i) Increase in the Balance of Bank Overdraft and Cash Credit	.....	
(ii) Decrease in the Balance of Bank Overdraft and Cash Credit	(.....)	
Final Dividend Paid	(.....)	
Interim Dividend Paid	(.....)	
Interest paid on Long-term and Short-term Borrowings	(.....)	
Repayment of Loans (Whether short-term or long-term)	(.....)	
Redemption of Debentures	(.....)	
<b>Net cash from (or used in) financing activities</b>	<u>.....</u>	<u>.....</u>
Net Increase (or Decrease) in Cash & Cash Equivalents (A + B + C)		.....
Add : Cash and Cash Equivalents in the beginning of the year		<u>.....</u>
Cash and Cash Equivalents at the end of the year		<u>.....</u>

**Note No. 1 : Calculation of Net Profit before Tax:**

<b>Particulars</b>	
Net Profit of the current year (after appropriations)	.....
Add : Transfer to Reserves (all transfers to Reserves from balances of the Statement of Profit & Loss)	.....
Proposed Dividend for Current year	.....
Interim Dividend paid during the year	.....
Provision for Tax made during the current year	.....
Less : Refund of Tax	(.....)
Net Profit before Tax	<u>.....</u>

**Treatment of Important Items:**

- (i) **Interest and Dividends-** Cash inflow from interest and dividend and cash outflow on account of interest and dividend should be disclosed separately. Cash inflow arising from interest and dividends received should be shown as cash flow from investing activities whereas cash outflow on account of interest and dividend paid should be shown as cash flow from financing activity.
- (ii) **Taxes on Income-** Tax paid on income is a part of cash flows from operating activity. Hence, Taxes paid are shown as a deduction under 'cash flows from Operating activities.'
- (iii) **Extraordinary Items-** Cash flows relating to extraordinary items such as bad debts recovered, claims received from insurance companies, winning of a lottery or a law suit etc. should be disclosed separately as arising from operating, investing or financing activities. For example, the amount received from insurance company on account of loss of inventory by fire, earthquake, floods etc. should be reported as cash flows from operating activities.
- (iv) **Significant Non-Cash Transactions:** There are some investing and financing activities which do not require the use of cash or cash equivalents. Such non-cash activities should be excluded from the cash flow statement. Examples are the acquisition of assets by issue of debentures or shares, conversion debentures into shares etc. Such significant non-cash transactions should be disclosed outside the cash flow statement.

**Cash Flows from Operating Activities:**

Operating activities are the main source of revenue and expenditure in an enterprise. Therefore, the ascertainment of cash flows from operating activities is of prime importance.

As per AS-3, an enterprise should report cash flows from operating activities using either by.

- (i) Direct Method( Not in syllabus)
- (ii) Indirect Method

**Indirect Method of Calculating Cash Flows from Operating Activities**

**Step 1 : Determination of Net Profit before Tax:**

Net Profit before Tax is the starting point for calculation of Cash Flows from Operating Activities as follows:

	₹
Difference between Opening and Closing Balance of Statement of Profit and Loss	.....
Add : Proposed Dividend (for Current Year)	.....
Interim dividend paid during the year	.....
Transfer to Reserve	.....
Provision for Tax (for Current Year)	.....
Less: Refund of Tax Credited to Statement of Profit and Loss	.....
Net Profit before Tax	.....

**Step 2: Adjustments of non-cash items****(A) Items to be added back to Net Profit**

- (i) Depreciation
- (ii) Amortisation of Fixed or Intangible Assets
- (iii) Bad Debts written off
- (iv) Loss on sale of Fixed Assets
- (v) Interest on Long term and Short term Borrowings
- (vi) Creation of Provisions

**(B) Items to be deducted from Net Profits**

- (i) Profit on sale of fixed assets
- (ii) Receipt of Income and Dividend
- (iii) Rent Received
- (iv) Re-transfer of excess provisions

**Step 3 : Adjustments in respect of Changes in Current Assets and Current Liabilities****(A) Items to be added back to Net Profit**

- (i) Decrease in Current Assets
- (ii) Increase in Current Liabilities

**(B) Items to be deducted from Net Profits**

- (i) Increase in Current Assets
- (ii) Decrease in Current Liabilities

**Step 4: Deduct Income Tax Paid**

Income Tax Paid is deducted from Cash generated from Operating Activities.

The amount after above adjustments is Cash Flow from Operating Activities.

<b>A. Cash Flows from Operating Activities:</b>		
Net Profit before Tax (See Note No. 1)	.....	
Adjustments for non cash non operating items:		
Add: Depreciation	.....	
Preliminary Expenses/Discount on issue of		
Shares and Debentures written off	.....	
Goodwill, Patents and Trademarks Amortised	.....	
Interest on long-term Borrowings	.....	
Loss on Sale of Fixed Assets	.....	
Less : Interest Income	(.....)	
Dividend Income	(.....)	
Rental Income	(.....)	
Profit on Sale of Fixed Assets	(.....)	(.....)
Operating Profit before Working Capital Changes	.....	
Add : Decrease in Current Assets	.....	
Increase in Current Liabilities	.....	.....
Less : Increase in Current Assets	(.....)	
Decrease in Current Liabilities	(.....)	(.....)
Cash generated from operations	.....	
Less : Income Tax paid (Net of Tax Refund received)	.....	(.....)
<b>Net cash from (or used in) operating activities</b>	.....	.....

**Cash Flow from Investing Activities:**



Investing activities are the acquisition and disposal of long terms assets and other investments not included in cash equivalent. Accordingly, cash inflow and outflow relating to fixed assets, shares, and debentures of other enterprises, advances, and loans to third parties and their repayments are shown separately under Investing activities in the Cash Flow Statement. It is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

#### Calculation of Cash Flows from Investing Activities:

<b>B. Cash flows from Investing Activities:</b>		
Proceeds from Sale of Tangible Fixed Assets	.....	
Proceeds from Sale of Intangible Fixed Assets like goodwill	.....	
Proceeds from Sale of Non-Current Investments	.....	
Interest and Dividend Received	.....	
Rent Received	.....	
Purchase of Tangible Fixed Assets	(.....)	
Purchase of Intangible Fixed Assets like goodwill	(.....)	
Purchase of Non-Current Investments	(.....)	
<b>Net cash from (or used in) Investing Activities</b>	<u>.....</u>	.....

#### Cash Flows from Financing Activities:

The Financing Activities of an enterprise are those activities that result in a change in size and composition of owners capital and borrowing of the enterprise. It includes separate disclosure of proceeds from the issue of shares or other similar instruments, issue of debentures, loans, bonds, other short-term or long-term borrowings, and repayment of amounts borrowed. It is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings to the enterprise.)

#### Calculation of Cash Flows from Financing Activities:

<b>C. Cash flows from Financing Activities:</b>		
Proceeds from issue of Shares and Debentures	.....	
Proceeds from Other Long-term Borrowings	.....	
Proceeds from Short-term Borrowings:	.....	
Proceeds from Short-term Borrowings:		
(i) Increase in the Balance of Bank Overdraft and Cash Credit	.....	
(ii) Decrease in the Balance of Bank Overdraft and Cash Credit	(.....)	
Final Dividend Paid	(.....)	
Interim Dividend Paid	(.....)	
Interest paid on Long-term and Short-term Borrowings	(.....)	
Repayment of Loans (Whether short-term or long-term)	(.....)	
Redemption of Debentures	(.....)	
<b>Net cash from (or used in) financing activities</b>	<u>.....</u>	<u>.....</u>

#### Preparation of Cash Flow Statement

Total of Part A, B, and C will be the net increase or decrease in cash and cash equivalents during the period. If the balance of cash and cash equivalents at the beginning is added to this figure, it will amount to the balance of cash and cash equivalents at the end of the period and hence the accuracy of the solution stands automatically verified.

#### Ascertaining Missing Figure by Preparing Fixed Asset Account

##### Case 1: Preparation of Fixed Asset Account on Written Down Value Basis:

If the balance sheet does not contain the item of 'provision for depreciation' for both the years, it means that the fixed assets in balance sheet are shown at their written down value basis. In such cases, it should be noted that if the amount of current year's depreciation is given in adjustments, it should be shown on credit side of asset account.

The balance of asset account will now shown the purchase or sale of asset. If the credit side is in excess of debit side, the amount of differences will be treated as purchase of asset and if the debit side is in excess, the amount of differences will be treated as sale of asset.

**Loss on Profit on Sale of Fixed Asset:** If there is a loss on sale of fixed asset, it is put to the credit side of the asset account and if there is a profit on sale of fixed asset, it is to be put to the debit side of the asset account.

##### Case 2 : Preparation of Fixed Asset Account on Original Cost Basis:

If the balance sheet contains an item of 'provision for depreciation' for both the years, it means that the fixed assets shown in the balance sheet are shown at their original cost. In such cases, fixed assets account and provision for depreciation account should be prepared separately. By preparing 'fixed assets account' the amount of fixed assets purchased or sold during the year will be found out and by preparing 'provision for depreciation account' the amount of depreciation charged during the year will be found out.

## Solved Examples

**Q1.** Identify the following transactions as belonging to (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities and (iv) Cash and Cash Equivalents:

1. Cash Purchases of Goods.
2. Purchase of Shares.
3. Patents purchased.
4. Cash received against services rendered.
5. Cash paid against Services taken.
6. Sale of building.
7. Income tax paid on gain on sale of building.
8. Dividend paid.
9. Payment of Corporate Dividend Tax on Dividend paid.
10. Balance of Current Investments.
11. Balance of Marketable Securities.
12. Decrease in balance of Bank Overdraft or Cash Credit.
13. Interest paid on Bank Overdraft or Cash Credit.

**Solution:**

Operating Activities: 1,4,5  
Investing Activities: 2,3,6,7  
Financing Activities: 8,9,12,13  
Cash and Cash Equivalents: 10,11

**Q2.** Calculate Operating Profit before Working Capital Changes from the following information and Balance Sheets of Ranbaxy Ltd. as at 31st March, 2016 and 31st March, 2015.

Particulars	Note No.	31 <sup>st</sup> March, 2016	31 <sup>st</sup> March, 2015
<b>I. EQUITY AND LIABILITIES:</b>			
<b>1. Shareholder's Funds</b>			
(a) Share Capital		15,00,000	12,00,000
(b) Reserves and Surplus	1	4,10,000	2,60,000
<b>2. Current Liabilities</b>			
(a) Trade Payables	2	2,20,000	1,50,000
(b) Other Current Liabilities	3	20,000	---
(c) Short-term Provisions	4	1,70,000	1,30,000
<b>TOTAL</b>		<b>23,20,000</b>	<b>17,40,000</b>
<b>II. ASSETS:</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets --- Tangible Assets		18,50,000	15,00,000
<b>2. Current Assets</b>		4,70,000	2,40,000
<b>TOTAL</b>		<b>23,20,000</b>	<b>17,40,000</b>

**Notes to Accounts:**

Particulars	31 <sup>st</sup> March, 2016	31 <sup>st</sup> March, 2015
	₹	₹
<b>1. Reserves and Surplus</b>		
Surplus <i>i.e.</i> , Balance in Statement of Profit and Loss	3,30,000	2,00,000
Workmen Compensation Reserve	<u>80,000</u>	<u>60,000</u>
	<b>4,10,000</b>	<b>2,60,000</b>

<b>2. Trade Payables</b>		
Trade Creditors	1,90,000	1,30,000
Bills Payable	30,000	20,000
<b>3. Other Current Liabilities</b>	2,20,000	1,50,000
Outstanding Expenses	<u>20,000</u>	<u>---</u>
<b>4. Short-term Provisions</b>		
Provision for Tax	<u>1,70,000</u>	<u>1,30,000</u>

**Additional Information:**

1. Depreciation for the year ended 31st March, 2016 was ₹1,60,000.
2. Bad Debts written off amounted to ₹20,000.
3. Rent received during the year amounted to ₹60,000.

**SOLUTION:**

**Calculation of Operating Profit before Working Capital Changes**

Particulars	₹
<b>Net Profit before Tax (Note 1)</b>	3,20,000
Adjustment for Non-Cash and Non-Operating items:	
Add: Depreciation	1,60,000
Bad Debts	<u>20,000</u>
	5,00,000
Less: Rent Received	<u>(60,000)</u>
<b>Operating Profit before Working Capital Changes</b>	<u>4,40,000</u>

**Note : (1)** Calculation of Net Profit before tax :

Surplus, i.e., Balance in Statement of Profit and Loss on 31st March, 2016	3,30,000
Less : Surplus, i.e., Balance in Statement of Profit and Loss on 31st March, 2015	<u>2,00,000</u>
	<u>1,30,000</u>
Add : Transfer to Workmen Compensation Reserve (₹ 80,000 – ₹60,000)	20,000
Provision for Tax (for Current year)	<u>1,70,000</u>
Net Profit before Tax	<u>3,20,000</u>

**Q3.** From the following information calculate the amount of Cash Flows from Investing Activities:

Particulars	31.03.2011	31.03.2012
	₹	₹
Plant and Machinery	8,50,000	10,00,000
Non Current Investments	40,000	1,00,000
Land (At cost)	2,00,000	1,00,000

**Additional Information :**

- (i) Depreciation charged on Plant and Machinery was ₹50,000.
- (ii) Plant and Machinery with a book value of ₹ 60,000 was sold for ₹40,000.
- (iii) Land was sold at gain of ₹60,000.

**SOLUTION:**

**Calculation of Cash from Investing Activities**

Particulars	₹
Sale of Plant and Machinery	40,000
Sale of Land (See Note 1)	1,60,000
Purchase of Plant & Machinery (See Note 2)	<u>(2,60,000)</u>
Purchase of Non-Current Investments	<u>(60,000)</u>
Net Cash flows from Investing Activities	<u>(1,20,000)</u>

**Working Note No. 1**



Dr.	Land A/c		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Bank (Sale of Land)	
To Gain on Sale of Land	60,000	(Balancing Figure)	1,60,000
		By Balance c/d	1,00,000
	2,60,000		2,60,000

#### Working Note No. 2

Dr.	PLANT & MACHINERY A/c		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	8,50,000	By Depreciation	50,000
To Bank		By Bank (Sale of Machinery)	40,000
(Purchase of Machinery)		By Loss on Sale of Machinery	20,000
(Balancing Figure)	2,60,000	By Balance c/d	10,00,000
	11,10,000		11,10,000

**Q4.** From the following activities, calculate cash flows from financing activities:

	31.3.2016 ₹	31.3.2015 ₹
Equity Share Capital	8,00,000	6,00,000
12% Preference Share Capital	---	2,00,000
14% Debentures	1,00,000	---

#### Additional Information :

- Equity Shares were issued at a premium of 15%.
- 12% Preference Shares were redeemed at a premium of 5%.
- 14% debentures were issued at a discount of 1 %.
- Interim dividend paid on Equity Shares ₹90,000.
- Dividend paid on old Preference Shares ₹24,000.
- Interest paid on debentures ₹14,000.
- Underwriting commission of Equity Shares ₹10,000.

#### SOLUTION:

#### CASH FLOWS FROM FINANCING ACTIVITIES

	₹
Proceeds from issue of Equity Share Capital (₹2,00,000 + Securities Premium ₹30,000 – Underwriting Commission ₹10,000)	2,20,000
Redemption of Preference Shares (₹2,00,000 + Premium on Redemption ₹ 10,000)	(2,10,000)
Proceeds from issue of Debentures (₹1,00,000 – ₹1,000)	99,000
Interim Dividend paid on Equity Shares	(90,000)
Dividend paid on Preference Shares	(24,000)
Interest paid on Debentures	(14,000)
Net Cash used in Financing Activities	(19,000)

**Q5.** Prepare 'Provision for Income Tax Account' from the following information for preparing Cash Flow Statement:

#### EQUITY AND LIABILITY SIDE OF BALANCE SHEET

	31-03-2016 ₹	31-03-2017 ₹
Provision for Income Tax	3,20,000	4,00,000

#### Additional Information:

During the year Income Tax paid was ₹2,80,000.

#### SOLUTION:

Dr.	PROVISION FOR INCOME TAX ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Payment made) (Given)	2,80,000	By Balance b/d (Given)	3,20,000
To Balance c/d (Given)	4,00,000	By Statement of P & L (Balancing figure, being	

		Provision made in 2017)	3,60,000
	6,80,000		6,80,000

**Q6.** Following are the Balance Sheets of M Ltd.

BALANCE SHEET *as at* .....

<b>Particulars</b>	<b>Note No.</b>	<b>31.3.2012</b>	<b>31.3.2011</b>
<b>I. EQUITY AND LIABILITIES:</b>		<b>₹</b>	<b>₹</b>
<b>(1) Shareholder's Funds:</b>			
(a) Share Capital		4,50,000	4,50,000
(b) Reserve & Surplus	1	4,78,000	3,56,000
<b>(2) Non-Current Liabilities:</b>			
Long-term Borrowings	2	1,70,000	---
<b>(3) Current Liabilities:</b>			
(a) Trade Payables		1,09,000	2,03,000
(b) Short term Provision	3	35,000	40,000
<b>TOTAL</b>		<b>12,42,000</b>	<b>10,49,000</b>
<b>II. ASSETS:</b>			
<b>(1) Non-Current Assets:</b>			
Fixed Assets:			
(i) Tangible Assets	4	3,20,000	4,00,000
(ii) Intangible Assets	5	60,000	50,000
<b>(2) Current Assets:</b>			
(a) Current Investments		70,000	78,000
(b) Inventory		1,70,000	2,15,000
(c) Trade Receivables		4,55,000	2,10,000
(d) Cash and Bank		1,67,000	96,000
<b>TOTAL</b>		<b>12,42,000</b>	<b>10,49,000</b>

<b>Notes:</b> (1) Reserve & Surplus:	31.3.2012	31.3.2011
Retained Earnings	<u>4,78,000</u>	<u>3,56,000</u>
(2) Long-term Borrowings:		
Mortgage Loan	<u>1,70,000</u>	---
(3) Short term Provision:		
Provision for Taxation	<u>35,000</u>	<u>40,000</u>
(4) Tangible Assets:		
Land	1,40,000	2,50,000
Plant & Machinery	<u>1,80,000</u>	<u>1,50,000</u>
	<u>3,20,000</u>	<u>4,00,000</u>
(5) Intangible Assets:		
Goodwill	<u>60,000</u>	<u>50,000</u>

**Additional Information : --**

- (i) Gain on sale of Land ₹30,000.
- (ii) Depreciation on Plant & Machinery was provided at 10% on last year's balance.
- (iii) Interest paid on Mortgage Loan amounted to ₹24,300.
- (iv) Provision for income tax made during the year 2011-12 was ₹32,000.

**SOLUTION:**

**CASH FLOW STATEMENT**  
**for the year ended 31st March, 2012**

<b>Particulars</b>	<b>₹</b>	<b>₹</b>
<b>A. Cash flows from Operating Activities:</b>		
Net profit before Tax (Note 1)	1,54,000	
Adjustments for non-cash and non-operating items:		
Add: Depreciation on Plant & Machinery	15,000	
Interest paid on Mortgage Loan	<u>24,300</u>	
	1,93,300	
Less: Gain on sale of land	<u>30,000</u>	
Operating profit before working capital changes	1,63,300	
Add: Decrease in Current Assets:		
Inventory	<u>45,000</u>	
	<u>2,08,300</u>	
Less: Increase in Current Assets:		
Trade Receivables	2,45,000	

Decrease in Current Liabilities:			
Trade Payables	<u>94,000</u>	<u>3,39,000</u>	
		<u>(1,30,700)</u>	
Less: Income Tax paid for 2011 <sup>(5)</sup>		<u>(37,000)</u>	
Net cash used in operating activities		<u>(1,67,700)</u>	(1,67,700)
<b>B. Cash flows from Investing Activities:</b>			
Purchase of Plant & Machinery <sup>(2)</sup>		(45,000)	
Purchase of Goodwill <sup>(3)</sup>		(10,000)	
Sale of Land <sup>(4)</sup>		<u>1,40,000</u>	
Net cash from investing activities		<u>85,000</u>	85,000
<b>C. Cash flows from Financing Activities:</b>			
Proceeds from Mortgage Loan		1,70,000	
Interest on Mortgage Loan		<u>(24,300)</u>	
Net cash from financing activities		<u>1,45,700</u>	<u>1,45,700</u>
Net increase in cash and cash equivalents			63,000
Add: Cash and cash equivalents in the beginning of the period <sup>(6)</sup>			<u>1,74,000</u>
Cash and cash equivalents at the end of the period <sup>(6)</sup>			<u>2,37,000</u>

**Notes: (1)** Calculation of Net Profit before Tax: ₹

Retained Earnings on 31st March, 2012	4,78,000
Less : Retained Earnings on 31st March, 2011	<u>3,56,000</u>
	1,22,000
Add : Provision for tax made during the Current year	<u>32,000</u>
Net Profit before Tax	<u>1,54,000</u>

**(2) PLANT & MACHINERY ACCOUNT**  
(On written down value)

Dr.			Cr.
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Balance b/d	1,50,000	By Depreciation	15,000
To Bank A/c (Balancing figure, being purchase)	45,000	By Balance c/d	1,80,000
	<u>1,95,000</u>		<u>1,95,000</u>

**(3)** Increase in Goodwill will be treated as purchase of Goodwill.

**(4) LAND ACCOUNT**

Dr.			Cr.
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Balance b/d	2,50,000	By Bank A/c (Balancing figure, Being sale)	1,40,000
To Statement of P & L (Gain)	30,000	By Balance c/d	1,40,000
	<u>2,80,000</u>		<u>2,80,000</u>

**(5) PROVISION FOR TAX ACCOUNT**

Dr.			Cr.
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Bank A/c (Balancing figure, being payment made)	37,000	By Balance b/d	40,000
To Balance c/d	35,000	By Statement of Profit & Loss (Provision made) (Given)	32,000
	<u>72,000</u>		<u>72,000</u>

**(6)**

	31.3.2012 (₹)	31.3.2011 (₹)
Cash and Bank	1,67,000	96,000
Current Investments	<u>70,000</u>	<u>78,000</u>
	<u>2,37,000</u>	<u>1,74,000</u>

**Payment of Dividend:** If dividend paid is given in adjustments, it will be added back to profits while calculating 'Net Profit Tax' and will also be shown as payment of cash under the heading 'Cash flows from financing activities'.

## QUESTIONS FOR PRACTICE

### MCQ

1. Where will you purchase of goodwill in a cash flow statement?  
 (a) Cash Flow from Operating Activities  
 (b) Cash Flow from Investing Activities  
 (c) Cash Flow from Financing Activities  
 (d) Cash Equivalent

2. 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

3. Cash flow from operating activity means cash flow from business operation because  
 (a) cash flow from operating activity is outside the business  
 (b) cash flow from operating activity is taken from investment  
 (c) cash flow from cash inflow and outflow from operating activity are the core activity  
 (d) Both (a) and (c)

4. Following is the extract from the balance sheet of ABC Ltd.

Particulars	31 <sup>st</sup> March, 2020 (₹)	31 <sup>st</sup> March, 2019 (₹)
Surplus, i.e. Balance in Statement of Profit and Loss	4,50,000	3,00,000
Proposed Dividend	1,75,000	1,50,000

Calculate net profit before tax and extraordinary items.

- (a) ₹3,00,000      (b) ₹1,25,000  
 (c) ₹3,25,000      (d) ₹1,75,000

5. 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?  
 (a) Activity arising from interest will be shown in investing activity  
 (b) Activity arising from interest will be shown in financing activity  
 (c) Activity arising from interest will be shown in operating activity  
 (d) None of the above

6. Shri Niwas Ltd. has the opening balance of furniture ₹ 4,00,000 and closing balance ₹4,20,000 and depreciation opening and closing balance ₹1,00,000 and ₹1,10,000.  
 During the year, a furniture costing ₹40,000 with its accumulated depreciation of ₹24,000 was sold for ₹20,000. Calculate purchase value of furniture.  
 (a) ₹40,000      (b) ₹50,000  
 (c) ₹60,000      (d) ₹76,000

7. City Pulse Ltd. took a loan from financing company in the year 2021 for ₹25,00,000 and balance at the starting of 2022 financial year, i.e. on 1st April, 2022 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 outflow, 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

8. Provision for depreciation on plant  
 Opening balance = ₹60,000;  
 Closing balance = ₹65,000  
 An item of plant costing ₹20,000 having book value of ₹ 14,000 was sold for ₹18,000 during the year.  
 Calculate the amount of depreciation to be added back to net profit before tax and extraordinary items.  
 (a) ₹6,000      (b) ₹9,000  
 (c) ₹5,000      (d) ₹11,000

9. **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?

- (a) Outflow ₹40,000  
 (b) Inflow ₹42,600  
 (c) Outflow ₹61,600  
 (d) Outflow ₹64,000

10. 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

11. Issue of shares for consideration other than cash will result into cash \_\_\_\_\_.  
 (a) Inflow (b) Outflow  
 (c) No flow (d) None of these

12. 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

**Options**

- |     |          |          |          |
|-----|----------|----------|----------|
|     | <b>A</b> | <b>B</b> | <b>C</b> |
| (a) | (iii)    | (i)      | (ii)     |
| (b) | (ii)     | (i)      | (iii)    |
| (c) | (iii)    | (ii)     | (i)      |
| (d) | (ii)     | (iii)    | (i)      |
13. Rakshak Ltd. net profit before tax was ₹1,85,500, depreciation ₹31,200. During that year, trade payables increased by ₹26,600 and inventory increased by ₹40,300. There was no change to trade receivables. Assuming that no other factors affected it, what would be the cash generated from operations?  
 (a) ₹2,03,000 (b) ₹2,30,400  
 (c) ₹2,25,800 (d) ₹2,43,300
14. Mention the net amount of source or use of cash when a fixed asset (having book value ₹ 1,20,000) is sold at a loss of ₹40,000 in term of cash flow.  
 (a) ₹1,20,000 (b) ₹40,000  
 (c) ₹80,000 (d) ₹1,60,000

- 15.

**Balance Sheet (Extract)**

Particulars	31st March, 2019 (₹)	31st March, 2020 (₹)
Investments @ 10%	5,00,000	10,00,000

**Additional Information**

Half of the investments held in the beginning of the year were sold @ 10% profit. Interest and dividend received on investments ₹70,000 and ₹50,000 respectively.

How much amount as per above information, will be shown in investing activity for cashflow statement prepared on 31st March, 2020?

- |                       |                       |
|-----------------------|-----------------------|
| (a) Outflow ₹3,55,000 | (b) Outflow ₹3,25,000 |
| (c) Inflow ₹3,55,000  | (d) Inflow ₹1,20,000  |
16. Which of the following is not an operating cash flow?  
 (a) Decrease in Inventories by ₹1,500  
 (b) Decrease in Trade Payables by ₹66,000  
 (c) Purchase of Tangible Assets for ₹47,000  
 (d) All of the above
17. Provision for tax is \_\_\_\_ to net profit in operating activities.  
 (a) added (b) deducted  
 (c) No treatment (d) None of these
18. How will you treat payment of dividend in a cash flow statement?  
 (a) Cash Flow from Operating Activities  
 (b) Cash Flow from Investing Activities
- (c) Cash Flow from Financing Activities  
 (d) Cash Equivalent
19. Which of the following is not application of cash?  
 (a) Increase in Debtors  
 (b) Increase in Inventory  
 (c) Increase in Bills Payable  
 (d) Increase in Prepaid Expenses
20. For a company manufacturing garments, procurement of raw materials, incurrence of manufacturing expenses, sale of garments are classified as \_\_\_\_ activity.  
 (a) Financing (b) Investing  
 (c) Operating (d) None of the above

**SUBJECTIVE QUESTIONS**

- State with reason whether deposit of Cash into Bank will result into inflow, outflow or no flow of cash.
- Manvi Finance Ltd. is a company engaged in the business of financing securities. In its Cash Flow Statement, it has shown interest earned under the Financing Activity. Do you think it is a correct presentation? Give reasons to your answer.
- Where will you classify factory expenses for both finance and non-finance companies and why?
- When and why is 'receipt of dividend' classified under operating activities?
- Calculate Cash from Operating Activities from the following information:

**Statement of Profit and Loss**  
**for the year ended 31<sup>st</sup> March, 2015**

Particulars	Note No.	(₹)
I. Revenue from Operations		2,00,000
II. Other Income		1,00,000
III. Total Revenue		3,00,000
IV. Expenses		
Cost of Materials Consumed		80,000
Employee Benefit Expenses		60,000
Depreciation and Amortisation Expenses		30,000
Other Expenses		15,000
Total Expenses		1,85,000
V. Profit before Tax (III-IV)		1,15,000
VI. Income Tax Paid		20,000
VII. Profit after Tax		95,000

**Notes to Accounts**

Particulars	(₹)
1. Other Income:	
Profit on Sale of Land	1,00,000
2. Other Expenses:	
Loss on sale of machinery	15,000

**Current Assets and Current Liabilities**

Particulars	31 <sup>st</sup> March, 2015	31 <sup>st</sup> March, 2014
Trade Receivables	45,000	50,000
Accrued Incomes	6,000	4,000
Advance Incomes	15,000	12,000
Trade Payables	40,000	35,000
Outstanding Expenses	3,000	4,000
Prepaid Expenses	1,500	1,000
Inventories	60,000	80,000

6. From the following information, calculate the amount of cash flows from Investing Activities:

Particulars	31 <sup>st</sup> March, 2015	31 <sup>st</sup> March, 2016
Plant and Machinery	8,50,000	10,00,000
Non-Current Investments	40,000	1,00,000
Land (at cost)	2,00,000	1,00,000

**Additional Information:**

- (i) Depreciation charges on Plant and Machinery ₹ 50,000.
- (ii) Plant and Machinery with a book value of ₹ 60,000 was sold for ₹ 40,000.
- (iii) Land was sold at a profit of ₹ 60,000.
- (iv) No investment was sold during the year.

7. From the following information, calculate the amount of cash flows from Investing Activities:

Particulars	(₹)
Land acquired during the year	5,00,000
Non-Current Investment Purchased	2,70,000
Fixed Tangible Assets (Machinery) purchased	4,50,000
Fixed Tangible Assets (Building) sold	6,00,000
Sale of Non-Current Investments	1,60,000
Sale of Non-Tangible Fixed Assets	2,10,000
Receipt for permission of use of Trademarks	90,000
Interest received on Debentures held as investments	20,000
Dividend received on shares held as investment	30,000

8. XYZ Ltd. provided the following information, calculate net cash flows from financing activities:



Particulars	31 <sup>st</sup> March, 2015 (₹)	31 <sup>st</sup> March, 2016 (₹)
Equity Share Capital	10,00,000	12,00,000
12% Long term Borrowings (Debentures)	1,00,000	2,00,000

*Additional Information:*

(i) Interest paid on Debentures ₹12,000

(ii) Dividend paid ₹50,000.

9. From the following information relating to year ended 31<sup>st</sup> March, 2019, calculate Net Profit before Tax and Extraordinary Activities:

Particulars	(₹)
Surplus, i.e., Balance in Statement of Profit and Loss (Opening)	1,00,000
Surplus, i.e., Balance in Statement of Profit and Loss (Closing)	2,24,000
Transfer to Debentures Redemption Reserve	50,000
Proposed Dividend for the Previous year ended 31 <sup>st</sup> March, 2018	60,000
Interim Dividend paid during the year	48,000
Provision for Tax made during the Current year	1,00,000
Income Tax Paid	72,000

10. Following is the Balance Sheet of K.K. Ltd. as at 31<sup>st</sup> March, 2015:

**Balance Sheet**  
**as at 31<sup>st</sup> March, 2015**

Particulars	Note No.	31 <sup>st</sup> March, 2015 (₹)	31 <sup>st</sup> March, 2014 (₹)
<b>I. EQUITY AND LIABILITIES:</b>			
(1) Shareholders' Funds:			
(a) Share Capital		10,00,000	8,00,000
(b) Reserves and Surplus	1	4,00,000	(1,00,000)
(2) Non-current Liabilities:			
Long-term Borrowings	2	9,00,000	10,00,000
(3) Current Liabilities:			
(a) Short-term Borrowings	3	3,00,000	1,00,000
(b) Short-term Provisions	4	1,40,000	1,80,000
<b>Total</b>		<b>27,40,000</b>	<b>19,80,000</b>
<b>II. ASSETS:</b>			
(1) Non-current Assets:			
(a) Fixed Assets:			
(i) Tangible	5	20,06,000	14,40,000
(ii) Intangible	6	40,000	60,000
(b) Non-current Investments		2,00,000	1,50,000
(2) Current Assets:			
(a) Current Investments		1,00,000	1,20,000
(b) Inventories	7	2,14,000	90,000
(c) Cash and Cash Equivalents		1,80,000	1,20,000
<b>Total</b>		<b>27,40,000</b>	<b>19,80,000</b>

**Notes to Accounts:**

Particulars	31 <sup>st</sup> March, 2015 (₹)	31 <sup>st</sup> March, 2014 (₹)
1. Reserves and Surplus (Surplus i.e., Balance in Statement of Profit and Loss)	4,00,000	(1,00,000)
	4,00,000	(1,00,000)
2. Long-term Borrowings 12% Debentures	9,00,000	10,00,000
	9,00,000	10,00,000
3. Short-term Borrowings Bank Overdraft	3,00,000	1,00,000
	3,00,000	1,00,000
4. Short-term Provisions: Provision for tax	1,40,000	1,80,000

	1,40,000	1,80,000
5. Tangible Assets:		
Machinery	24,06,000	16,42,000
Accumulated Depreciation	(4,00,000)	(2,02,000)
	20,06,000	14,40,000
6. Intangible Assets:		
Goodwill	40,000	60,000
	40,000	60,000
7. Inventories:		
Stock in trade	2,14,000	90,000
	2,14,000	90,000

**Additional Information:**

- (i) 12% Debentures were redeemed on 31<sup>st</sup> March, 2015.  
(ii) Tax ₹ 1,40,000 was paid during the year.

**Prepare Cash Flow Statement.**

## HOMEWORK

### MCQ

- Which of the following is a non-operating income?  
(a) Dividend received by an investment company  
(b) Premium received by an insurance company  
(c) Revenue from sale in a trading concern  
(d) Profit on the sale of used plant in manufacturing company
- Which of the following is highly liquid investment among the following?  
(a) Cash convertible investment  
(b) Cash equivalent  
(c) Short-term investment  
(d) Debtors

**3. Balance Sheet (Extract)**

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

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

- (a) Outflow ₹40,000                      (b) Inflow ₹42,600  
(c) Outflow ₹61,600                      (d) Outflow ₹64,000
- Which of the following is not an example of Investing Activity?  
(a) Purchase of marketable securities for ₹25,000 cash  
(b) Sale of land for ₹28,000 cash  
(c) Sale of 2,500 shares (held as investment) for ₹15 each  
(d) Purchase of equipment for ₹500 cash
  - Y 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  
(a) Cash used in investing activities ₹20,00,000.  
(b) Cash generated from financing activities

₹ 12,00,000.

- (c) Increase in cash and cash equivalents ₹8,00,000.  
(d) Cash used in investing activities ₹8,00,000.
- Radha 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?  
(a) Activity arising from interest will be shown in investing activity  
(b) Activity arising from interest will be shown in financing activity  
(c) Activity arising from interest will be shown in operating activity  
(d) None of the above
  - While calculating Operating profit which of the following will be subtracted from net profit?  
(a) Profit on sale of asset    (b) Refund of Tax  
(c) Interest Received        (d) All of these
  - 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
  - Cash from operating activities will decrease due to :  
(a) Increase in Current Assets  
(b) Decrease in Current Liabilities  
(c) Neither                                (a) or (b)  
(d) Both                                     (a) or (b)
  - Which of the following is a limitation of Cash Flow Statement?  
(a) Non cash transactions are ignored  
(b) Not a substitute for an income statement  
(c) Historical in Nature  
(d) All of these
  - For a company manufacturing garments, procurement of raw material, incurrence of

manufacturing expenses , sale of garments are classified as ..... activity.

- (a) financing (b) investing  
(c) operating (d) None of these

12. Issue of shares for consideration other than cash will result into cash .....

- (a) inflow (b) outflow  
(c) no flow (d) None of these

13. R Ltd. redeemed ₹1,00,000, 9% debentures at 10% premium. What will be the amount of 'Cash flows from financing activities?

- (a) ₹1,10,000 (b) ₹1,00,000  
(c) ₹10,000 (d) None of these

14. Match the following:

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

- |     |       |      |      |      |       |
|-----|-------|------|------|------|-------|
| A   | B     | C    | A    | B    | C     |
| (a) | (iii) | (i)  | (ii) | (i)  | (iii) |
| (b) | (iii) | (ii) | (i)  | (ii) | (iii) |

**Directions for question (15 to 18):** Read the following case study and answer the question no. 15 to 18 on the basis of the same. Cash flow from operating activities of Star Bucks Ltd. for the year ended 31st March, 2019 was ₹ 18,000. The balance sheet along with notes to accounts of Star Bucks Ltd. as at 31st March, 2019 is given below.

**Balance Sheet**  
**as at 31<sup>st</sup> March, 2019**

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

**Notes to Accounts**

Particulars	31 <sup>st</sup> March, 2019 (₹)	31 <sup>st</sup> March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus (Balance in Statement of Profit and Loss)	50,000	40,000
	50,000	40,000
<b>2. Long-term Borrowing</b>		
8% Debentures	1,00,000	4,00,000
	1,00,000	4,00,000
<b>3. Short-term Provisions</b>		
Provision Tax	2,50,000	3,60,000
	2,50,000	3,60,000
<b>4. Tangible Assets</b>		
Plant and Machinery	15,20,000	10,90,000

(-) Accumulated Depreciation	(1,20,000)	(90,000)
	14,00,000	10,00,000
<b>5. Intangible Assets</b>		
Goodwill	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.

- |   |   |
|---|---|
| <p><b>15.</b> How much amount is received on the sale of plant and machinery?</p> <p>(a) ₹22,000                      (b) ₹34,000<br/>(c) ₹ 16,000                      (d) ₹ 20,000</p> <p><b>16.</b> How much amount is invested in plant and machinery in the current year?</p> <p>(a) ₹4,76,000                      (b) ₹4,70,000<br/>(c) ₹4,76,500                      (d) ₹4,75,000</p> | <p><b>17.</b> Interest paid on debenture is .....</p> <p>(a) ₹32,000                      (b) ₹26,000<br/>(c) ₹14,000                      (d) None of these</p> <p><b>18.</b> Depreciation charged on plant and machinery during the year is .....</p> <p>(a) ₹30,000                      (b) ₹12,000<br/>(c) ₹42,000                      (d) Zero</p> |
|---|---|

**Directions for question (19 to 22):** Read the following case study and answer the question no. 19 to 22 on the basis of the same.

**Balance Sheet**  
As at 31<sup>st</sup> March, 2018

Particulars	Note no.	31 <sup>st</sup> March, 2018 (₹)	31 <sup>st</sup> March, 2017 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>Shareholders' Funds</b>			
(i) Share Capital		30,00,000	21,00,000
(ii) Reserves and Surplus	1	4,00,000	5,00,000
<b>2. Non-current Liabilities</b>			
Long-term Borrowings	2	8,00,000	5,00,000
<b>3. Current Liabilities</b>			
(i) Trade Payables		1,50,000	1,00,000
(ii) Short-term Provisions	3	76,000	56,000
<b>Total</b>		44,26,000	32,56,000
<b>II. ASSETS</b>			
<b>1. Non-current Assets</b>			
(i) Fixed Assets			
(a) Tangible Assets	4	27,00,000	20,00,000
(b) Intangible Assets		8,00,000	7,00,000
<b>2. Current Assets</b>			
(i) Current Investments		89,000	78,000
(ii) Inventories		8,00,000	400,000
(iii) Cash and Cash Equivalents		37,000	78,000
<b>Total</b>		44,26,000	32,56,000

**Notes to Accounts**

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

**Additional Information**

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

(ii) Debentures were issued on 1<sup>st</sup> April, 2017

19. Calculate Cash Flows from Operating Activities ?

- (a) ₹1,00,000
- (b) ₹1,06,000
- (c) ₹1,10,000
- (d) ₹1,20,000

20. Calculate Cash Flows from Investing Activities ?

- (a) ₹10,00,000
- (b) ₹10,60,000
- (c) ₹10,90,000
- (d) ₹9,90,000

21. Calculate Cash Flows from Financing Activities ?

- (a) ₹11,00,000
- (b) ₹11,50,000
- (c) ₹11,90,000
- (d) ₹11,36,000

22. What amount of Machinery was purchased during the year?

- (a) ₹16,90,000
- (b) ₹16,10,000
- (c) ₹16,00,000
- (d) ₹15,70,000

23. 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 Liabilities	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

- (a) ₹26,90,000
- (b) ₹27,90,000
- (c) ₹27,10,000
- (d) ₹28,50,000

24. From the following information relating to 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
- (a) ₹1,45,600 (b) ₹1,45,200 (c) ₹1,50,800 (d) ₹1,48,600

25. Competitive Minds Ltd provides the following information. Calculate cash flow from financing activities.

Particulars	31 <sup>st</sup> March, 2018 (₹)	31 <sup>st</sup> 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.
- (a) ₹75,000 (b) ₹95,000 (c) ₹80,000 (d) ₹78,000

26. A company purchase machinery on hire purchase basis. Payment of installment for machinery will come under which category?
- (a) Investing Activity (b) Operating Activity
- (c) Financing Activity (d) Both (a) and (b)

27. Given:

Net Profit during the year ₹1,00,000

Debtors in the beginning the year of ₹30,000

Debtors at the end of the year ₹36,000

What is the amount of cash from operating activities?

- (a) ₹30,000 (b) ₹94,000 (c) ₹1,06,000 (d) ₹1,66,000

**Directions for questions 28 to 30:** 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 false, but Reason (R) is true
- (d) Assertion (a) is true, but Reason (R) is false

**28. Assertion(a)** Cash Flow Statement shows inflow and outflow of Cash and Cash Equivalents under Operating, Investing, and Financing Activities of a company during a specified period.

**Reason (R)** The cash Flow Statement traces the Flow of Cash and Cash Equivalents into and out of the business during an accounting period under Operating, Investing, and Financing Activities.

**29. Assertion (a)** 'Sale of Property is an Operating Activity for a Real Estate Company.

**Reason (R)** Sale/Purchase of property is the Principal Revenue Producing Activity for a Real Estate Company.

**30. Assertion (a)** Cash deposited into bank will not result in Flow of Cash or Cash equivalents.

**Reason (R)** Cash deposited into bank is movement between items of Cash.

**SUBJECTIVE QUESTIONS**

1. Prepare a Cash Flow Statement on the basis of the information given in the Balance Sheets of Liva Ltd. as at 31-3-2016 and 31-3-2017:



Particulars	Note No.	31 <sup>st</sup> March, 2017 (₹)	31 <sup>st</sup> March, 2016 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>(1) Shareholders' Funds</b>			
(a) Share Capital		2,10,000	1,80,000
(b) Reserves and Surplus	1	1,32,000	24,000
<b>(2) Non-current Liabilities</b>			
(a) Long-term borrowings		1,50,000	1,50,000
<b>(3) Current Liabilities</b>			
(a) Trade Payables		75,000	27,000
<b>Total</b>		5,67,000	3,81,000
<b>II. ASSETS</b>			
<b>(1) Non-current Assets</b>			
(a) Fixed Assets			
(i) Tangible Assets		2,94,000	2,52,000
(b) Non-current Investment		48,000	18,000
<b>(2) Current Assets</b>			
(a) Current Investments (marketable)		54,000	60,000
(b) Inventories		1,07,000	24,000
(c) Trade Receivables		40,000	17,500
(d) Cash and Cash Equivalents		24,000	9,500
<b>Total</b>		5,67,000	3,81,000

**Notes to Accounts:**

Particulars	2017 (₹)	2016 (₹)
1. Reserves and Surplus	1,32,000	24,000
Surplus (Balance in Statement of Profit and Loss)		

2. Following is the Balance Sheet of Wisben Ltd. as on 31<sup>st</sup> March, 2017:

**Balance Sheet of Wisben Ltd.**  
*as at 31<sup>st</sup> March, 2017*

Particulars	Note No.	31 <sup>st</sup> March, 2017 (₹)	31 <sup>st</sup> March, 2016 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>Shareholders' Funds</b>			
Share Capital		7,00,000	6,00,000
Reserves and Surplus <i>i.e.</i> , Balance in Statement of Profit and loss		2,00,000	1,10,000
<b>Non-Current Liabilities</b>			
Long-term borrowings		3,00,000	2,00,000
<b>Current Liabilities</b>			
Trade Payables		30,000	25,000
<b>Total</b>		12,30,000	9,35,000
<b>II. ASSETS</b>			
<b>Non-Current Assets</b>			
Fixed Assets			
Tangible Assets		11,00,000	8,00,000
<b>Current Assets</b>			
Inventories		70,000	60,000
Trade Receivables		32,000	40,000
Cash and Cash Equivalents		28,000	35,000
<b>Total</b>		12,30,000	9,35,000

**Adjustments:**

During the year a piece of machinery of the book value of ₹80,000 was sold for ₹65,000. Depreciation provided on tangible assets during the year amounted to ₹2,00,000.

Prepare a Cash Flow Statement.

3. From the following Balance Sheet of Mayur Ltd. and the additional information as at 31<sup>st</sup> March, 2018, prepare a Cash Flow Statement:

**Balance Sheet of Mayur Ltd.**  
*as at 31<sup>st</sup> March, 2018*

Particulars	Note No.	31 <sup>st</sup> March 2018 (₹)	31 <sup>st</sup> March 2017 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		30,00,000	20,00,000
(b) Reserves and Surplus	1	3,00,000	4,00,000
<b>2. Non-current Liabilities</b>			
(a) Long-term Borrowings	2	4,00,000	3,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		1,70,000	2,50,000
(b) Short-term Provisions	3	76,000	64,000
<b>Total</b>		39,46,000	30,14,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets			
(i) Fixed Assets	4	29,00,000	23,00,000
(ii) Intangible Assets	5	2,70,000	1,60,000
(b) Non-current Investments			
<b>2. Current Assets</b>			
(a) Inventories		2,20,000	2,30,000
(b) Trade Receivables		1,10,000	1,30,000
(c) Cash and Cash Equivalents		4,46,000	1,94,000
<b>Total</b>		39,46,000	30,14,000

**Notes to Accounts**

Particulars	31 <sup>st</sup> March, 2018 (₹)	31 <sup>st</sup> March, 2017 (₹)
1. Reserves and Surplus		
Surplus, i.e., 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	3,00,000
	4,00,000	3,00,000
3. Short-term Provisions		
Provision for Taxation	76,000	64,000
	76,000	64,000
4. Tangible Assets		
Machinery	36,00,000	28,00,000
	(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 ₹4,00,000 on which accumulated depreciation was ₹73,000 was sold for ₹3,10,000.
- (ii) 9% Debentures of ₹1,00,000 were issued on 31<sup>st</sup> March, 2018.

4. Following is the Balance Sheet of Thermal Power Ltd. as at 31-3-2014:  
**Balance Sheet of Thermal Power Ltd.**  
**as at 31-3-2014**

Particulars	Note No.	2012-13 (₹)	2012-13 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>(1) Shareholders' Funds</b>			
(a) Share Capital	1	12,00,000	11,00,000
(b) Reserves and Surplus		3,00,000	2,00,000
<b>(2) Non-current Liabilities</b>			
Long-term Borrowings		2,40,000	1,70,000
<b>(3) Current Liabilities</b>			
(a) Trade Payables		1,79,000	2,04,000
(b) Short-term Provisions		50,000	77,000
<b>Total</b>		19,69,000	17,51,000
<b>II. ASSETS</b>			
<b>(1) Non-Current Assets</b>			
(a) Fixed Assets	2	10,70,000	8,50,000
(i) Tangible	3	40,000	1,12,000
(ii) Intangible			
<b>(2) Current Assets</b>			
(a) Current Investments		2,40,000	1,50,000
(b) Inventories		1,29,000	1,21,000
(c) Trade Receivables		1,70,000	1,43,000
(d) Cash and Cash equivalents		3,20,000	3,75,000
<b>Total</b>		19,69,000	17,51,000

**Notes to Accounts:**

S.No.	Particulars	2013-14	2012-13
1.	<b>Reserves and Surplus</b>		
	Surplus, i.e., Balance in Statement of Profit and Loss	3,00,000	2,00,000
2.	<b>Tangible Assets</b>		
	Machinery	12,70,000	10,00,000
	Less: Accumulated Depreciation	(2,00,000)	(1,50,000)
		10,70,000	8,50,000
3.	<b>Intangible Assets</b>		
	Goodwill	40,000	1,12,000

*Additional information:* During the year a piece of machinery, costing ₹24,000 on which accumulated depreciation was ₹16,000, was sold for ₹6,000.

Prepare Cash Flow Statement.

5. From the following Balance Sheet of Ashok Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31 <sup>st</sup> March, 2018 (₹)	31 <sup>st</sup> March, 2017 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		7,50,000	5,00,000
(b) Reserves and Surplus		3,75,000	3,00,000
<b>2. Non-current Liabilities</b>			
(a) Long-term Borrowings	1	50,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		50,000	55,000
(b) Short-term Provisions	2	47,500	40,000
<b>Total</b>		12,72,500	9,95,000
<b>II. ASSETS</b>			
<b>1. Non-current Assets</b>			
(a) Fixed Assets			
(i) Tangible Assets	3	5,05,000	6,00,000
(ii) Intangible Assets	4	90,000	1,00,000

(b) Non-current Investments		3,00,000	---
<b>2. Current Assets</b>			
(a) Inventories		90,000	50,000
(b) Trade Receivables		1,00,000	75,000
(c) Cash and Cash Equivalents	5	1,87,500	1,70,000
<b>Total</b>		<b>12,72,500</b>	<b>9,95,000</b>

#### Notes to Accounts

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
<b>1. Long-term Borrowings</b>		
1000, 10% Debentures of ₹ 100 each	—	1,00,000
Bank Loan	50,000	—
	<b>50,000</b>	<b>1,00,000</b>
<b>2. Short-term Provisions</b>		
Provision for Tax	47,500	40,000
<b>3. Tangible Assets</b>		
Land and Building	3,25,000	4,00,000
Plant and Machinery	1,80,000	2,00,000
	<b>5,05,000</b>	<b>6,00,000</b>
<b>4. Intangible Assets</b>		
Goodwill	90,000	1,00,000
<b>5. Cash and Cash Equivalents</b>		
Cash in Hand	35,000	25,000
Bank Balance	1,52,500	1,45,000
	<b>1,87,500</b>	<b>1,70,000</b>

#### Additional Information:

31<sup>st</sup> March, 2018

31<sup>st</sup> March, 2017

- Contingent Liability:  
Proposed Dividend 10% 7.5%
- Income tax paid during the year includes ₹7,500 paid towards Dividend Distribution Tax.
- Land and Building of book value ₹75,000 was sold at a profit of 10%.
- The rate of depreciation on Plant and Machinery is 10%.

#### 6. From the following particulars, prepare Cash Flow Statement (as per AS-3):

Particulars	Note No.	31 <sup>st</sup> March 2016 (₹)	31 <sup>st</sup> March 2015 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	1,00,000	80,000
(b) Reserves and Surplus	2	6,400	6,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings	3	14,000	12,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	4	13,600	25,000
(b) Trade Payables		22,000	24,000
(c) Short term provisions	5	8,400	6,000
<b>Total</b>		<b>1,64,400</b>	<b>1,53,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets (Tangible)	6	50,000	60,000
<b>2. Current Assets</b>			

(a) Inventories		58,400	50,000
(b) Trade Receivables		48,000	40,000
(c) Cash and Cash Equivalents		7,000	2,400
(d) Other Current Assets	7	1,000	600
<b>Total</b>		<b>1,64,400</b>	<b>1,53,000</b>

#### Notes to Accounts

Particulars	31 <sup>st</sup> March, 2016 (₹)	31 <sup>st</sup> March, 2015 (₹)
<b>1. Share Capital:</b>		
Equity Share Capital	80,000	80,000
12% Preference Share Capital	20,000	---
	<b>1,00,000</b>	<b>80,000</b>
<b>2. Reserves and Surplus:</b>		
General Reserve	4,000	4,000
Surplus, i.e., Statement of Profit and Loss	2,400	2,000
	<b>6,400</b>	<b>6,000</b>
<b>3. Long-term Borrowings:</b>		
15% Debentures	14,000	12,000
<b>4. Short-term Borrowings:</b>		
Bank Overdraft	<u>13,600</u>	<u>25,000</u>
<b>5. Short-term Provisions:</b>		
Provision for Taxation	8,400	6,000
	<b>8,400</b>	<b>6,000</b>
<b>6. Fixed Assets:</b>		
Tangible Assets	80,000	82,000
Less: Accumulated Depreciation	30,000	22,000
	<b>50,000</b>	<b>60,000</b>
<b>7. Other Current Assets:</b>		
Prepaid Expenses	1,000	600

#### Additional Information:

- (a) Fixed Assets sold for ₹10,000, their cost ₹20,000 and accumulated depreciation till the date of sale on them ₹6,000.  
(b) Interim Dividend paid during the year ₹9,000.  
(c) Provision for tax made ₹9,400.  
(d) Proposed Dividend for previous year was ₹10,000 and current year is ₹11,600.

#### 7. From the following Balance Sheet of Samir Ltd. and additional information, prepare Cash Flow Statement:

Particulars	Note No.	31 <sup>st</sup> March, 2017 (₹)	31 <sup>st</sup> March, 2016 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	90,000	90,000
(b) Reserves and Surplus	2	75,600	71,200
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings	3	54,000	---
<b>3. Current Liabilities</b>			
(a) Long-term Borrowings		26,800	33,600
(b) Short term provisions	4	2,000	15,000
<b>Total</b>		<b>2,48,400</b>	<b>2,09,800</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets			
(i) Tangible Assets	5	64,000	80,000
(ii) Intangible Assets	6	12,000	10,000
<b>2. Current Assets</b>			

(a) Inventories		42,000	48,000
(b) Trade Receivables		91,000	42,000
(c) Cash and Cash Equivalents		39,400	29,800
<b>Total</b>		<b>2,48,400</b>	<b>2,09,800</b>

#### Notes to Accounts

Particulars	31 <sup>st</sup> March, 2017 (₹)	31 <sup>st</sup> March, 2016 (₹)
<b>1. Share Capital:</b>		
Equity Share Capital	90,000	90,000
<b>2. Reserves and Surplus:</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	75,600	71,200
<b>3. Long-term Borrowings:</b>		
Mortgage Loan	54,000	---
<b>4. Short-term Provisions:</b>		
Provision for Taxation	2,000	15,000
<b>5. Tangible Assets:</b>		
Land	28,000	50,000
Plant and Machinery	36,000	30,000
	64,000	80,000
<b>6. Intangible Assets</b>		
Goodwill	12,000	10,000

#### Additional Information:

- Gain on Sale of Land ₹6,000.
- Depreciation on Plant and Machinery was provided at 10% on last year's balance.
- Mortgage loan was taken on 1<sup>st</sup> April, 2016 @ 9% p.a. and interest has been paid up to date.
- Provision for Income Tax made during the year ₹18,000.

- 'Sale of Marketable Securities at par' would result in inflow, outflow or no flow of cash? Give your answer with reason.
- Following are the Balance Sheets and Cash Flow Statement of Indiania Ltd. with incomplete information. You are required to complete the information:

Particulars	Note No.	31 <sup>st</sup> Mar., 2016 (₹)	31 <sup>st</sup> Mar., 2015 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	4,00,000
(b) Reserves and Surplus	1	1,80,000	1,00,000
<b>2. Non-current Liabilities</b>			
(a) Long-term Borrowings	2	1,50,000	2,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables	3	1,35,000	1,20,000
(b) Other Current Liabilities		65,000	55,000
<b>Total</b>		<b>10,30,000</b>	<b>8,75,000</b>
<b>II. ASSETS</b>			
<b>1. Non-current Assets</b>			
(a) Fixed Assets			
(i) Tangible Assets	4	9,30,000	6,20,000
(ii) Intangible Assets	5	50,000	70,000
<b>2. Current Assets</b>			
(a) Inventories		20,000	1,40,000
(b) Trade Receivables		20,000	10,000
(c) Cash and Cash Equivalents		10,000	35,000
<b>Total</b>		<b>10,30,000</b>	<b>8,75,000</b>

#### Notes to Accounts:

Particulars	31 <sup>st</sup> March, 2016 (₹)	31 <sup>st</sup> March, 2015 (₹)
<b>1. Reserves and Surplus</b>		
General Reserve	1,80,000	1,00,000
<b>2. Long-term Borrowings</b>		
12% Debentures	1,50,000	2,00,000
<b>3. Trade Payables</b>		



Creditors	60,000	40,000
Bills Payable	75,000	80,000
<b>4. Tangible Assets</b>		
Land and Building	8,00,000	5,00,000
Machinery	1,30,000	1,20,000
	9,30,000	6,20,000
<b>5. Intangible Assets</b>		
Goodwill	50,000	70,000

**Cash Flow Statement  
for the year ended 31<sup>st</sup> March, 2016**

Particulars	(₹)	(₹)
<b>I. Cash Flow from Operating Activities:</b>		
Profit for the year (Transferred to General Reserve)		80,000
Add: Adjustments for:		
Goodwill written off		.....
Interest on long-term Borrowings [Debentures (12% of 2,00,000)]		.....
.....		1,24,000
Add: Increase in Current Liabilities:		
Creditors	.....	
Outstanding Expenses	.....	
Decrease in Current Assets:		
Inventories	1,20,000	1,50,000
Less: Decrease in Current Liabilities:		
Bills Payable	(5,000)	
Increase in Current Assets:		
Debtors	.....	(15,000)
Net Cash from Operating Activities (A)		.....
<b>II. Cash Flow from Investing Activities:</b>		
Purchase of Tangible Asset (Land and Building)	.....	
Purchase of Tangible Asset (Machinery)	(10,000)	
Net Cash used in Investing Activities (B)		.....
<b>III. Cash Flow from Financing Activities:</b>		
Issue of Equity Share Capital	1,00,000	
Redemption of Long-term Borrowings (Debentures)	.....	
Interest on Long-term Borrowings (Debentures)	.....	
Net Cash from Financing Activities (C)		.....
<b>IV. ....</b> (A + B + C)		(25,000)
<b>V. ....</b>		.....
<b>VI. ....</b>		.....

10. Declaration of final dividend would result in inflow, outflow or no flow of cash. Give reason in support of your answer.

**SOLUTION FOR PRACTICE QUESTIONS**

**SOLUTION FOR MCQ QUESTIONS**

- (b)
- (d)
- (c) Cash flow from operating activity means cash flow from business operation. As inflow and outflow of cash from operating activity are the core activities for business, by which business generate profit.
- (c) Net Profit before Tax (4,50,000 – 3,00,000) = 1,50,000  
(+) Proposed Dividend for the year = 1,75,000  
Net Profit before Tax and Extraordinary Items = 3,25,000

5. (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.

6. (c)

Opening Balance of Furniture	=	4,00,000
(-) Cost of Furniture Sold	=	(40,000)
(-) Closing Balance of Furniture	=	(4,20,000)
Purchase Value of Furniture	=	(60,000)

7. (b)

Opening Balance	=	25,00,000
(-) Closing Balance	=	(15,00,000)
Payment made (Cash Outflow)	=	10,00,000

8. (d)

Closing balance of provision for depreciation	=	65,000
(+) Accumulated depreciation (20,000 - 14,000)	=	6,000
		71,000
(-) Opening balance of provision for depreciation	=	(60,000)
Amount of depreciation to be added back	=	11,000

9. (c)

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

10. (c)

11. (c)

12. (b)

13. (a)

<b>Cash Generated from Operations</b>		<b>Amt (₹)</b>
Operating Profit		1,85,500
(+) Depreciation		31,200
		2,16,700
(-) Increase in Inventory		(40,300)
(+) Increase in Trade Payables		26,600
		2,03,000

14. (c) Source of cash =  $1,20,000 - 40,000 = ₹ 80,000$   
(Cash inflow through investing activities by selling of fixed assets)

15. (a) Cash used in Investing Activity  
 $= 2,75,000* + (7,50,000)** + 70,000 + 50,000 = ₹ 3,55,000$   
 \*Investments sold = 50% of 5,00,000 + 10% of 2,50,000  
 $= 2,50,000 + 25,000 = ₹ 2,75,000$   
 \*\* Investment purchased  
 $= 5,00,000 + 25,000 - 10,00,000 - 2,75,000 = ₹ (7,50,000)$

16. (c)

17. (a)

18. (c)

19. (c)

20. (c)

## SOLUTIONS FOR SUBJECTIVE QUESTIONS

- No flow of cash because it simply represents the movement between items of cash or cash equivalents.
- The business of Manvi Finance. Ltd. is financing the securities. Thus, in this case interest earned by the company is its Operating Activity. Therefore, the presentation of interest earned as financing activity is not correct.
- Factory expenses of a business enterprise will be classified under operating activities for both finance and non-finance companies as factory expenses are related to main revenue generating activities of an organisation.
- In case of financial companies, receipt of dividend is classified as operating activities as for financial companies receipt of dividend is considered main revenue generating activity of business.
- Calculation of Cash from Operating Activities**

**[As per AS3 (Revised)]**

Particulars	(₹)	(₹)
Net Profit before tax (Net profit ₹ 95,000 + Income tax ₹ 20,000)		1,15,000
Add: Items to be added back		
Depreciation and Amortisation Expenses		30,000
Loss on sale of machinery		15,000
Less: Profit on Sale of Land		(1,00,000)
Operating profit before working capital changes		60,000
Add: Decrease in Current Assets:		
Trade Receivables	5,000	
Inventories	20,000	
Add: Increase in Current Liabilities		
Trade Payables	5,000	
Advance Incomes	3,000	33,000
		93,000
Less: Increase in Current Assets:		
Accrued Incomes	(2,000)	
Prepaid Expenses	(500)	
Less: Decrease in Current Liabilities:		
Outstanding Expenses	(1,000)	(3,500)
Cash generated from operations		89,500
Less: Income Tax Paid		20,000
Net Cash generated from Operating Activities		<u>69,500</u>

**6. Calculation of Cash Flows from Investing Activities:**

Particulars	(₹)
Sale of Plant and Machinery	40,000
Sale of Land (see W.N. 1)	1,60,000
Purchase of Plant and Machinery (see WN 2)	(2,60,000)
Purchase of Investments	(60,000)
Net Cash used in Investing Activities	<u>(1,20,000)</u>

**Working Notes:**

1. Dr.	Land Account		Cr.
Particulars	(₹)	Particulars	(₹)
To Balance b/d	2,00,000	By Cash A/c (Sale) (Bal. Fig.)	1,60,000
To Statement of Profit and Loss (Profit on sale of land)	60,000	By Balance c/d	1,00,000
	<u>2,60,000</u>		<u>2,60,000</u>

2. Dr.		Plant and Machinery Account		Cr.	
Particulars		(₹)	Particulars	(₹)	
To Balance b/d		8,50,000	By Depreciation A/c	50,000	
To Cash A/c (Purchase) (Bal. Fig.)		2,60,000	By Cash A/c (Sale)	40,000	
			By Loss on Sale of Machinery	20,000	
			By Balance c/d	10,00,000	
		<u>11,10,000</u>		<u>11,10,000</u>	

**7. Calculation of Cash Flows from Investing Activities:**

Particulars		(₹)
Cash received from sale of Building	6,00,000	
Cash received from sale of Investment	1,60,000	
Cash received from sale of Machinery	2,10,000	
Cash received for permission granted for use of Trademarks	90,000	
Cash received for interest on Debentures held as investment	20,000	
Cash received for dividend on shares held as investment	<u>30,000</u>	11,10,000
Cash used for purchase of Land	(5,00,000)	
Cash used for purchase of non-current Investment	(2,70,000)	
Cash used for purchase of Machinery	<u>(4,50,000)</u>	(12,20,000)
Net Cash used in Investing Activities		<u>(1,10,000)</u>

8. Calculation of Cash Flows from Financing Activities:

Particulars		(₹)
Cash received from issue of Equity Share Capital		2,00,000
Cash received from issue of Long-Term Borrowings (12% Debentures)		1,00,000
Cash used in payment of interest on Long-Term Borrowings (12% Debentures)		(12,000)
Cash used in payment of dividend		(50,000)
Net Cash flow from Financing Activities		<u>2,38,000</u>

9. Calculation of Net Profit before Tax and Extraordinary Items

Particulars		(₹)
Surplus, i.e., Balance in Statement of Profit and Loss (2,24,000 – 1,00,000)		1,24,000
Add: Transfer to Debenture Redemption Reserve	50,000	
Proposed dividend for the previous year	60,000	
Interim dividend paid during the year	48,000	
Provision for tax made during the current year	<u>1,00,000</u>	2,58,000
Net Profit before Tax and Extraordinary items		<u>3,82,000</u>

10.

Cash Flow Statement of KK Ltd.

for the year ended 31<sup>st</sup> March, 2015 as per AS-3 (Revised)

Particulars	Amount (₹)	Amount (₹)
<b>A. Cash Flows from Operating Activities:</b>		
Net Profit before tax and extraordinary items (note 1)	6,00,000	
Add: Non-cash and non-operating charges		
Goodwill written off	20,000	
Depreciation on machinery	1,98,000	
Interest on debentures	1,20,000	
Operating-profit before working capital changes	9,38,000	
Less: Increase in Current Assets:		
Increase in Inventories	(1,24,000)	
Cash from operations	8,14,000	
Less: Tax paid	(1,40,000)	
Net Cash generated from Operating Activities (A)		6,74,000
<b>B. Cash Flows from Investing Activities:</b>		
Purchase of machinery	(7,64,000)	
Purchase on non-current investments	(50,000)	
Net Cash used in investing activities (B)		(8,14,000)
<b>C. Cash Flows from Financing Activities:</b>		

Issue of share capital	2,00,000	
Redemption of 12% debentures	(1,00,000)	
Interest on debentures paid	(1,20,000)	
Bank overdraft raised	2,00,000	
Net Cash flow from financing activities (C)		1,80,000
Net increase in cash and cash equivalents (A + B + C)		40,000
<b>Add: Cash and Cash Equivalents in the beginning of the year</b>		
Current investments	1,20,000	
Cash and Cash Equivalents	1,20,000	2,40,000
<b>Cash and Cash Equivalents at the end of the year</b>		
Current investments	1,00,000	
Cash and Cash Equivalents	1,80,000	2,80,000

#### Working Notes:

- Calculation of Net Profit before tax:  
Net profit as per Statement of Profit and Loss 5,00,000  
Add: Provision for tax made 1,00,000  
Net Profit before tax and extraordinary items 6,00,000

2.

Dr.	Provision for Taxation Account		Cr.
Particulars	(₹)	Particulars	(₹)
To Bank A/c	1,40,000	By Balance b/d	1,80,000
(Tax Paid)		By Statement of Profit and Loss	1,00,000
To Balance c/d	1,40,000	(Balancing Figure)	
	<u>2,80,000</u>		<u>2,80,000</u>

## SOLUTION FOR HOMEWORK QUESTIONS

## SOLUTION FOR MCQ QUESTIONS

- (d)
- (b)
- (c) Total Outflow of Cash = 40,000 + 12,000 + 9,600 = ₹61,600
- (a) It is merely a conversion of cash equivalents into cash.
- (d)
- (c)
- (d)
- (c)
- (d)
- (d)
- (c)
- (c)
- (a)
- (b)
- (a)

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

- (b)

(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>

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

18. (c)

### Solutions for 19 to 22

#### Cash Flow Statement

			Amount(₹)
<b>A.</b>	<b>Cash Flow from Operating Activities</b>		
	Net Profit before Tax and Extraordinary Items (WNI)		(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 operations		(1,06,000)
<b>B.</b>	<b>Cash Flow from Investing Activities</b>		
	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)
<b>C.</b>	<b>Cash Flow from Financing Activities</b>		
	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 31 <sup>st</sup> march, 2018 (37,000 + 89,000)		1,26,000

#### Working Notes

- 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



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 (Balancing figure)	4,20,000
	9,20,000		9,20,000

19. (b)  
 20. (b)  
 21. (d)  
 22. (c)  
 23. (a)

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
<b>Adjustments for</b>	
(+) Depreciation	5,60,000
Loss of 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

24. (b)

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)

25. (c)

**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)
<b>Cash Flow from Financing Activities</b>	<b>80,000</b>

26. (a)

27. (b)

28. (a)

29. (a)

30. (a)

**SOLUTION FOR SUBJECTIVE QUESTIONS**

1.

**Cash Flow Statement of Liva Ltd.  
for the year ended 31<sup>st</sup> March, 2017**

Particulars	(₹)	(₹)
<b>1. Cash Flow from Operating Activities:</b>		
(A) Net Profit before Taxation	1,08,000	
(B) Adjustments for non-cash and non-operating items	---	
(C) Operating profit before working capital changes	1,08,000	
(D) Add: Decrease in Current Assets and Increase in Current Liabilities Increase in Trade Payables	48,000	
(E) Less: Increase in Current Assets and Decrease in Current Liabilities Increase in Trade Receivables	(22,500)	
Increase in Inventories	(83,000)	
Cash generated from Operating Activities: (C + D - E) (X)		50,500
<b>2. Cash Flow from Investing Activities:</b>		
Purchase of Fixed Assets	(42,000)	
Purchase of Non-Current Investments	(30,000)	
Net Cash used in Investing Activities (Y)		(72,000)
<b>3. Cash Flow from Financing Activities:</b>		
Issue of Share Capital	30,000	
Net Cash from Financing Activities (Z)		30,000
4. Net Increase in Cash and Cash Equivalents (X - Y + Z)		8,500
5. Add: Cash and Cash Equivalents at the beginning of the year (60,000 + 9,500)		69,500
6. Cash and Cash Equivalents at the end of the year (54,000 + 24,000)		78,000

2.

**Cash Flow Statement  
for the year ending 31<sup>st</sup> March, 2017**

Particulars	(₹)	(₹)
<b>A. Cash Flow from Operating Activities:</b>		
Net Profit before Taxation (2,00,000 - 1,10,000)	90,000	
Adjustments for non-cash and non-operating Items to be added back:		
Depreciation for the year	2,00,000	
Loss on Sale of Machinery	15,000	
Operating profit before working capital changes	3,05,000	
Add: Decrease in Current Assets and Increase in Current Liabilities		
Decrease in Trade Receivables	8,000	
Increase in Trade Payables	5,000	
Less: Increase in Current Assets: Increase in Inventories	(10,000)	
Net Cash Flow from Operating Activities		3,08,000
<b>B. Cash Flow from Investing Activities:</b>		
Purchase of Machinery	(5,80,000)	

Sale of Machinery	65,000	
Net Cash used in Investing Activities		(5,15,000)
<b>C. Cash Flow from Financing Activities:</b>		
Proceeds from issuance of Share Capital	1,00,000	
Proceeds from Long-term Borrowings	1,00,000	
Net Cash Flow from Financing Activities		2,00,000
Net Decrease in Cash and Cash Equivalents (A – B + C)		(7,000)
Add: Cash and Cash Equivalents in the beginning of the year		35,000
Cash and Cash Equivalents at the end of the year		<u>28,000</u>

Dr.		Fixed Assets Account (Tangible)		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d	8,00,000	By Depreciation A/c	2,00,000		
To Bank A/c (Purchase of Machinery)	5,80,000	By Bank A/c (Sale)	65,000		
(Balancing figure)		By Statement of Profit and Loss	15,000		
		(Loss on Sale of Machinery)			
		By Balance c/d	11,00,000		
	<u>13,80,000</u>		<u>13,80,000</u>		

3. **Cash Flow Statement of Mayur Ltd.**  
for the year ended 31<sup>st</sup> March, 2018 as per AS-3 (Revised)

Particulars	(₹)	(₹)
<b>A. Cash Flow from Operating Activities:</b>		
Net Profit before Tax & Extraordinary Items (WN 1)		(24,000)
<b>Add:</b> Non cash and non-operating charges		
Loss on Sale of Machinery (total assets)	17,000	
Depreciation	2,73,000	
Interest on Debentures	27,000	3,17,000
Operating profit before working capital changes		2,93,000
<b>Add:</b> Decrease in Current Assets/Increase in Current Liabilities		
Decrease in inventories	10,000	
Decrease in trade receivables	20,000	30,000
		3,23,000
<b>Less:</b> Increase in Current Assets/Decrease in Current Liabilities		
Decrease in trade payables	(80,000)	(80,000)
Cash generated from Operations		2,43,000
<b>Less:</b> Tax Paid during the year		(64,000)
Net Cash generated from Operating Activities		1,79,000
<b>B. Cash Flow from Investing Activities:</b>		
Purchase of Machinery (Total Assets) (WN 2)	(12,00,000)	
Sale of Machinery (Total Assets)	3,10,000	
Purchase of Goodwill (Intangible assets)	(1,10,000)	
Net Cash used in Investing Activities		(10,00,000)
<b>C. Cash Flow from Financing Activities:</b>		
Issue of Share Capital	10,00,000	
Issue of 9% Debentures	1,00,000	
Interest on 9% Debentures	(27,000)	
Net Cash flow from financing activities		10,73,000
Net increase in Cash & Cash Equivalents during the year (A + B + C)		2,52,000
Add: Cash and Cash Equivalents in the beginning of the year		1,94,000
Cash and Cash Equivalents at the end of the year		<u>4,46,000</u>

**Working Notes:**

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

Particulars	(₹)
Net Profit (3,00,000 – 4,00,000)	(1,00,000)
Provision for Taxation in current year	76,000
Net Profit before tax (loss)	<u>(24,000)</u>

2. **Dr. Machinery Account Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	28,00,000	By Bank A/c (Sales)	3,10,000
To Bank A/c (Purchase being Bal. Fig.)	12,00,000	By Accumulated Depreciation A/c	73,000
		By Statement of Profit and Loss (loss)	17,000
		By Balance c/d	36,00,000
	<u>40,00,000</u>		<u>40,00,000</u>

**Dr. Machinery A/c Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	28,00,000	By Bank A/c (Sales)	3,10,000
To Bank A/c (Purchase being Bal. Fig.)	12,00,000	By Accumulated Depreciation A/c	73,000
		By Statement of Profit and Loss (loss)	17,000
		By Balance c/d	36,00,000
	<u>40,00,000</u>		<u>40,00,000</u>

3. **Dr. Accumulated Depreciation Account Cr.**

Particulars	(₹)	Particulars	(₹)
To Machinery A/c	73,000	By Balance b/d	5,00,000
To Balance c/d	7,00,000	By Statement of Profit and Loss (Bal. figure)	2,73,000
	<u>7,73,000</u>		<u>7,73,000</u>

4. **Cash Flow Statement of Thermal Power Ltd.**  
for the year ended 31<sup>st</sup> March, 2014 as per AS—3 (Revised)

Particulars	(₹)	(₹)
<b>Cash Flow from Operating Activities:</b>		
Net Profit before tax & extraordinary items	1,00,000	
Add: Non-cash and Non-operating charges		
Goodwill written off	72,000	
Depreciation on machinery (WN2)	66,000	
Loss on sale of machinery (WN1)	2,000	
Operating profit before working capital changes	2,40,000	
Less: Increase in Current Assets:		
Increase in trade receivables	(27,000)	
Increase in inventories	(8,000)	
Less: Decrease in Current Liabilities:		
Decrease in trade payables	(25,000)	
Decrease in Short-term provisions	(27,000)	
Cash generated from Operating Activities (A)	1,53,000	1,53,000
<b>Cash Flow from Investing Activities:</b>		
Purchase of Machinery	(2,94,000)	
Sale of Machinery	6,000	
Cash used in Investing Activities (B)	(2,88,000)	(2,88,000)
<b>Cash Flows from Financing Activities:</b>		

Issue of share capital	1,00,000	
Money raised from borrowings	70,000	
Cash flow from financing activities (C)	1,70,000	1,70,000
Net increase in cash and cash equivalents (A – B + C)		35,000
Add: Opening balance of cash and cash equivalents:		
Current Investments	1,50,000	
Cash and Cash equivalents	3,75,000	5,25,000
Closing balance of cash and cash equivalents:		
Current Investments	2,40,000	
Cash and Cash equivalents	3,20,000	5,60,000

#### Working Notes:

#### 1. Dr. Accumulated Depreciation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	10,00,000	By Bank A/c	6,000
To Bank A/c (Bal. Figure)	2,94,000	By Accumulated Depreciation A/c	16,000
		By Statement of Profit and Loss (Loss on sale of machinery)	2,000
		By Balance c/d	12,70,000
	<u>12,94,000</u>		<u>12,94,000</u>

#### 2. Dr. Accumulated Depreciation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	16,000	By Balance b/d	1,50,000
To Balance c/d	2,00,000	By Statement of Profit and Loss (Bal. fig.)	66,000
	<u>2,16,000</u>		<u>2,16,000</u>

#### 5. Cash Flow Statement for the year ended 31<sup>st</sup> March, 2018

Particulars	(₹)	(₹)
<b>I. Cash Flow from Operating Activities:</b>		
Net Profit before Tax and Extraordinary items (WN1)	1,60,000	
Add: Non-cash/Non-operating Expenses:		
Depreciation 20,000		
Goodwill Amortised <u>10,000</u>	30,000	
	1,90,000	
Less: Non-operating Income:		
Gain (Profit) on Sale of Land and Building	(7,500)	
Operating Profit before Working Capital Changes	1,82,500	
Less: Decrease in Current Liabilities and Increase in Current Assets:		
Trade Payables 5,000		
Trade Receivables 25,000		
Inventories <u>40,000</u>	(70,000)	
<b>Cash Generated from Operating Activities:</b>	1,12,500	
Less: Income Tax Paid (₹40,000 -- ₹7,500)	(32,500)	
Cash Flow from Operating Activities (A)		80,000
<b>II. Cash Flow from Investing Activities:</b>		
Proceeds from Sale of Land and Building (WN2)	82,500	
Purchase of Non-current Investments	(3,00,000)	
Cash used in Investing Activities (B)		(2,17,500)
<b>III. Cash Flow from Financing Activities:</b>		
Proceeds from Issue of Shares	2,50,000	
Payments for Redemption of 10% Debentures	(1,00,000)	
Proceeds from Bank Loan	50,000	

Payment of Dividend (Proposed dividend of previous year)	(37,500)	
Payment of Dividend Distribution Tax	(7,500)	
Cash Flow from Financing Activities (C)		1,55,000
<b>IV. Net Increase in Cash and Cash Equivalents (A + B + C)</b>		17,500
Add: Opening Cash and Cash Equivalents		1,70,000
<b>V. Closing Cash and Cash Equivalents</b>		1,87,500

#### Working Notes:

- Calculation of Net Profit before Tax and Extraordinary items:

Net Profit for the year;	
Closing Balance of Surplus, i.e., Balance in Statement of Profit and Loss	3,75,000
Less: Opening Balance of Surplus, i.e., Balance in Statement of Profit and Loss	3,00,000
	75,000
Add: Provision for Tax	47,500
Dividend Paid (Proposed dividend of previous year)	37,500
<b>Net Profit before Tax and Extraordinary Activities</b>	<b>1,60,000</b>

- It is presumed that 10% Debentures have been redeemed in the beginning of the year, therefore, interest is not provided.

Dr.		Land and Building Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d	4,00,000	By Bank A/c (Sale)	82,500		
To Statement of Profit and Loss (Gain)	7,500	(₹ 75,000 + ₹ 7,500)			
		By Balance c/d	3,25,000		
	<u>4,07,500</u>		<u>4,07,500</u>		

- No effect is given to proposed dividend of the current year as it is not accounted in the books in the current year.

#### 6. Cash Flow Statement for the year ended 31<sup>st</sup> March, 2016

Particulars	(₹)	(₹)
<b>1. Cash Flow from Operating Activities:</b>		
(A) Net Profit before Taxation:	28,800	
(B) Items to be added:		
Depreciation	14,000	
Loss on Sale of Fixed Assets	4,000	
Interest on Debentures	<u>1,800</u>	
(C) Operating profit before working capital changes (A + B)	48,600	
(D) Less: Increase in Current Assets:		
Trade Receivables	(8,000)	
Inventories	(8,400)	
Prepaid Expenses	(400)	
Less: Decrease in Current Liabilities:		
Trade Payables	<u>(2,000)</u>	
(E) Cash generated from operations (C – D)	29,800	
(F) Less: Tax paid	<u>(7,000)</u>	
(G) Net Cash generated from Operating Activities (E – F)	(X) 22,800	
<b>2. Cash Flow from Investing Activities:</b>		
Sale of fixed assets	10,000	
Purchase of fixed assets	<u>(18,000)</u>	
Net Cash used in Investing Activities	(Y) (8,000)	
<b>3. Cash Flow from Financing Activities:</b>		
Issue of Preference Shares	20,000	
Issue of Debentures	2,000	
Interim Dividend Paid	(9,000)	
Payment of Dividend (Proposed Dividend of pervious year)	<u>(10,000)</u>	

Payment of Bank Overdraft	(11,400)	
Interest on Debentures	<u>(1,800)</u>	
Net Cash used in Financing Activities		<u>(10,200)</u>
Net Increase in Cash and Cash Equivalents (X - Y - Z)		4,600
<b>4. Add: Cash and Cash Equivalents in the beginning of the period</b>		2,400
<b>5. Cash and Cash Equivalents at the end of the period</b>		<u>7,000</u>

**Working Notes:**

- (1) Calculation of Net Profit before Taxation

Closing Surplus <i>i.e.</i> , Balance in Statement of Profit and Loss	2,400
Less: Opening Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	<u>2,000</u>
	400
Add: Proposed Dividend (for Previous Year)	10,000
Provision for tax for the current year	9,400
Interim Dividend Paid	<u>9,000</u>
	<u>28,800</u>

- (2) **Dr. Fixed Assets Account (at cost) Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	82,000	By Accumulated Depreciation A/c	6,000
To Bank A/c (Purchase) (Balancing Figure)	18,000	By Bank A/c (Sale)	10,000
		By Statement of Profit & Loss (Loss)	4,000
		By Balance c/d	80,000
	<u>1,00,000</u>		<u>1,00,000</u>

- (3) **Dr. Accumulated Depreciation Account Cr.**

Particulars	(₹)	Particulars	(₹)
To Fixed Assets A/c	6,000	By Balance b/d	22,000
To Balance c/d	30,000	By Statement of Profit and Loss (current year's depreciation)	14,000
	<u>36,000</u>		<u>36,000</u>

- (4) **Dr. Provision for Taxation Account Cr.**

Particulars	(₹)	Particulars	(₹)
To Bank A/c (Balancing figure)	7,000	By Balance b/d	6,000
To Balance c/d	8,400	By Statement of Profit and Loss	9,400
	<u>15,400</u>		<u>15,400</u>

- (5) It has been assumed that new debentures and preference shares have been issued at the end of the current accounting period.

7.

**Cash Flow Statement**  
*for the year ended 31<sup>st</sup> March, 2017*

Particulars	(₹)	(₹)
<b>A. Cash Flow from Operating Activities:</b>		
Net Profit before Tax (WN1)	22,400	
Adjustments for:		
Depreciation on Plant and Machinery	3,000	
Interest on Mortgage Loan	4,860	
	30,260	
Less: Gain on Sale of Land	<u>(6,000)</u>	
Operating profit before working capital changes	24,260	
Add: Decrease in Current Assets:		



Inventories		6,000	
		30,260	
<i>Less:</i> Increase in Current Assets:			
Trade Receivables	(49,000)		
Decrease in Current Liabilities:			
Trade Payables	(6,800)	(55,800)	
		(25,540)	
<i>Less:</i> Income Tax paid		(31,000)	
Net Cash used in Operating Activities	(X)		(56,540)
<b>B. Cash Flow from Investing Activities:</b>			
Purchase of Plant and Machinery		(9,000)	
Purchase of Goodwill		(2,000)	
Sale of Land		28,000	
Net Cash from Investing Activities	(Y)		17,000
<b>C. Cash Flow from Financing Activities:</b>			
Proceeds from Mortgage Loan		54,000	
Interest on Mortgage Loan		(4,860)	
Net Cash flow from Financing Activities	(Z)		49,140
Net Increase in Cash and Cash Equivalents	(X + Y + Z)		9,600
Add: Cash and Cash Equivalents in the beginning of the period			29,800
Cash and Cash Equivalents at the end of the period			<u>39,400</u>

**Working Notes:**

(1) **Calculation of Net Profit before Tax**

Net Profit before taxation: (75,600 – 71,200)	4,400
Provision for Taxation for 2017	<u>18,000</u>
Profit before tax	<u>22,400</u>

(2) **Dr. Plant and Machinery Account (on written down value) Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	30,000	By Depreciation A/c	3,000
To Bank A/c (Balancing figure being purchase)	9,000	By Balance c/d	36,000
	<u>39,000</u>		<u>39,000</u>

(3) **Dr. Land Account Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	50,000	By Bank A/c (Balancing figure being sale)	28,000
To Statement of Profit and Loss (Gain)	6,000	By Balance c/d	28,000
	<u>56,000</u>		<u>56,000</u>

(4) **Dr. Provision for Taxation Account Cr.**

Particulars	(₹)	Particulars	(₹)
To Bank A/c (Payment of tax)	31,000	By Balance b/d	15,000
To Balance c/d	2,000	By Statement of Profit and Loss (Provision made)	18,000
	<u>33,000</u>		<u>33,000</u>

8. No flow of cash as Cash includes Marketable securities.



9.

**Cash Flow Statement**  
for the year ended 31<sup>st</sup> March, 2016

Particulars	(₹)	(₹)
<b>I. Cash Flow from Operating Activities:</b>		
Profit for the year (Transferred to General Reserve)		80,000
Add: Adjustments for:		
Goodwill written off		<b>20,000</b>
Interest on Long-term Borrowings [Debentures (12% of 2,00,000)]		<b>24,000</b>
<b>Operating profit before working capital changes</b>		1,24,000
Add: Increase in Current Liabilities:		
Creditors	<b>20,000</b>	
Outstanding Expenses	<b>10,000</b>	
Decrease in Current Assets:		
Inventories	1,20,000	1,50,000
		<b>2,74,000</b>
Less: Decrease in Current Liabilities:		
Bills Payable	(5,000)	
Increase in Current Assets:		
Debtors	<b>(10,000)</b>	(15,000)
Net Cash from Operating Activities (A)		<b>2,59,000</b>
<b>II. Cash Flow from Investing Activities:</b>		
Purchase of Tangible Asset (Land and Building)	<b>(3,00,000)</b>	
Purchase of Tangible Asset (Machinery)	(10,000)	
Net Cash used in Investing Activities (B)		<b>(3,10,000)</b>
<b>III. Cash Flow from Financing Activities:</b>		
Issue of Equity Share Capital	1,00,000	
Redemption of Long-term Borrowings (Debentures)	<b>(50,000)</b>	
Interest on Long-term Borrowings (Debentures)	<b>(24,000)</b>	
Net Cash from Financing Activities (C)		<b>26,000</b>
<b>IV. Net Decrease in Cash and Cash Equivalents (A + B + C)</b>		(25,000)
<b>V. Cash and Cash Equivalents in the beginning</b>		<b>35,000</b>
<b>VII. Cash and Cash Equivalents at the end</b>		<b><u>10,000</u></b>

10. No flow of cash as dividend is declared, not paid