

## **Important Questions Part-1**

### **Cash Flow Statement**

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**1. Give the meaning of Cash Flow Statement.**

**Ans.** Cash flow statement highlights the cash inflows and cash outflows of the business. Cash flow statement is a statement of the changes in the financial position of a business on cash basis. It is more useful for the short term cash planning and short term analysis of the business.

**2. Give any two objectives of Cash Flow Statement.**

**Ans.** Main objectives of Cash Flow Statement are: Cash flow statement provides information about the cash flows (inflows and outflows) of an enterprise. 2. A cash flow statement indicates historical changes in cash and cash equivalents by classifying the Cash flows from operating activities, investing activities and financing activities.

**3. Why is ignoring non-cash items a limitation of the Cash Flow Statement?**

**Ans.** Non-cash transactions are not recorded in the books of accounts but they play important role in the ascertaining the solvency and liquidity of an enterprise. So ignoring non cash item is a limitation of cash flow statement.

**4. What do you mean by Cash Equivalents?**

**Ans.** Cash Equivalents are highly liquid assets or highly liquid investments which can be converted into cash with in a very short period (not more than 3 months). Examples of Cash Equivalents: (i) Cheques in hand (ii) Drafts in hand (iii) Marketable Securities (short-term) (iv) Short-term deposits (v) Commercial bills (vi) Commercial papers (vii) Treasury bills.

**5. What is the difference between operating activity and a investing activity?**

**Ans.** Operating activities are the principal revenue producing activities of a company and Investing activities are concerned with the long term assets.

**6. Why Cash flow statement is not a substitute for income statement?**

**Ans.** Cash flow statement is used to assess the cash inflows and outflows only. It does not calculate profit or loss of a company that's why it is not a substitute for income statement.

**7. Interest received by a finance company is classified under which kind of activity while preparing a cash flow statement?**

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**Ans.** For a financial company all financial activities are considered as operating activities. Interest received by a finance company is operating activity.

**8. Under which type of activity will you classify 'Cash Receipts from Debtors' while preparing Cash Flow Statement?**

**Ans.** Cash received from debtors will be treated shown under 'Operating Activities' because selling goods on credit to the customers and receiving cash is operating activity of a business.

**9. List any two investing activities which result into outflow of cash.**

**Ans.** (i) Purchase of Fixed assets (Tangible or Intangible)  
(ii) Purchase of investments

**10. Name any two financing activities that will result into inflow of cash.**

**Ans.** (i) Issue of Shares or debentures  
(ii) Long term borrowings (raised loan from bank or from other financial institutions)

**11. List any two financing activities that will result into outflow of cash.**

**Ans.** (i) Redemption of debentures  
(ii) Dividend paid

**12. Redemption of debentures would result in inflow, outflow or no flow of cash.**

**Ans.** Redemption of debentures would result in cash outflow will be shown under financing activities.

**13. Sale of marketable securities at par would result in inflow, outflow or no flow of cash.**

**Ans.** Sale of marketable securities at par will result in no flow of cash.

**14. Why non-cash transactions are ignored while preparing cash flow statement?**

**Ans.** Cash flow statement is prepare to record the cash transactions only. Non-cash transactions do not affect the cash and cash equivalents that's why they are ignored while preparing cash flow statement.

**15. Under which type of activity will you classify 'Sale of shares of another company' while preparing cash flow statement?**

**Ans.** purchasing shares of another company is treated as investment. While preparing cash flow statement it is classified under investing activity.

**16. When is interest received considered as financing activity? [CBSE 2009]**

**Ans.** When a company receives interest on 'Calls in arrear' it is classify under the financing activity.

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17. **How would you classify the dividend paid by the finance company and dividend paid by the manufacturing company?**

**Ans.** (i) Dividend paid by a finance company is classified as Operating Activity.

(ii) Dividend paid by a manufacturing company is classified as Financial Activity.

18. **Cash paid as salaries to workers would result in inflow, outflow or no flow of cash. Give answers with reason.**

**Ans.** Cash paid to workers as salaries will reduce the cash balance or cash and cash equivalents. So it is a outflow of cash.

19. **State how Cash Flow Statements are historical in nature.**

**Ans.** Cash flow statement is prepared on the basis of Statement of profit and loss and Balance Sheet, that's why cash flow statements are historical in nature.

20. **Under which type of activity will you classify 'Sale of shares of another company' while preparing cash flow statement?**

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**Ans.** Cash paid to workers as salaries will reduce the cash balance or cash and cash equivalents. So it is a outflow of cash.

24. **What is the treatment of Increase in Provision for doubtful debts?**

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# Cash Flow Statement

## Important Questions Part-2

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**1. Give the meaning of Cash Flow Statement.**

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Examples of Cash Equivalents:

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- ii. Drafts in hand
- iii. Marketable Securities (short-term)
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- v. Commercial bills
- vi. Commercial papers
- vii. Treasury bills.

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## Important Questions Part-3

### Cash Flow Statements

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**1. How are the various activities classified according to AS-3 (Revised) while preparing the Cash Flow Statement?**

**Ans.** While preparing the cash flow statement according to AS-3 (Revised) the activities are classified into three groups:

- i. Operating activities
- ii. Investing activities and
- iii. Financing activities.

**2. Mutual Fund Company receives a dividend of Rs.25 lakhs on a investments in another company's shares. Why is its cash in flow from operating activities for this company?**

**Ans.** A mutual fund company is a financial enterprise and so a dividend of Rs. 25 lacs received by this company from its investment in units will be cash in flow from operating activities.

**3. Dividend bu a manufacturing company is classified under which kind of activity while preparing the Cash Flow Statement.**

**Ans.** Dividend paid by a manufacturing company is classified under Financing activities.

**4. What are contingent liabilities? Mention any two examples.**

**Ans.** The liabilities existences of which depends on a happening in future is known as contingent liabilities. Such liabilities are disclosed by way of a note. Examples of contingent liabilities are:

- i. Claim against the company not acknowledge as debt.
- ii. Uncalled liability on shares partly paid

**5. Prepare the Balance Sheet of Pyramid Ltd. as on March 31, 2008 from the following details:**

Share Capital	Rs. 12,00,000
General Reserve	Rs. 3,00,000
10% Debentures	Rs. 4,00,000



Fixed Assets	Rs. 17,00,000
Depreciation	Rs. 2,40,000
Current Liabilities	Rs. 5,60,000
Current Assets	Rs. 11,40,000
Discount on Issue of Debentures Rs.	Rs. 40,000
Profit and Loss A/c (Credit Balance)	Rs. 1,80,000

Ans. Horizontal Form

### **Pyramid Ltd.**

#### **BALANCE SHEET as on 31st March 2008**

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorised Capital		At Gross Value	17,00,000
Equity shares of Rs. Each 14,60,000		Less: Depreciation	2,40,000
Issued, Subscribed and Paid-up.. Equity shares of Rs. Each		Investment	...
Fully paid-up in Cash	12,00,000	Current Assets, Loans and Advance	
Reserved and Surplus			
General Reserve	3,00,000	Current Assets	11,40,000
Profit and Loss A/c	1,80,000	Miscellaneous Expenditure	
Secured Loans	...	Discount on Issue Debentures	40,000
10% Debentures	4,00,000		
Unsecured Loans			

Current Liabilities Provisions			
Current Liabilities	5,60,000		
	26,40,000		26,40,000

6. **The current ratio of a company is 2:1. State giving reasons which of the following would improve, reduce or not change the ratio :**

- Repayment of a Current Liability.**
- Purchased goods on cash.**
- Sale of office equipment for Rs.4000/- (Book Value Rs.5000/-).**
- Sale of goods Rs.11000/- (Cost Rs.10000/-).**
- Payment of dividend.**

**Ans.** Since current ratio is 2 : 1, let us assume the CA = Rs. 20,000 and CL = Rs. 10,000.

- Repayment of current liability will improve Current Ratio because fall in current asset will be less than twice the fall in current liability.

(Suppose Rs. 5,000 are repaid out of current liability, balance would be CA = Rs. 15,000 and CL = Rs. 5,000. ∴ Ratio will improve to 3 : 1)

- Purchase of goods on cash will not change the ratio, neither the total current assets nor the total current liabilities are affected since there is only a conversion of one current asset into another current asset.
- Sale of office equipment will improve the ratio because current asset (cash) will increase without any change in current liability.
- Sale of goods for Rs 11,000; cost being Rs 10,000 will improve the current ratio because current asset will increase by Rs. 1,000.
- Payment of dividend will reduce the total of current assets and total of current liabilities by the same amount. Therefore, the current ratio will improve.

7. **Net credit sales for 2007-08 are Rs.3, 50000/- and Debtor turnover ratio is 8 times calculate debtor at the end if debtors in the beginning are Rs.14,000/- less than those at the end.**

**Ans.**

$$\text{Debtors Turnover Ration} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

$$\text{Average Debtors} = \frac{\text{Opening Debtors} + \text{Closing Debtors}}{2}$$

$$8 = \frac{3,50,000}{\text{Average Debtors}}$$

$$\text{Average Debtors} = \frac{3,50,000}{8} = 43,750$$

Let Closing Debtors = X

Opening Debtors = x-14,000

$$= \frac{x + x - 14,000}{2} = 43,750$$

$$2x = (43,750 \times 2) + 14,000$$

$$X = 50,750$$

Closing Debtors = Rs. 50,750

Opening Debtors = 50,750 - 14,000 = 36,750

8. **A Company had Current Assets of Rs.3, 00,000/- and Current Liabilities of Rs.1, 40,000/-. Afterwards it purchases goods for Rs.20, 000/- on credit. Calculate Current Ratio after the purchase.**

**Ans.**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Current Ratio} = \frac{\text{Rs.3, 00, 000} + \text{Rs.20, 000}}{\text{Rs.140, 000} + \text{Rs.20, 000}} = \frac{\text{Rs.3, 20, 000}}{\text{Rs.1, 60, 000}} = 2:1$$

9. **Current Ratio is 2.5, working capital is Rs.60, 000/-. Calculate the amount of Current Assets and Current Liabilities.**

**Ans.** Calculation of Current Assets and Current Liabilities :

Current Assets - Current Liabilities = Working Capital

Current Assets - Current Liabilities = Rs. 60,000

Current Assets / Current Liabilities = 2.5

or, Current Assets - 2.5 Current Liabilities = 0

Subtracting Eqn. 2 from Eqn. 1,

1.5 Current Liabilities = Rs. 60,000

Current Liabilities = s. 60,000/1.5 = Rs. 40,000

Current Assets = Rs. 40,000 x 2.5 = Rs. 1,00,00

10. From the following statement, calculate the cash generated from operating activities:

**Statement of Profit**

**For the year ended 31st March, 2005**

Particulars	Rs.	Particulars	Rs.
To Salaries	10,000	By Gross Profit	85,000
To Rent	5,000	By Profit on Sale of Machinery	5,000
To Depreciation	20,000	By Dividend Received	3,000
To Loss on Sale of Building	5,000	By Commission Accrued	4,000
To Goodwill Written off	8,000		
To Proposed Dividend	10,000		
To Provision of TAX	15,000		
To Net Profit	24,000		
	97,000		97,000

**Ans.**

Statement Showing Cash Flow from Operating Activities	
Particulars	Rs.
Net Profit before Tax and Extraordinary Items	49,000
Adjustment for :	
Add: Goodwill Amortized 8,000	
Loss on Sale of Building 5,000	
Depreciation 20,000	33,000
	82,000
Less : Profit on Sale of Machinery 5,000	
Dividend Received 3,000	8,000

Operating Profit before Working Capital Changes	74,000
Less : Increase in Current Assets & Decrease in Current Liabilities :	
Commission Accrued	4,000
Cash Generated from Operations	70,000
Less : Tax Paid	15,000
Cash Flow from Operating Activities	55,000
Note :	

Net Profit before Tax and Extraordinary items is calculated by adding Provision for Tax and Proposed Dividend to the amount of Net Profit, i.e., Rs. 24,000 + Rs. 15,000 + Rs. 10,000.

11. **X Ltd. made a profit of Rs.1, 00,000/- after charging depreciation of Rs.20,000/- on assets and a transfer to General Reserve of Rs.30,000/-. The Goodwill written off was Rs.7, 000/- and the gain on sale of machinery was Rs.3, 000/-. The other information available to you (changes in the value of current assets and current liabilities) is as follows:**

**At the end of the year Debtors showed an increase of Rs.6, 000/-, creditors an increase of Rs.10, 000/-, prepaid expenses an increase of Rs.200/-, Bills Receivable a decrease of Rs.3, 000/-, Bills Payable a decrease of Rs.4, 000/- and outstanding expenses a decrease of Rs.2, 000/-. Ascertain the cash flow from the operating activities.**

**Ans.**

#### **CASH FLOW FROM OPERATING ACTIVITIES**

Particulars		Rs.
Net Profit		1,00,000
Add : Transfer to General Reserve		30,000
Net Profit before Tax		1,30,000
Adjustment for non-cash and non-operation expenses :		
Add : Depreciation	20,000	

Goodwill Written Off	7,000	
	27,000	
Less : Gain on Sale of Machinery	3,000	24,000
Operating Profit before working capital changes Add : Decrease in Current Assets and Increase in Current Liabilities Increase in Creditors	10,000	1,54,000
Decrease in Bills Receivable	3,000	13,000
Less : Increase in Current Assets and Decrease in		1,67,000
Current Liabilities : Increase in Debtors	6,000	
Increase in Prepared Expenses	200	
Decrease in Bill s Payable	4,000	
Decrease in Outstanding Expenses	2,000	12,200
Cash Flow from Operating Activities		1,54,800

**12. From the following Balance Sheets of Ranjan Ltd. prepare Cash Flow Statement:**

Liabilities	2001	2002	Assets	2001	2002
Equity Share Capital	1,50,000	2,00,000	Goodwill	36,000	20,000
12% Pre. Share Capital	75,000	50,000	Building	80,000	60,000
General Reserve	20,000	35,000	Plant	40,000	1,00,000
Profit and Loss A/c	15,000	24,000	Debtors	1,19,000	1,54,500
Creditors	37,500	49,500	Stock	10,000	15,000
		Cash	12,500	9,000	
	2,97,500	2,58,500		2,97,500	3,58,500

Depreciation charged on plant was Rs. 10000 and building Rs. 60000.

**Ans. Rajan Ltd.**

**CASH FLOW STATEMENT for the year ended 31st December, 2002**

Particulars	Rs.	Rs.
A. Cash Flow from Operating Activities		
B. Net Profit before tax :		
Closing Balance of Profit and Loss A/c	24,000	
Closing Balance of Profit and Loss A/c		
Add : Transfer to General Reserve	15,000	
	39,000	
Less : Opening Balance of Profit and Loss A/c		
Net Profit before tax and extraordinary items	15,000	24,000
Adjustments for :	10,000	
Add : Depreciation on Plant		
Depreciation on Building	60,000	
Goodwill written off	16,000	86,000
Operating profit before working capital changes		
Adjustments for :	12,000	1,10,000
Increase in Creditors		
Increase in Debtors	(35,500)	
Increase in Stock	(5,000)	(28,500)
Net Cash from operating activities (A)		81,500
B. Cash Flow from Investing Activities		
Purchase of Plant (Note 2)	(70,000)	
Purchase of Building (Note 1)	(40,000)	
Net cash used in investing activities (B)		(1,10,000)
C. Cash Flow from financing Activities		
Issue of Equity Shares	50,000	

Redemption of 12% Preference Shares	(25,000)	
Net Cash from financing activities (C)		25,000
Net decrease in cash and cash equivalents (A+B+C)		(3,500)
Cash and cash equivalents at the beginning of the year		12,500
Cash and cash equivalents at the close of the year		9,000

**Working Notes :**

1. Dr.	BUILDING ACCOUNT				Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	80,000		By Depreciation A/c	60,000
	To Bank A/c	70,000		By Balance c/d	60,000
		1,20,000			1,20,000
1. Dr.	PLANT ACCOUNT				Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	40,000		By Depreciation A/c	10,000
	To Bank A/c	70,000		By Balance c/d	1,00,000
		1,10,000			1,10,000

**13. From the following Balance Sheet of India Ltd. and the additional information given made out the Cash Flow Statement:**

Liabilities	2007	2008	Assets	2007	2008
Share Capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
Mortgage Loan	1,50,000	1,00,000	Land & Building	2,00,000	1,70,000
General Reserve	40,000	70,000	Plant	80,000	2,00,000
P & L A/c	30,000	48,000	Debtors	1,60,000	2,00,000



Proposed Div.	42,000	50,000	Stock	77,000	1,09,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills Payable	20,000	16,000	Cash in hand	15,000	10,000
Provisions for Taxation	40,000	50,000	Cash at Bank	10,000	8,000
	6,77,000	8,17,000		6,77,000	8,17,000

**Additional information:**

- 1. Depreciation of Rs.1,000/- and Rs.20,000/- has been charged on Plant and Land & Building respectively in 2006-07.**
- 2. The interim dividend of Rs.20, 000/- has been paid in 2007-08. (3)Income Tax of Rs.35, 000/- was paid during the year 2007-08.**

**Ans.** Cash Flow from operating activities Rs. 1,25,000, cash used in investing activities Rs. 120000 cash used in Financing Activities Rs. 12000, Net decrease in cash and Bank Balance Rs. 7000.

## Important Questions Part-4 Cash Flow Statement

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**1. What do you mean by cash flow statement?**

**Ans.** A statement which shows inflow and outflow of cash and cash equivalents from operating, investing and financing activities during a specific period.

**2. What are the various activities classified as per AS-3(revised) related to cash flow statement?**

**Ans.** (a) cash flow from operating activities

(b) cash flow from investing activities

(c) cash flow from financing activities.

**3. State one objective of cash flow statement.**

**Ans.** Helpful for short term planning, for preparing cash budget

**4. What do you mean by cash equivalent?**

**Ans.** Short –term highly liquid investments which are readily convertible into known amount of cash and which are subject to an insignificant risk of change in the value.

**5. State the category of the following items for a financial as well as nonfinancial company**

**Ans.** (1) Dividend received

(2) Dividend received

(3) Interest paid

(4) Interest received

	Financial company	Non-financial company
(1) Dividend received	Operation activity	Investing activity
(2) dividend paid	financing activity	financing activity
(3) Interest paid	operating activity	financing activity
(4) Interest received	operating activity	investing activity

**iv. What are the objectives of preparing cash flow statement?**

**Ans.** The objectives of cash flow statement are:

- i. To ascertain the specific sources (i.e., operating / investing financing activities) of cash and cash equivalents generated by an enterprise.
- ii. To ascertain the specific uses (i.e., operating / investing / financing activities) of cash and cash equivalents used by an enterprise.
- iii. To ascertain the net change in cash and cash equivalents (sources minus uses of cash and cash equivalents) between the date of two Balance Sheets.

### Problems

1) Calculate the net amount of cash flow if a fixed asset costing Rs. 32,000(having a book value of Rs. 24,000) is sold at a loss of Rs. 8,000.

Cash inflow from investing activities – Rs. 16,000

(Book value –loss=Amount received from sale Rs. 24000-Rs.8,000)

2) From the following information calculate cash flow from operating activities: Profit and loss account

For the year ended on 31-3-2007

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

### Additional information

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

## SOLUTION

Particulars	Amount	Amount
Net Profit before Taxation and extraordinary items	92,800	
Net Profit +Taxation(64,000+28,800)		
Add non-operating expenses		
Depreciation 24,000		
Loss on sale of machinery 57,600		
Discount on debentures written off 8,000	89,600	
	1,82,400	
less non-operating incomes		
Profit on sale of furniture (12000)		
Interest Received (2,400)	(14,400)	
operating profit before working capital changes	1,68,000	
Adjustments related to current assets and liabilities		
Add: Increase in current Liabilities		
Creditors	10,000	
	1,78,000	
Less : Decrease in current liabilities		
outstanding expenses	(1,200)	

less Increase in current assets		
debtors 19,200		
Stock 24,800	(44,000)	
	1,32,800	
Less payment of taxes	(28,800)	
Net cash flow from operating activities		1,04,000

3) From the following balance sheet calculate cash flow from operating activities.

liabilities	2,007	2008	Assets	2007	2,008
Creditors	31,200	39,000	cash in hand	7,800	3,120
Bills payable	33,600	7,800	cash in hand	9,800	3,680
Income received in advance	40,000	50,000	Short term investments	15,600	10,800
outstanding salaries	20,000	20,200	Investments	62,400	46,800
10% Debentures	93,600	1,24,800	Inventory	46,800	70,200
equity share capital	80,000	80,000	Debtors	39,000	46,800
profit and loss	30,000	62,400	Bills receivable	7,800	15,600
General Reserve	16,800	31,200	Fixed assets	1,56,000	2,18,400
	3,45,200	4,15,400		3,45,200	4,15,400

### Solution

Particulars	Amount	Amount
Net Profit Before Tax and Extraordinary items		
(profit+Transfer to general reserve)		
(Rs. 32,000+Rs. 14,400)	46,800	
Adjustments		

items to be added		
Interest on debentures	9,360	
Operating profit before working capital changes		56,160
Adjustments related to current assets and liabilities		
Add : Increase in Current liabilities		
creditors	7,800	
Income Received in advance	10,000	
outstanding salaries	200	18,000
		74,160
Less: Increase in Current Assets		
Inventory	(23,400)	
Debtors	(7,800)	
Bills Receivable	(7,800)	(39,000)
		35,160
Less: Decrease in Current Liabilities		
Bills Payable	(25,800)	
Net Cash from Operating Activities		9,360

4. X Ltd. made a profit of Rs.1, 00,000/- after charging depreciation of Rs.20,000/- on assets and a transfer to General Reserve of Rs.30,000/-. The Goodwill written off was Rs.7, 000/- and the gain on sale of machinery was Rs.3, 000/-. The other information available to you (changes in the value of current assets and current liabilities) is as follows:

At the end of the year Debtors showed an increase of Rs.6, 000/-, creditors an increase of Rs.10, 000/-, prepaid expenses an increase of Rs.200/-, Bills Receivable a decrease of Rs.3, 000/-, Bills Payable a decrease of Rs.4, 000/- and outstanding expenses a decrease of Rs.2, 000/-. Ascertain the cash flow from the operating

**activities.**

**Ans.** Solution:

**CASH FLOW FROM OPERATING ACTIVITIES**

Particulars	Rs.
Net Profit	1,00,000
Add: Transfer to General Reserve	30,000
Net Profit before Tax	1,30,000

Adjustment for non-cash and non-operation expenses:

Add:	Depreciation	20,000	
	Goodwill Written off	7,000	
		27,000	
Less:	Gain on Sale of Machinery	3,000	24,000
	Operating Profit before working capital changes		1,54,000
Add:	Decrease in Current Assets and Increase in Current Liabilities	10,000	13,000
	Increase in Creditors	3,000	1,67,000
	Decrease in Bills Receivable		
Less:	Increase in Current assets and Decrease in Current Liabilities:		
	Increase in Debtors	6,000	
	Increase in Prepaid Expenses	200	12,200
	Decrease in Bills Payable	4,000	1,54,800
	Decrease in Outstanding Expenses	2,000	
	Cash Flow from Operating Activities		

5. From the following Balance Sheets of Ranjan Ltd. prepare Cash Flow Statement:

Liabilities	2001	2002	Assets	2001	2002

Equity share capital	1,50,000	2,00,000	Goodwill	36,000	20,000
12% pre. Share Capital	75,000	50,000	Building	80,000	60,000
General Reserve	20,000	35,000	Plant	40,000	1,00,000
Profit and Loss A/c	15,000	24,000	Debtors	1,19,000	1,54,500
Creditors	37,500	49,500	Stock	10,000	15,000
		Cash	12,500	9,000	
	2,97,500	2,58,500		2,97,500	3,58,500

Depreciation charged on plant was Rs. 10000 and building Rs. 60000.

**Ans.** Soloution

Rajan Ltd.

#### CASH FLOW STATEMENT for the year ended 31<sup>st</sup> December, 2002

A.	Cash Flow from Operating Activities	Rs.	Rs.
	Net Profit before tax :		
	Closing Balanced of Profit and Loss A/c		
	Closing Balance of Profit and Loss A/c		
	Add: Transfer to General Reserve	24,000	
	Less: Opening Balance of Profit and Loss A/c	15,000	
	Net Profit before tax and extraordinary items	39,000	24,000
	Adjustments for:	15,000	
	Add: Depreciation on Plant		86,000
B.	Depreciation on Building	10,000	1,10,000
	Goodwill written off	60,000	(28,500)
	Operating profit before working capital changes	16,000	81,500
	Adjustments for:	12,000	
	Increase in Creditors	(35,500)	
	Increase in Debtors	(5,000)	
	Increase in Stock		



	Net Cash from operating activities (A)		
B.	Cash Flow from Investing Activities		
	Purchase of Plant (Note 2)	(70,000)	(1,10,000)
	Purchase of Building (Note 1)	(40,000)	
	Net cash used in investing activities (B)		
C.	Cash Flow from financing Activities		
	Issue of Equity Shares		
	Redemption of 12% Preference Shares		25,000
	Net Cash from financing activities (C)	50,000	(3,500)
	Net decrease in cash and cash equivalents (A+B+C)	(25,000)	12,500
	Cash and cash equivalents at the beginning of the year		9,000
	Cash and cash equivalents at the close of the year		

Working Notes:

1.Dr.		BUILDING ACCOUNT			Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	80,000		By Depreciation A/c	60,000
	To Bank A/c	70,000		By Balance c/d	60,000
		1,20,000			1,20,000

2. Dr.		PLANT ACCOUNT			Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	80,000		By Depreciation A/c	60,000
	To Balance b/d	70,000		By Balance c/d	60,000
		1,10,000			1,10,000

6. From the following Balance Sheet of India Ltd. and the additional information given

**made out the Cash Flow Statement:**

Liabilities	2007	2008	Assets	2007	2008
Share Capital	3, 00,000	4, 00,000	Goodwill	1, 15,000	90,000
Mortgage Loan	1, 50,000	1, 00,000	Land & Building	2,00,000	1,70,000
General Reserve	40,000	70,000	Plant	80,000	2, 00,000
P & L A/c	30,000	48,000	Debtors	1, 60,000	2, 00,000
Proposed Div.	42,000	50,000	Stock	77,000	1,09,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills Payable	20,000	16,000	Cash in hand	15,000	10,000
Provisions for Taxation	40,000	50,000	Cash at Bank	10,000	8,000
	6,77,000	8,17,000		6,77,000	8,17,000

**Additional information:**

1. Depreciation of Rs.1,000/- and Rs.20,000/- has been charged on Plant and Land & Building respectively in 2006-07.
2. The interim dividend of Rs.20, 000/- has been paid in 2007-08.
3. Income Tax of Rs.35, 000/- was paid during the year 2007-08.

**Ans.** Cash Flow from operating activities Rs. 1, 25,000, cash used in investing activities Rs. 120000 cash used in Financing Activities Rs. 12,000, Net decrease in cash and Bank Balance Rs. 7000.

**7. From the following prepare cash flow statement as per AS-3**

Liabilities	2010	2011	Assets	2010	2011
Share Capital	2,88,000	3,20,000	Fixed Assets	2,40,000	4,00,000
Reserves And Surpluses	64,000	80,000	Less Accumulated Dep.	64,000	1,20,000
Bank Loan	80,000	60,000	1,76,000	2,80,000	

creditors	2,48,000	2,40,000	Goodwill	64,000	56,000
bills payable	4,000	Investments	72,000	88,000	
Proposed Dividend	36,000	48,000	Stock	1,60,000	1,80,000
Income Tax Payable	20,000	24,000	Debtors	1,60,000	1,52,000
			Bank	1,04,000	20,000
	7,36,000	7,76,000		7,36,000	7,76,000

## Additional

### information:

- During the year a part of the machinery costing Rs. 40,000 was sold for Rs. 20,000.
- Depreciation provided during the year Rs. 80,000.
- Interim Dividend paid during the year Rs. 20,000.

## Solution

### Cash Flow Statement for the year ended 2011

#### A Cash flow from operating activities:

<b>Profit before Tax and Extraordinary items</b>	<b>1,08,000</b>	
Adjustments for :		
Add: Depreciation	80,000	
Goodwill Written off	8,000	
Less: Profit on sale of Machinery	(4,000)	
<b>operating profit before working capital changes</b>	<b>1,92,000</b>	
Add: Decrease in current assets:		
Debtors	8,000	
Add: increase in current liability:	12,000	
Bills payable 4,000	2,04,000	
Less: increase in current assets		

Stock	20,000	
less : Decrease in Current Activities	(28,000)	
Creditors 8,000		
cash from operating activities	1,76,000	
Less Tax paid	(20,000)	
Net cash flow from operating activities		1,56,000

### **B Cash flow from investing activities**

sale of machinery	20,000	
purchase of fixed assets	(2,00,000)	
purchase of investment	(16,000)	
Cash flow in investing activities		1,96,000

### **C: Cash flows from operating activities:**

Issue of Share capital		32,000	
Repayment of bank loan		(20,000)	
payment of dividend			
regular	36,000		
interim	20,000	(56,000)	
Cash used in financing activities			(44,000)
A+B+C=			(84,000)
Add cash and cash equivalents at the beginning			1,04,000
cash and cash equivalents at the end			20,000

### **Working Notes**

#### **(i) Calculation of Profit before tax and extra ordinary items:**

Net profit during the year	-----

Add: Transfer to reserves	16,000
Proposed dividend	48,000
Income tax provision	24,000
Interim Dividend	20,000

	Fixed assets account		
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To balance b/d	2,400,000	By Bank (sale)	40,000
To Cash a/c	2,00,000	By Balance c/d	4,00,000
(B.F)(purchase)	4,40,000		4,40,000

Machinery Disposal			
Account			Cr.
To Fixed Assets a/c	40,000	By cash a/c	20,000
To Profit and loss a/c		BY accumulated	
(B.F)		Dep.	24,000
	44,000		44,000

To assets disposal a/c	24,000	By balance b/d	64,000
To bal c/d	1,20,000	By P & L a/c	24,000
	1,44,000		1,44,000

	Income Tax Payable a/c		

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To cash a/c	20,000	By Balance b/d	20,000
To Balance c/d	24,000	By P&L a/c	24,000
	44,000		44,000

## Important Questions Part-5

### Cash Flow Statement

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**1: X Ltd. Made a profit of Rs. 1,00,000 after considering the following items:**

- 1. Depreciation of fixed assets Rs. 20,000**
- 2. Writing off preliminary expenses Rs. 10,000**
- 3. Loss on sale of furniture Rs. 1,000**
- 4. Provision of Taxation Rs. 1,60,000**
- 5. Transfer to General reserve Rs. 14,000**
- 6. Profit on sale of Machinery Rs. 6,000**

**The following additional information is available to you:**

Particulars	31.03.2014 Rs.	31.03.2015 Rs.
Debtors	24,000	30,000
Creditors	20,000	30,000
Bills Receivables	20,000	17,000
Bill Payables	16,000	12,000
Prepaid Expenses	400	600

**Calculate Cash Flow from Operating Activities.**

**Solution :**

Calculation of Net Profit before Tax and Extra-ordinary items:

Net Profit (Given) Rs. 1,00,000

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Add: Provision for Taxation Rs. 1,60,000

Transfer to general reserve Rs. 14,000

Net Profit before Tax and Extra-ordinary item Rs. 2,74,000

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**2: From the following information calculate cash flow from investing activities:**

Particulars	31.03.2014 Rs.	31.03.2015 Rs.
Machinery (at Cost)	5,00,000	5,50,000
Accumulated Depreciation	1,00,000	1,20,000
Patents	2,00,000	1,20,000
Goodwill	1,50,000	1,00,000
Investment	2,50,000	5,00,000

**Additional Information**

(i) During the year, a machine costing Rs. 50,000 with its accumulated depreciation of Rs. 25,000 was sold for Rs. 20,000.

(ii) Patents were written off to the extent of Rs. 60,000 and some patents were sold at a profit of Rs. 10,000.

(iii) 40% of the investments held in the beginning of the year were sold at 10% Profit.

(iv) Interest received on investment Rs. 25,500.

(v) Dividend received on investment Rs. 8,500.

(vi) Rent received Rs. 5,000.

**Solution :**

Particulars	Rs.
Proceeds from sale of machinery	20,000
	1,10,000



Proceeds from sale of investment	30,000
Proceeds from sale of Patents	(1,00,000)
Cash paid purchase of Machinery	(3,50,000)
Cash paid purchase of Investment	25,500
Interest Received	8,500
Rent Received	5,000
Net Cash Used in Investing activities	(2,51,000)

### Working Notes :

#### Investment Account

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	2,50,000		By Bank A/c	1,10,000
	To Profit on sale of investment A/c	10,000		(Sale of investment)	5,00,000
	To Bank A/c (Additional Purchase)	3,50,000		By Balance c/d	
		<b>6,10,000</b>			<b>6,10,000</b>

#### Machinery Account (at original cost)

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	5,00,000		By Bank A/c (Sale of investment)	20,000
	To Bank A/c (Additional Purchase)	1,00,000		By Pro for Depreciation A/c (Dep. On Machinery sold)	25,000
				By Loss on sale of Machinery A/c	5,000
				By Balance c/d	5,50,000

	<b>6,00,000</b>		<b>6,00,000</b>
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### Provision for Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Machinery A/c (Total Depreciation on Machinery sold)	25,000		By Balance b/d	1,00,000
	To balance c/d	1,20,000		By Statement of Profit & loss (Depreciation charged on machinery during the current year)	45,000
		<b>1,45,000</b>			<b>1,45,000</b>

### Patents Account

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	2,00,000		By Bank A/c	30,000
	To Profit on sale of patents A/c	10,000		(B/F – Sale of Patents)	60,000
		<b>2,10,000</b>		By Statement of Profit & Loss (Written off)	1,20,000
				By Balance c/d	<b>2,10,000</b>

**3:** From the following information, calculate the net cash flow from Financing Activities:

Particulars	31.03.2014 Rs.	31.03.2015 Rs.
Equity Share Capital	10,00,000	16,00,000
9% Debentures	1,50,000	1,00,000
Proposed Dividend	3,00,000	3,50,000

Dividend Payable	.....	50,000
10% Preference Share Capital	2,00,000	3,00,000

### Additional Information

1. Interest paid on Debentures Rs.12,500.
2. During the year 2014-2015, company issued bonus shares to equity shareholders in the ratio of 2:1 by capitalizing reserve.
3. The interim dividend of Rs. 75,000 has been paid during the year.
4. 9% Debentures were redeemed as 5% premium.

### Solution :

### Cash Flow from Financing Activities

Particulars	31.03.2015 Rs.
Proceeds from Issue of Equity Share Capital	1,00,000
Proceeds from Issue of 10% Preference Share Capital	1,00,000
Cash paid for Redemption of 9% Debentures (50,000×105%)	(52,500)
Interest paid on Debentures	(12,500)
Interim Dividend paid	(75,000)
Final Dividend paid (3,00,000-50,000)	(2,50,000)
Net Cash Used in Financing Activities)	1,90,000

**4: From the following Balance Sheets of X Ltd. As on 31.03.2014 and 31.03.2015. Prepare a cash flow statement.**

### Balance Sheet as at 31st March, 2014 and 2015

Particulars	Note	Figure as at the end of	Figure as at the end of
-------------	------	----------------------------	----------------------------

	No.	31.3.2014 (Rs.)	31.3.2014 (Rs.)
<b>1. EQUITY AND LIABILITIES</b>			
Shareholders' funds			
(a) Share capital		45,000	65,000
(b) Reserves and surplus		25,000	42,500
Current liabilities			
Trade payables		8,700	11,000
Total		78,700	1,18,500
<b>II. ASSETS</b>			
(1)Non-current assets			
(a)Fixed assets			
(i) Tangible Assets		46,700	83,000
(2)Current Assets			
Inventories		11,000	13,000
Trade receivables		18,000	19,500
Cash and cash equivalents		3,000	3,000
Total		78,700	1,18,500

### Note to Accounts

Particulars	Figure as at the end of 31.3.2014 (Rs.)	Figure as at the end of 31.3.2014 (Rs.)
Note No. 1. Reserve and Surplus: General Reserve	15,000	27,500
Balance in Statement of P&L A/c	10,000	15,000
Total	25,000	42,500

### Additional Information :

**(i) Depreciation on fixed assets for the year 2014-15 was Rs. 14,700.**

**(ii) An interim dividend Rs. 7,000 has been paid to the shareholders during the year.**

**Solution :**

Calculation of Net Profit before Tax and Extraordinary item:	Rs.
Net Profit as per Balance in Statement of Profit & Loss A/c (15000 – 1,000)	5,000
Add : Transfer to General Reserve (27,500 -15,5000)	12,500
Add : Interim dividend paid during the year	7,000
Net Profit before Tax-and Extraordinary item	<b>24,500</b>

### **Cash Flow Statement**

For the year ended 31st March 2015

Particulars	Details Rs.	Amounts Rs.	
A. Cash flow from operating activities	24,500		
Net Profit Before Tax and Extra-ordinary Item			
Adjustment for non-cash and non-operating items	14,700		
Add : Depreciation on fixed assets	39,200		
Operating Profit before working capital changes			
Adjustment for Working Capital Changes	2,300		
Add : Increase in Trade Payables	41,500		
Less : Increase in trade receivable	(1,500)		
Increase in Inventories	(2,000)	38,000	
Net Cash Inflow from Operating Activities			
B. Cash Flow from Investing Activities	(51,000)		
Purchase of Fixed Assets		(51,000)	
Net Cash Used in Investing Activities			
C. Cash Flow From Financing Activities			

Issue of share capital	20,000		
Payment of interim dividend	(7,000)	13,000	
Cash Flow from Financing Activities			
Net Increase in Cash & Cash equivalent			
Add : Cash & Cash Equivalent at the beginning of year		NI	
Cash & Cash Equivalent at the end of year		3,000	
		3,000	

### Fixed Assets Account

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	46,700		By Depreciation A/c	14,700
	To Back A/c	51,000		(Current year dep. On remaining fixed assets)	
	(Additional Purchase)			By Balance c/d	83,000
		97,700			97,700

**5: Prepare a Cash Statement on the basis of the information given in the Balance Sheet of Live Ltd. As at 31.03.2015 and 31.03.2014:**

Particulars	Note No.	31.3.2014 (Rs.)	31.3.2014 (Rs.)
<b>1. EQUITY AND LIABILITIES</b>			
(1) Shareholders' funds		2,10,000	1,80,000
(a) Share capital		1,32,000	24,000
(b) Reserves and surplus			
(2) Non-current Liabilities		1,50,000	1,50,000
(a) Long term-borrowings			

(3) Current liabilities	75,000	27,000
(a) Trade payables		
Total	<b>5,67,000</b>	<b>3,81,000</b>
II. ASSETS		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible Assets	2,94,000	2,52,000
(b) Non-current Investments	48,000	18,000
(2) Current Assets		
(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
Total	<b>5,67,000</b>	<b>3,81,000</b>

## Notes to Accounts:

### Note – 1

Particulars	2015 (Rs.)	2014 (Rs.)
Reserve and Surplus		
Surplus (Balance in Statement of Profit and Loss)	1,32,000	24,000

## Solution :

### Cash Flow Statement

For the year ended 31st March 2015

Particulars	Details Rs.	Amounts Rs.	

Cash flow from operating activities	1,08,000		
Net Profit Before Tax and Extra-ordinary Item	-		
Add : Non cash and Non-operating charges	1,08,000		
Operating Profit before working capital changes			
Add : Increase in Current Liabilities			
	48,000		
Increase in trade payables			
	1,56,000		
Less : Increase in Current Assets	(22,500)		
Increase in trade receivables	(83,000)		
Increase in inventories			
Cash generated from Operating Activities		50,500	
Cash Flow from Investing Activities			
Purchase of Fixed Assets	(42,000)		
Purchase of noncurrent investments	(30,000)		
Cash Used in Investing Activities.			
Cash Flow From Financing Activities		(72,000)	
Issue of share capital			
Cash Flow from Financing Activities	30,000	30,000	
Net Increase in Cash & Cash equivalent			
Add : Opening balance of cash & cash equivalents :		8,500	
Marketable Securities			
Cash & Cash Equivalent	60,000		
	9,500		
Closing balance of cash & cash equivalent		69,500	
Marketable Securities	54,000		
Cash & Cash Equivalent	24,000	78,000	

**6: From the following information, Complete the Cash flow Statement of RK Ltd.**

### **Cash Flow Statement**



**For the year ended on 31st March 2015**

Particulars	Rs.	Rs.	
A. Cash flow from operating activities	.....		
Net Profit Before Tax and Extra-ordinary Item			
Adjustment for non-cash and non-operating items	.....		
Depreciation	.....		
Loss on sale of Machinery			
Operating Profit before working capital changes	.....		
Adjustment for charges in working Capital			
Capital			
Decrease in Trade Payables	(8,000)		
Increase in Inventory	(.....)		
Cash generated from operation before tax and extraordinary items	50,000		
Less : Increase tax paid	(.....)		
Net cash flow from operating activities		.....	
B. Cash Flow from Investing Activities			
Purchase of Fixed Assets			
Sale of Machinery	(.....)		
Net cash flow from Investing Activities	.....		
C. Cash Flow From Financing Activities		.....	
Proceeds from Issue of share	.....		
Net cash flow from Financing Activities		.....	
(A+B+C) Net Increase in Cash & Cash equivalent during the year			
Add : Cash & Cash Equivalent at the beginning of the period		.....	
Cash & Cash Equivalent at the end of the period		.....	

**Note to Accounts**

Particulars	31.3.2014 (Rs.)	31.3.2014 (Rs.)
Note 1. Reserve and Surplus:	55,000	40,000
General Reserve	70,000	50,000
Balance in Statement of P&L	1,25,000	90,000
Note 2. Cash and Cash Equivalents	52,000	37,000
Cash at Cash	52,000	37,000
Note 3. Short term Provisions		
Provision for Taxation	25,000	20,000
	25,000	20,000

#### Additional Information:

- (1) Depreciation charges on Building for the 3 year 2014-15 was Rs. 10,000.
- (2) During the year 2014-15, machinery of Rs. 1,38,000 was purchased.
- (3) A part of machinery costing Rs. 20,000 with accumulated depreciation of Rs 6,500 was sold for Rs. 8,500.
- (4) Income tax paid during the year 2014-15 was Rs. 18,000.

#### Solution:

#### Cash Flow Statement

For the year ended 31-3-2015

Particulars	Rs.	Rs.	
A. Cash flow from operating activities	58,000		

Net Profit Before Tax and Extra-ordinary Item	10,000		
Adjustment for non-cash and non-operating items	5,000		
Depreciation			
Loss on sale of Machinery	73,000		
Operating Profit before working capital changes			
Adjustment for charges in working Capital	(8,000)		
Decrease in Trade Payables	(15,000)		
Increase in Inventory			
Cash generated from operation before tax and extraordinary items	50,000		
Less : Increase tax paid	(18,000)	32,000	
Net cash flow from operating activities			
B. Cash Flow from Investing Activities			
Purchase of Fixed Assets	(1,38,000)		
Sale of Machinery	8,5000	(1,29,500)	
Net cash flow from Investing Activities			
C. Cash Flow From Financing Activities			
Proceeds from Issue of share		1,12,500	
Net cash flow from Financing Activities	1,12,500		
(A+B+C) Net Increase in Cash & Cash equivalent during the year			
Add: Cash & Cash Equivalent at the beginning of the period		15,000	
Cash & Cash Equivalent at the end of the period		37,000	
		52,000	

## Working Notes

1. Calculation of Net Profit before tax and extraordinary items :-

Rs.

Difference in Balance in statement of P&L (70,000-50,000) 20,000

Add : Transfer to General Reserve 15,000

Provision for Taxation23,000

58,000

2. Provision for Taxation Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d		By Balance b/d	20,000
(Tax Paid)	18,000	By Statement of P&L	
To Back A/c	25,000	(Balancing Figure – Provision	23,000
	43,000	mad during the year)	43,000