

Company Accounts and Analysis of Financial Statements Chapter 6

Cash Flow Statement

Short answers : Solutions of Questions on Page Number : 315

Q1 :

What is a Cash Flow Statement?

Answer :

A Cash Flow Statement is a statement showing inflows and outflows of cash and cash equivalents from operating, investing and financing activities of a company during a particular period. It explains the reasons of receipts and payments in cash and change in cash balances during an accounting year in a company.

Q2 :

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

Answer :

As per the Revised Accounting Standard 3 (AS-3), preparation of Cash Flow Statement for each period is mandatory. AS-3 also specifies the classification of all inflows and outflows basically under the following heads:

1. Cash Flow from Operating Activities
2. Cash Flow from Investing Activities
3. Cash Flow from Financing Activities

Q3 :

State the uses of cash flow statement?

Answer :

The uses of cash flow statement are as follows:

1. It is useful for short term financial planning about inflows and outflow of cash.
2. It helps in analysing the reason for the change in cash and cash equivalent balances of a company
3. It assists in determining and assessing liquidity and solvency positions of a company.
4. It enables to analyse and study the trends of receipts and payments of cash from various activities of a company and thereby helps in drafting various policy measures and short term planning.
5. It enables the segregation of cash flows from operating, investing and financing activities of the business separately.
6. It assists in making decision about distribution of profit with reference to the availability of cash.

Q4 :

What are the objectives of preparing cash flow statement?

Answer :

The important objectives for preparing Cash Flow Statement are as follows:

1. The most important objective that is fulfilled by preparing Cash Flow Statement is to ascertain the gross inflows and outflows of cash and cash equivalents from various activities.
2. Secondly, Cash Flow Statement helps in analysing various reasons responsible for change in the cash balances during an accounting year.
3. This statement helps in analysing and understanding the liquidity and solvency of a company , thereby, depicting the true liquidity position to the creditors and the investors.
4. Cash Flow Statement also helps in ascertaining the requirement and availability of cash in near future.

Q5 :

Explain the terms: Cash Equivalents, Cash flows.

Answer :

Cash equivalents are short term, highly liquid investments that are easily convertible into cash and which are subject to an insignificant risk of change in value. In other words, cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or any other purpose. An investment held for short-term maturity, say three months can be regarded as cash equivalent. Some examples of cash equivalents are treasury bills, commercial papers, etc. On the other hand, cash flows are inflows and outflows of cash and cash equivalents. A cash inflow results in increase in the total cash balance and a cash outflow results in decrease in the total cash balance.

Q6 :

Prepare a format of cash flow from operating activities under direct method and indirect method.

Answer :

The format of cash flow from operating activities is as follows:

Direct Method	
Cash Flow from Operating Activities:	
Cash receipts from customers	***
Cash paid to suppliers and employers	(***)
Cash generated from operations	***
Income tax paid	(***)
Cash flow before extraordinary items	***
+/- Extraordinary items	***
Net Cash from operating activities	***

Indirect Method

Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
<i>Add:</i> Non-Cash Expenses and Non-Operating Expenses		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	
Foreign exchange	**	**
<i>Less:</i> Non Operating Incomes.		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating profit before working capital changes		***
<i>Add:</i> Decrease in Current Assets	***	
Increase in Current Liabilities	***	***
<i>Less:</i> Increase in Current Assets	***	
Decrease in Current Liabilities	***	***
Cash generated from Operating Activities		***
Income tax paid		***
Cash Flow before Extraordinary Items		***
<i>Add/Less:</i> Extra ordinary Items		***
Net Cash Flow from Operating Activities		***

Q7 :

Now that you know the meaning of operating activities, state clearly what would constitute the operating activities for the following types of enterprises:

(i) Hotel

(ii) Film production house

(iii) Financial enterprise

(iv) Media enterprise

(v) Steel manufacturing unit

(vi) Software business unit.

Answer :

(i) Hotels

1. Receipts from sale of goods to customer.
2. Payment of wages and salaries, electricity, food items and other items used in accommodation.

(ii) Film Production House:

1. Receipts from selling film rights of a film to the distributors.
2. Payment to the staff, actors, actresses, directors, etc.

(ii) Financial Enterprises:

1. Receipts from repayment of loans, interest incomes from investments, etc.
2. Repayment of loans, recovery expenditure for recover of loans etc, salaries of employees.

(iv) Media Enterprises:

1. Receipts from advertisements.
2. Payments to staff, reporters, photographers, etc.

(v) Steel Manufacturing Unit:

1. Receipts from sale of steel sheets, steel castings, steel rods, etc.
2. Payment for iron, coal, salaries to staff, etc.

(vi) Software Business Unit:

1. Receipts from sale of software and renewal of licenses.
2. Payment of salaries to their employees, etc.

Q8 :

Now that you know the meaning of operating activities, state clearly what would constitute the operating activities for the following types of enterprises:

(i) Hotel

(ii) Film production house

(iii) Financial enterprise

(iv) Media enterprise

(v) Steel manufacturing unit

(vi) Software business unit.

Answer :

(i) Hotels

1. Receipts from sale of goods to customer.
2. Payment of wages and salaries, electricity, food items and other items used in accommodation.

(ii) Film Production House:

1. Receipts from selling film rights of a film to the distributors.
2. Payment to the staff, actors, actresses, directors, etc.

(ii) Financial Enterprises:

1. Receipts from repayment of loans, interest incomes from investments, etc.
2. Repayment of loans, recovery expenditure for recover of loans etc, salaries of employees.

(iv) Media Enterprises:

1. Receipts from advertisements.
2. Payments to staff, reporters, photographers, etc.

(v) Steel Manufacturing Unit:

1. Receipts from sale of steel sheets, steel castings, steel rods, etc.

2. Payment for iron, coal, salaries to staff, etc.

(vi) *Software Business Unit:*

1. Receipts from sale of software and renewal of licenses.

2. Payment of salaries to their employees, etc.

Numerical questionslong answers : Solutions of Questions on Page Number : 316

Q1 :

Anand Ltd. arrived at a net income of Rs 5,00,000 for the year ended March 31, 2007. Depreciation for the year was Rs 2,00,000. There was a gain of Rs 50,000 on assets sold which was credited to profit and loss account. Bills Receivables increased during the year Rs 40,000 and Bills Payables also increased by Rs 60,000. Compute the cash flow operating activities by the indirect approach.

Answer :

**Cash Flow from Operating
Activities as on March 31, 2007**

	Amount	Amount
Particulars	Rs	Rs
Net Profit during the year		5,00,000
<i>Items to be adjusted:</i>		
<i>Add:</i>		
Depreciation	2,00,000	
<i>Less:</i> Gain on sale of assets	(50,000)	1,50,000
Operating Profit before Working Capital changes		6,50,000

<i>Add:</i>	60,000	
Increase in Bills Payable		
<i>Less:</i>	(40,000)	20,000
Increase in Bills Receivable		
Net Cash from Operations		6,70,000

Q2 :

Describe the procedure to prepare Cash Flow Statement.

Answer :

The procedure to prepare Cash Flow Statement is described in the following steps in their chronological order.

Step 1: Ascertain the cash flows from operating activities

Step 2: Ascertain the cash flows from investing activities

Step 3: Ascertain the cash flows from financing activities

Step 4: Ascertain net increase or decrease by summing up the amounts of Steps 1, 2, and 3.

Step 5: Write the opening balance of cash and cash equivalents and deduct it from the amount ascertained in Step 4. The resulting figure arrived is the Closing Balance of Cash and Cash Equivalents.

There are two methods *viz.* Direct Method and Indirect Method for the preparation of Cash Flow Statement.

Direct Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Cash Sales	**	
	Cash receipt from Debtors	**	
	<i>Less:</i> Cash Purchases	**	
	Cash paid to creditors and other expenses	**	
	Cash Generated from Operating Activities	**	
	<i>Less:</i> Income Tax Paid	**	
	Cash flow before Extraordinary Items	**	
	<i>Add/Less:</i> Extraordinary Items	**	
	Net Cash Flow from (used in) Operating Activities	**	**
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less:</i> Purchase of Fixed Assets	**	
	<i>Less:</i> Purchase of long-term Investment	**	
	Net Cash Flow from Investing Activities	**	**
C.	Cash Flow from Financing Activities		
	Proceeds from Issue of Shares	**	
	Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
	<i>Less:</i> Repayment of Debentures and Other Long-term Borrowings	**	
	<i>Less:</i> Redemption of Preference Shares	**	
	<i>Less:</i> Interest Paid	**	
	<i>Less:</i> Dividend Paid	**	
	Net Cash flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C))		**
	Cash and Cash Equivalents at the beginning (Cash in Hand,		**
	Cash at Bank, Marketable Securities, Short-term Deposits)		
	Cash and Cash Equivalent at the end		**

Q3 :

From the information given below you are required to prepare the cash paid for the inventory:

	Rs
Inventory in the beginning	40,000
Purchases	1,60,000
Inventory in the end	38,000
Inventory creditors in the beginning	14,000
Inventory creditors in the end	14,500

Answer :

Creditors Account

Dr.				Cr.			
			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Cash (<i>Balancing fig.</i>)		1,59,500		Balance b/d		14,000
	Balance c/d		14,500		Purchases		1,60,000
			1,74,000				1,74,000

Cash paid for Inventory amounts to Rs 1,59,500

Q4 :

Describe 'Direct' and 'Indirect' methods of ascertaining Cash Flow from Operating Activities.

Answer :

As per the Accounting Standard 3 issued by the Institute of Chartered Accountant of India, an enterprise should report cash flows from operating activities using either of the following methods.

I. Direct Method

II. Indirect Method

I. Direct Method: It represents the cash receipts from debtors (customers) and customers and cash payments to creditors (sellers) and employees. It assists in estimating future cash flows. The excess of cash payments over cash receipts is known as Net Cash Flow of Operating Activities (balancing figure).

The following is the process of ascertaining cash receipts and cash payments:

1. Cash Receipts from Customers = Cash Sales made during the year + Credit Sales made during the year + Opening Balance of Debtors and Bills Receivable - Closing Balance of debtors + Bills Receivables.

2. Purchases made during the year = Cost of Goods Sold + Closing Stock - Opening Stock.

3. Cash Paid to Suppliers = Purchases made during the year + Opening Balance of Creditors - Closing Balance of Creditors.

4. Cash Expenses = Expenses incurred during the year + Prepaid Expenses at the end of the year + Outstanding Expenses at the beginning of the year - Prepaid Expenses at the beginning of the year - Outstanding expenses at the end of the year.

5. Non-cash items like, depreciation, goodwill written off, etc. are not recorded.

6. Items related to financing activities and investing activities are not recorded. Format of cash flow from operating activities under:

Direct Method

Cash Flow Statement

Particulars	Amount Rs	Amount Rs
Cash Flow from Operating Activities		
Cash Sales	**	
Cash receipt from Debtors	**	
Less: Cash Purchases	**	
Cash paid to creditors and other expenses	**	
Cash Generated from Operating Activities	**	
Less: Income Tax Paid	**	
Cash flow before Extraordinary Items	**	
Add/Less: Extraordinary Items	**	
Net Cash Flow from (used in) Operating Activities	**	**

II. Indirect Method: This method starts with the Net Profit before tax and extraordinary items. For this purpose, the Net Profit as revealed by the Profit and Loss Account cannot be taken into consideration as there exists some items which do not leads to outflow of cash. The following are those items that need to be added back to the Net Profit of the Profit and Loss Account.

a. Non-cash items like, depreciation goodwill written off, etc are added to the Net Profit.

b. Non-operating expenses like loss on sale of fixed assets, transfers to reserves, loss on sale of fixed assets are added back to the Net Profit.

c. Provisions like, provisions for doubtful debts and discount for debtors, proposed dividends etc. should be added back to the Net Profit.

d. Decrease in current assets and increase in current liabilities should be added to the operating profit.

The following are those items that need to deduct from the Net Profit of the Profit and Loss Account.

a. Non-operating incomes like profit on sale of fixed assets, etc. are deducted from the Net Profit.

b. Non-trading Incomes like dividend received, interest received, tax refund, etc. are to be deducted from the Net Profit.

c. Increase in current assets and decrease in current liabilities should be deducted from the operating profit.

Indirect Method

Cash Flow Statement

Particulars	Amount Rs	Amount Rs
Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items		***
<i>Add:</i> Non-Cash Expenses and Non-Operating Expenses.		
Depreciation	**	
Goodwill	**	
Interest paid	**	
Loss on sale of fixed assets	**	**
<i>Less:</i> Non-Operating Incomes.		
Dividend received	**	
Profit on sale of fixed assets	**	
Interest received	**	**
Operating Profit before Working Capital Changes		***
<i>Add:</i> Decrease in Current Assets	***	
Increase in Current Liabilities	**	***
<i>Less:</i> Increase in Current Assets	***	
Decrease in Current Liabilities	***	***

Cash generated from Operating Activities		***
<i>Less: Income tax paid</i>		***
Cash flow before Extra ordinary items		***
<i>Add/Less: Extra ordinary items</i>		***
Net Cash Flow from Operating Activities		***

Q5 :

For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow viz., operating, investing and financing.

(a) Acquired machinery for Rs 2,50,000 paying 20% drawn and executing a bond for the balance payable.

(b) Paid Rs 2,50,000 to acquire shares in Informa Tech. and received a dividend of Rs 50,000 after acquisition.

(c) Sold machinery of original cost Rs 2,00,000 with an accumulated depreciation of Rs 1,60,000 for Rs 60,000.

Answer :

(a)

Part payment Rs 50,000 for acquiring machinery Rs 2,50,000 is related with Investing Activities

(b)

	Rs
Amount paid for acquiring shares	(2,50,000)
Dividend received	50,000
Net Cash used in Investing Activities	(2,00,000)

Amount paid to acquire assets and dividend received is a part of Investing Activities.

(c) Inflow of cash of Rs 60,000 on sale of machinery is a part Investing Activities.

Q6 :

Explain the major Cash Inflow and outflows from investing activities.

Answer :

Investing activities are those activities that are related to sales and purchases of long-term fixed assets like, land and building, plant and machinery, furniture, etc. These fixed assets are not held for resale. The activities like sale and purchase of investments that are not included in the cash equivalents are also included in Investing activities. Any income arising from such investments (assets) are regarded a part of investing activities.

As per the AS3, the major cash inflows and outflows from investing activities are as follows:

- a. Cash payments to acquire fixed assets (including intangibles like, goodwill). These payments include capitalised cost of research and development and self constructed fixed assets.
- b. Cash receipts from disposal of fixed assets (including intangible assets).
- c. Cash payments to acquire shares, warrants, or debt instruments of other enterprises and interest in joint venture (other than payments of those instruments consider as cash equivalents and are held for the trading purposes).
- d. Cash receipts from disposal of shares, warrants or debt instruments of other enterprises and interest from joint ventures (other than receipts from those held for trading purposes).
- e. Cash advances and loans made to third parties (other than advances, and loans made by financial enterprises). These will be treated as cash flows from the operating activities.
- f. Cash receipts from repayment of advances and loans made to third parties (other than advances and loans of financial enterprises). These will be treated as cash flows from operating activities.
- g. Cash receipts from insurance company for any property involved in accident.
- h. Any income arising from fixed assets or investments like interest, dividend, rent etc. In case of financial enterprises interest and dividend is treated as operating activities.

Direct Method

Cash Flow Statement

	Particulars	Amount Rs	Amount Rs
	Net Cash Flow from (used in) Operating Activities	**	**
B.	Cash Flow from Investing Activities	**	
	Sale of Fixed Assets	**	
	Sale of long-term Investments	**	
	Interest Received	**	
	Dividend Received	**	
	Rent Received	**	
	<i>Less:</i> Purchase of Fixed Assets	**	
	<i>Less:</i> Purchase of long-term Investments	**	
	Net Cash Flow from Investing Activities	**	**

Indirect Method

Cash Flow Statement

Particulars	Amount Rs	Amount Rs
Net Cash Flow from Operating Activities		***
Cash Flow from Investing Activities	**	
Sale of Fixed Assets	**	
Sale of Long-term Investments	**	
Interest Received	**	
Dividend Received	**	
Rent Received	**	
<i>Less:</i> Purchase of Fixed Assets	**	
<i>Less:</i> Purchase of long term Investment	**	

Net Cash Flow from Investing Activities	**	**
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Q7 :

The following is the Profit and Loss Account of Yamuna Limited:

Yamuna Limited		
Profit and Loss Account for the Year ended March 31, 2007		
	Rs	Rs
Sales		10,00,000
Cost of Goods Sold:		
Opening Stock	2,50,000	
Purchases	5,00,000	
	7,50,000	
Less: Closing Stock	2,00,000	5,50,000
Gross Profit		4,50,000
Operating Expenses		3,00,000
Net Profit		1,50,000

Additional information:

- (i) Trade debtors decrease by Rs 30,000 during the year.**
- (ii) Prepaid expenses increase by Rs 5,000 during the year.**
- (iii) Trade creditors decrease by Rs 15,000 during the year.**
- (iv) Outstanding expenses increased by Rs 3,000 during the year.**
- (v) Operating expenses included depreciation of Rs 25,000. Compute net cash provided by operations for the year ended March 31, 2007 by the indirect method.**

Answer :

**Cash Flow from Operating Activities of
Yamuna Limited as on March 31, 2007**

Particulars	Amount Rs	Amount Rs
Net Profit earned during the year		1,50,000
<i>Items to be added:</i>		
Depreciation		25,000
Operating Profit before Working Capital changes		1,75,000
Add: Increase in Current Liabilities		
Outstanding Expenses	3,000	
Add: Decrease in Current Assets		
Trade Debtors	30,000	
Stock	50,000	83,000
Less: Decrease in Current Liabilities		
Trade Creditors	(15,000)	
Less: Increase in Current Assets		
Prepaid Expenses	(5,000)	(20,000)
Net Cash from Operations		2,38,000

Note: As per the solution, the Net Cash from Operating Activities is Rs 2,38,000, however, as per the answer given in the book is Rs 2,18,000.

Q8 :

Explain the major Cash Inflows and outflows from financing activities.

Answer :

Financing activities are those activities that are related to capital or long term funds of an enterprise. These activities results in the change in the capital and borrowed funds.

As per the AS3, the major cash inflows from financing activities are as follows:

- a. Cash proceeds from issue of shares and other similar instruments.
- b. Cash proceeds from issue of debentures, loans, notes, bonds, and other short and long-term borrowings.

As per the AS3, the major cash outflows from financing activities are as follows:

- a. Cash repayments of the amount borrowed in form of debentures, loans, notes bonds, and other short and long-term borrowings.
- b. Buy-back of shares and debentures.
- c. Interest paid on debentures, loans, and advances.
- d. Dividend paid to the preference shareholders and equity shareholders.

An important point that must be noted is that the purchase and sale of securities, interest paid or received and dividend received is treated as cash flow from operating activities for an investment company. ***But dividend paid*** is treated as cash flow from financing activities.

Direct Method

Cash Flow Statement

	Particulars	Amount	Amount
		Rs	Rs
	Net Cash Flow from Investing Activities	**	**
	Cash Flow from Financing Activities		
	Proceeds from Issue of Shares	**	
	Proceeds from Issue of Debentures and Other Long-term Borrowings	**	
	<i>Less:</i> Repayment of Debentures and Other Long-term Borrowings	**	
	<i>Less:</i> Redemption of Preference Shares	**	
	<i>Less:</i> Interest Paid	**	
	<i>Less:</i> Dividend Paid	**	
	Net Cash flow from Financing Activities	**	**
	Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
	Cash and Cash Equivalents at the beginning (Cash in Hand,		**
	Cash at Bank, Marketable Securities, Short-term Deposits)		
	Cash and Cash Equivalent at the end		**

Indirect Method

Cash Flow Statement

Particulars	Amount	Amount
	Rs	Rs
Net Cash Flow from Investing Activities	**	**
Cash Flow from Financing Activities		
Proceeds from Issue of shares	**	
Proceeds from Issue of Debentures and other Long-term Borrowings	**	
<i>Less:</i> Repayment of Debentures and other Long-term Borrowings	**	
<i>Less:</i> Redemption of preference Share	**	

Less: Interest paid	**	
Less: Dividend paid	**	
Net Cash Flow from Financing Activities	**	**
Net Increase (or Decrease in Cash and Cash Equivalents (A+B+C)		**
Cash and Cash Equivalents at the beginning (Cash in Hand,		**
Cash at Bank, Marketable Securities, Short-term Deposits)		
Cash and Cash Equivalents at the end		**

Numerical questions : Solutions of Questions on Page Number : 317

Q1 :

Compute cash from operations from the following figures:

(i) Profit for the year 2005-06 is a sum of Rs 10,000 after providing for depreciation of Rs 2,000.

(ii) The current assets of the business for the year ended March 31, 2006 and 2007 are as follows:

	March 31, 2006 Rs	March 31, 2007 Rs
Debtors	10,000	12,000
Provision for Doubtful Debts	1,000	1,200
Bills Receivables	4,000	3,000
Bills Payables	5,000	6,000
Creditors	8,000	9,000
Inventories	5,000	8,000
Short-term Investments	10,000	12,000

Outstanding Expenses	1,000	1,500
Prepaid Expenses	2,000	1,000
Accrued Income	3,000	4,000
Income received in advance	2,000	1,000

Answer :

**Cash Flow from Operating Activities as on
March 31, 2006**

Particulars	Amount Rs	Amount Rs
Net Profit for the year 2005-06		10,000
<i>Items to be added:</i>		
Depreciation		2,000
Operating Profit before Working Capital changes		12,000
Add: Increase in Current Liabilities		
Provision for Doubtful Debts	200	
Bills Payable	1,000	
Creditors	1,000	
Outstanding Expenses	500	
Add: Decrease in Current Assets		
Bills Receivable	1,000	

	Prepaid Expenses	1,000	4,700
<i>Less:</i>	<i>Increase in Current Assets</i>		
	Debtors	(2,000)	
	Inventories	(3,000)	
	Short-term Investments	(2,000)	
	Accrued Income	(1,000)	
<i>Less:</i>	<i>Decrease in Current Liabilities</i>		
	Income received in advance	(1,000)	(9,000)
Net Cash from Operations			7,700

Q2 :

From the following Particulars of Bharat Gas Limited, calculate Cash Flows from Investing Activities. Also show the workings clearly preparing the ledger accounts:

Balance Sheet of Bharat Gas Limited as on

	2006	2007		2006	2007
	Amount	Amount		Amount	Amount
Liabilities	Rs	Rs		Rs	Rs
			Goodwill	1,00,000	3,00,000
			Patents	2,80,000	1,60,000
			Machinery	10,20,000	12,40,000

			10% Long-term Investment	60,000	1,60,000
			Investment in Land	1,00,000	1,00,000
			Shares of Amartax Ltd.	1,00,000	1,00,000

Additional Information:

(a) Patents were written off to the extent of Rs 40,000 and some Patents were sold at a profit of Rs 20,000.

(b) A Machine costing Rs 1,40,000 (Depreciation provided thereon Rs 60,000) was sold for Rs 50,000. Depreciation charged during the year was Rs 1,40,000.

(c) On March 31, 2007, 10% Investments were purchased for Rs 1,80,000 and some Investments were sold at a profit of Rs 20,000. Interest on Investment was received on March 31, 2007.

(d) Amartax Ltd. paid Dividend @ 10% on its shares.

(e) A plot of Land had been purchased for investment purposes and let out for commercial use and rent received Rs 30,000.

Answer :

Cash Flow from Investing Activities

	Amount	Amount
Particulars	Rs	Rs
Cash Inflow		
Proceeds from Sale of Patents	1,00,000	
Proceeds from Sale of Machinery	50,000	

Proceeds from Sale of 10% Long-term Investment	1,00,000	
Interest received on 10% Long-term Investment	6,000	
Dividend Received from Amartax Ltd.	10,000	
Rent Received	30,000	2,96,000
Cash Outflow		
Purchase of Goodwill	(2,00,000)	
Purchase of Machinery	(4,40,000)	
Purchase of 10% Long-term Investment	(1,80,000)	(8,20,000)
Net Cash used in Investing Activities		(5,24,000)

Patents Account

Dr.				Cr.			
			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Balance b/d		2,80,000		Profit and Loss		40,000
	Profit and Loss (Profit on sale)		20,000		(written off)		
					Bank (sale- <i>Balancing figure</i>)		1,00,000
					Balance c/d		1,60,000
			3,00,000				3,00,000

Machinery Account

Dr.	Cr.
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			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Balance b/d		10,20,000		Depreciation		1,40,000
	Bank		4,40,000		Bank		50,000
	(Purchases- <i>Balancing figure</i>)				Profit and Loss		30,000
					Balance c/d		12,40,000
			14,60,000				14,60,000

10% Long-term Investment Account

Dr.

Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Balance b/d		60,000		Bank (<i>Balancing figure</i>)		1,00,000
	Bank		1,80,000		Balance c/d		1,60,000
	Profit and Loss (Profit on sale)		20,000				
			2,60,000				2,60,000

Q3 :

From the following Balance Sheet of Mohan Ltd. Prepare cash flow Statement:

Balance Sheet of Rajeshwar Limited as on

	2005	2006		2005	2006
Liabilities	Rs	Rs	Assets	Rs	Rs
Equity Share Capital	2,00,000	3,00,000	Fixed Assets	4,00,000	6,00,000
Profit and Loss	1,60,000	2,00,000	Stock	1,30,000	1,50,000
Bank Loan	1,00,000	80,000	Debtor's Bills	1,00,000	60,000
Accumulated Dep.	80,000	1,00,000	Receivable	20,000	30,000
Creditor	1,40,000	1,20,000	Bank	90,000	30,000
Proposed Dividend	60,000	70,000			
	7,40,000	8,70,000		7,40,000	8,70,000

Additional Information:

Machine Costing Rs 80,000 on which accumulated depreciation was Rs, 50,000 was sold for Rs 20,000.

Answer :

Cash Flow Statement of Mohan Ltd.

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Profit as per the Balance Sheet (2,00,000 - 1,60,000)	40,000	
	Proposed Dividend	70,000	
	Net Profit before Taxation and Extraordinary items		1,10,000
	<i>Adjustments:</i>		
	Depreciation	70,000	
	Loss on Sale of Machine	10,000	80,000
	Operating Profit before Working Capital changes		1,90,000

	<i>Add: Decrease in Current Assets</i>		
	Debtors	40,000	40,000
			2,30,000
	<i>Less: Increase in Current Assets</i>		
	Stock	(20,000)	
	Bills Receivable	(10,000)	
	<i>Less: Decrease in Current Liabilities</i>		
	Creditors	(20,000)	(50,000)
	Net Cash from Operations		1,80,000
B.	Cash Flow from Investing Activities		
	Proceeds from Sale of Fixed Assets		20,000
	Purchases of Fixed Assets		(2,80,000)
	Net Cash outflow from Investing activity		(2,60,000)
C.	Cash Flow from Financing Activities		
	Issue of Shares		1,00,000
	Bank Loan Paid		(20,000)
	Dividend Paid		(60,000)
	Net Cash from Financing Activities		20,000
D.	Net Decrease in Cash and Cash Equivalents (A+B+C)		(60,000)
	<i>Add: Cash and Cash Equivalents in the beginning</i>		90,000

E.	Cash and Cash equivalents at the end		30,000

Fixed Assets Account

Dr.

Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Balance b/d		4,00,000		Bank		20,000
	Bank				Profit and Loss		
	(Purchases- <i>Balancing</i> <i>fig.</i>)		2,80,000				10,000
					Accumulated Depreciation		50,000
					Balance c/d		6,00,000
			6,80,000				6,80,000

Accumulated Depreciation Account

Dr.

Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Fixed Assets		50,000		Balance b/d		

Q4 :

From the following Balance Sheets of Tiger Super Steel Ltd., prepare Cash Flow Statement:

Balance Sheet

	2005	2006		2005	2006
Liabilities	Rs	Rs	Assets	Rs	Rs
Equity Share Capital	80,000	1,20,000	Goodwill	24,000	18,800

10% Preference Sh. Capital	40,000	20,000	Land and Building	40,000	20,000
General Reserve	8,000	12,000	Plant	36,000	76,400
Profit and Loss Account	7,200	10,800	Investment	4,000	14,000
Proposed Dividend	11,200	15,600	Debtor's	30,000	43,200
Bills Payable	14,000	21,200	Stock	34,000	31,200
Outstanding Expenses	3,200	2,400	Cash	6,800	11,200
Provision for Taxation	11,200	12,800			
	1,74,800	2,14,800		1,74,800	2,14,800

Additional Information:

Depreciation Charge on Land & Building Rs 20,000, and Plant Rs 10,000 during the year.

Answer :

Cash Flow Statement of Tiger Super Steels Ltd

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Profit as per the Balance Sheet (10,800 – 7,200)	3,600	
	General Reserve	4,000	
	Proposed Dividend	15,600	
	Provision for Taxation	12,800	
	Net Profit before Taxation and Extraordinary		36,000
	<i>Items to be added:</i>		
	Depreciation on Land and Building	20,000	
	Depreciation on Plant	10,000	

	Goodwill written off	5,200	35,200
	Operating Profit before Working Capital changes		71,200
	<i>Add: Increase in Current Liabilities</i>		
	Bills Payable	7,200	
	<i>Add: Decrease in Current Assets</i>		
	Stock	2,800	10,000
			81,200
	<i>Less: Increase in Current Assets</i>		
	Debtors	(13,200)	
	<i>Less: Decrease in Current Liabilities</i>		
	Outstanding Expenses	(800)	(14,000)
	Cash Generated from Operating Activities		67,200
	<i>Less: Income Tax paid</i>		(11,200)
	Net Cash from Operating Activities		56,000
B.	Cash Flow from Investing Activities		
	Purchases of Plant		(50,400)
	Purchases of Investment		(10,000)
	Net Cash used in Investing Activities		(60,400)
C.	Cash Flow from Financing Activities		
	Issue of Equity Shares		40,000
	Dividend paid		(11,200)

	Redemption of 10% Preference Shares		(20,000)
	Net Cash from Financing Activities		8,800
D.	Net Increase in Cash and Cash Equivalent <i>Add:</i> Cash and Cash Equivalent in the beginning		4,400
			6,800
E.	Cash and Cash Equivalents at the end		11,200

Working Notes:

1.

Plant Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	To Balance b/d		36,000		By Depreciations		10,000
	To Bank A/c (Purchases- <i>Balancing figure</i>)		50,400		By Balance c/d		76,400
			86,400				86,400

2.

Net Profit before Tax	3,600
Profit and Loss Account	12,800
Less: Provision for Tax	16,400

Note: As per the solution, the Net Cash from Operating Activities, net Cash from Investing Activities and Net Cash from Financing Activities are Rs 56,000, Rs (60400) and Rs 8,800 respectively. However, as per the answer given in the book, the Net Cash from Operating Activities, net Cash from Investing Activities and Net Cash from Financing Activities are Rs 34,800, Rs (50,400) and Rs 20,000 respectively.

Q5 :

Prepare Cash Flow Statement from the following Information:

Balance Sheet

	2004	2005		2004	2005
Liabilities	Rs	Rs	Assets	Rs	Rs
Equity	5,00,000	7,00,000	Cash/Bank	3,00,000	4,00,000
Share Capital					
8%	6,00,000	4,00,000	Sundry Debtors	4,00,000	6,00,000
Debentures			Stock	5,00,000	6,00,000
Profit and Loss Account	3,00,000	5,00,000			
Creditors	6,00,000	9,00,000	Goodwill	2,50,000	1,70,000
			Discount on Debenture	50,000	30,000
			Plant	5,00,000	7,00,000
	20,00,000	25,00,000		20,00,000	25,00,000

Additional Information:

Depreciation Charge on Plant amount to Rs 80,000.

Answer :

Cash Flow Statement

		Amount	Amount
	Particulars	Rs	Rs
A.	Cash Flow from Operating Activities		
	Net Profit as per the Balance Sheet (5,00,000 - 3,00,000)		2,00,000
	<i>Items to be added:</i>		
	Depreciation on Plant	80,000	
	Goodwill written off	80,000	
	Discount on Debentures written off	20,000	1,80,000
	Operating Profit before Working Capital adjustments		3,80,000
	<i>Add:</i>		
	<i>Increase in Current Liabilities</i>		
	Creditors	3,00,000	3,00,000
			6,80,000
	<i>Less:</i>		
	<i>Increase in</i>		

	<i>Current Assets</i>		
	Sundry Debtors	(2,00,000)	
	Stock	(1,00,000)	(3,00,000)
	Net Cash from Operations		3,80,000
B.	Cash Flow from Investing Activities		
	Purchase of Plant		(2,80,000)
	Net Cash used in Investing Activities		(2,80,000)
C.	Cash Flow from Financing Activities		
	Issue of Equity Share Capital		2,00,000
	Redemption of 8% Debentures		(2,00,000)
			Nil
D.	Net Increase in Cash and Cash Equivalent (A+B+C)		1,00,000
	Add: Cash and Cash Equivalent in the beginning		3,00,000
E.	Cash and Cash Equivalents at the end		4,00,000

Working Notes:

Plant Account

Dr.

Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Balance b/d		5,00,000		Depreciation		80,000
	Bank						
	(Purchases-						
	<i>Balancing</i>						
	<i>figure)</i>		2,80,000		Balance c/d		7,00,000

Q6 :

From the following Information Prepare Cash flow Statements for Yogeta Ltd.

Balance Sheet

	2005	2006		2005	2006
Liabilities	Rs	Rs	Assets	Rs	Rs
Equity	2,00,000	3,00,000	Bank	45,000	-
Share					
Capital					
Preference	-	1,00,000	Cash	5,000	-
Share					
Capital					
Profit and	1,00,000	2,00,000	Stock	1,00,000	1,70,000
Loss					
Account					
Loan	2,00,000	-	Bills	50,000	1,00,000
			Receivable		
Provision	30,000	50,000	Fixed	4,00,000	7,00,000
for			Assets		
Taxation					
Bills	50,000	70,000			
Payable					
Bank	-	1,00,000			
overdraft					

Loan from Rahul	20,000	1,50,000			
	6,00,000	9,70,000		6,00,000	9,70,000

Additional Information:

Net Profit for the year After Charging Rs 50,000 as Depreciation was Rs 1,50,000. Dividend paid on Share was Rs 50,000, Tax Provision created during the year year amounted to Rs 60,000.

Answer :

Cash Flow Statement of Yogeta Ltd.

		Amount	Amount
	Particulars	Rs	Rs
A.	Cash Flow from Operating Activities		
	Profit as per Balance Sheet (2,00,000 -1,00,000)	1,00,000	
	Proposed Dividend	50,000	
	Provision for Taxation	60,000	
	<i>Net Profit before Taxation and Extraordinary items</i>		2,10,000
	<i>Items to be added:</i>		
	Depreciation	50,000	50,000
	Operating Profit before Working Capital changes		2,60,000
	<i>Add: Increase in Current liabilities</i>		
	Bills Payable	20,000	20,000
			2,80,000
	<i>Less: Increase in Current Assets</i>		
	Stock	(70,000)	
	Bills Receivable	(50,000)	(1,20,000)
	Cash Generated from Operating Activities		1,60,000
	<i>Less: Income Tax paid</i>		(40,000)
	Net Cash from Operations		1,20,000

B.	Cash Flow from Investing Activities	
	Purchases of Fixed Assets	(3,50,000)
	Net Cash used in Investing Activities	(3,50,000)
C.	Cash Flow from Financing Activities	
	Issue of Equity Shares	1,00,000
	Issue of Preference Shares	1,00,000
	Loan from Rahul	1,30,000
	Less: Repayment of Loan	(2,00,000)
	Dividend Paid	(50,000)
	Net Cash from Financing Activities	80,000
D.	Net decrease in Cash and Cash Equivalent (A+B+C)	(1,50,000)
	Add: Cash and Cash Equivalents in the beginning	50,000
E.	Cash and Cash Equivalents at the end (Bank Overdraft)	(1,00,000)

Working Notes:

1.

Provision for Taxation Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Bank (Balancing figure)		40,000		Balance b/d		30,000
	Balance c/d		50,000		Profit and Loss		60,000
			90,000				90,000

2.

Fixed Assets Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs

	Balance b/d	4,00,000	Depreciation	50,000
	Bank	3,50,000	Balance c/d	7,00,000
		7,50,000		7,50,000

Q7 :

Following is the Financial Statement of Garima Ltd. Prepare Cash flow Statements.

Balance Sheet as on 31st Dec. 2006

	2005	2006		2005	2006
Liabilities	Rs	Rs	Assets	Rs	Rs
Equity Share Capital	2,00,000	3,00,000	Plant and Machinery	2,00,000	3,64,000
Preference Share	80,000	1,40,000	Stock	60,000	1,60,000
Capital					
Creditors	56,000	1,56,000	Debtors	20,000	80,000
Provision for Taxation	4,000	12,000	Bank	80,000	28,000
Profit & Loss Account	28,000	40,000	Prepaid Expenses	8,000	16,000
	3,68,000	6,48,000		3,68,000	6,48,000

Profit and Loss Account for the Year ended Dec. 31, 2006

	Amount		Amount
Receipts	Rs	Payments	Rs
Opening Stock	60,000	Sales	5,00,000
Purchase	4,92,000	Closing Stock	1,60,000
Gross Profit c/d	1,08,000		
	6,60,000		6,60,000
Salary	44,000	Gross Profit b/d	1,08,000
Depreciation	32,000		
Provision for Tax	16,000		
Net Profit c/d	16,000		
	1,08,000		1,08,000

Dividend	4,000	Balance b/d	28,000
Balance c/d	40,000	Net Profit b/d	16,000
	44,000		44,000

Answer :

**Cash Flow Statement of Garima Ltd as
on December 31, 2006**

(Direct Method)

		Amount	Amount
	Particulars	Rs	Rs
A.	Cash flow from Operating Activities		
	Cash Receipts from customers		4,40,000
	<i>Less:</i> Cash paid to Suppliers	3,92,000	
	<i>Less:</i> Cash paid for Expenses	52,000	4,44,000
	Cash Outflow Operating Activities		(4,000)
	<i>Less:</i> Income Tax paid		(8,000)
	Net Cash used in Operating Activities		(12,000)

B.	Cash Flow from Investing Activities	
	Purchase of Plant and Machinery	1,96,000
	Net Cash used in Investing Activities	(1,96,000)
C.	Cash Flow from Financing Activities	
	Issue of Equity Shares Capital	1,00,000
	Issue of Preference Share Capital	60,000
		1,60,000
	<i>Less:</i> Dividend paid	(4,000)
	Net Cash from Financing Activities	1,56,000
D.	Net decrease in cash and cash equivalent (A+B+C)	(52,000)
	<i>Add:</i> Cash and Cash Equivalents in the beginning	80,000
E.	Cash and Cash Equivalents at the end	28,000

Alternative Method:

Cash Flow Statement (Indirect Method)

	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Profit as per Balance Sheet (40,000 - 28,000)	12,000	
	Proposed Dividend	4,000	
	Provision for Taxation	16,000	
	Net Profit before Taxation and Extraordinary items		32,000
	<i>Items to be added:</i>		
	Depreciation	32,000	32,000
	Operating Profit before Working Capital changes		64,000
	<i>Add:</i>		
	<i>Increase in Current liabilities</i>		

Q8 :

Following as the Balance Sheets of Computer India Ltd.:

(In Lakhs)					
	2004	2005		2004	2005
Liabilities	Rs	Rs	Assets	Rs	Rs
Equity Share Capital	40,000	50,000	Fixed Assets	41,000	40,000
Profit and Loss Account	1,000	1,200	Less : Provision for Depreciation	11,000	15,000
General Reserve	2,000	2,500		30,000	25,000
10% Debentures	6,000	6,500	Debtors	20,000	24,000
Sundry Creditor	12,000	11,000	Stock	30,000	35,000
Provision for Taxation	3,000	4,200	Prepaid Expenses	300	500
Proposed Dividend	5,000	5,800	Cash	1,200	3,500
Bank overdraft	12,500	6,800			
	81,500	88,000		81,500	88,000

Additional Information:

Interest paid on Debenture Rs 600

Answer :

Cash Flow Statement of Computer India Ltd.

(00,000)			
	Particulars	Amount Rs	Amount Rs
A.	Cash Flow from Operating Activities		
	Profit as per Balance Sheet (1,200 - 1,000)	200	
	Proposed Dividend	5,800	
	General Reserve	500	
	Provision for Taxation	4,200	
	Net Profit before Tax and Extraordinary items		10,700
	<i>Items to be added</i>		
	Provision for Depreciation	4,000	
	Interest paid on Debentures	600	4,600
	Operating Profit before Working Capital changes		15,300
	Adjustments		

	<i>Less: Increase in Current Assets</i>		
	Debtors	(4,000)	
	Stock	(5,000)	
	Prepaid Expenses	(200)	(9,200)
			6,100
	<i>Less: Decrease in Current Liabilities</i>		
	Creditors	(1,000)	(1,000)
	Cash generated from Operating Activities		5,100
	<i>Less: Income Tax Paid</i>		(3,000)
	Net Cash from Operation		2,100
B.	Cash Flow from Investing Activities		
	Sale of Fixed Assets		1,000
	Net Cash from Investing Activities		1,000
C.	Cash Flow from Financing Activities		
	Issue of Equity Shares		10,000
	Issue of 10% Debentures		500
	<i>Less: Dividend paid</i>		(5,000)
	<i>Less: Interest paid</i>		(600)
	Net Cash from Financing Activities		4,900
D.	Net Increase in Cash and Cash Equivalent (A+B+C)		